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Aug. 16. 1936

Translation by Feis of letter from Monick written in London. Mr. Chamberlain in unsigned letter preferred a unilateral text rather tripartite declaration. Mr. Chamberlain according to Monick gave very interesting assurances which will permit France to act at appropriate moment with equivalent declaration from U. S. France does not believe moment opportune. AUGUST 17 Taylor's memo of conversation with Mallet (answer to question asked Bewley by Aug. 19th Sec'y when Bewley was on farm.)

Cable from Cochran - Cariguel not optimistic about general outlook. Cariguel is of opinion most French people think eventually there will have to be a devaluation of franc

Cariguel not sure Norman would receive Labeyrie because Norman would not receive Tannery when he was Governor, Bank of France, lest Tannery endeavor to discuss stabilization of currencies.

Since Cariguel's return to duty he has not checked figures, but believes British equalization fund has withdrawn approximately one half of the 12 billion francs of gold which have been under earmark in France. French, Cariguel said, have boxed up all British gold in preparation for its entire withdrawal.

Aug. 20th

Cable to Cochran to go to London to get personal estimate of situation there.

Aug. 21st

Cable to Cochran to check carefully Paris and London information relative British gold shipments.

Aug. 21st

Knoke's telephone conversation with Cariguel. Knoke suggested dollar purchases probably had to do with resale for about 15 million dollars to British interests of Philadelphia Inquirer. Cariguel much interested in this transaction.

Cariguel British Fund now has under earmark 6,000,000 francs left out of maximum of 12,000,000.

Aug. 21st

Butterworth's reporting on background of Monick's activities in London.

Aug. 24th

Conference in Secretary's office to discuss request received by FRB of New York from Norges Bank, Central Bank of Norway for purchase and earmarking of 5 million dollars gold.

Aug. 26th

Cable to FRB of New York from Norges Bank to hold in abeyance the request for 5 million dollars gold.

1A

Aug. 27th

Cochran's report of difficulties with Butterworth over his despatches to State Department in re Monick's activities in London.

Cochran called on Phillips, British Under Secretary. Phillips expressed opinion that early October might witness crisis in French situation and his definite hope that there will be devaluation of franc, as by that means only can France secure capital.

Cochran inquired of Phillips why London was withdrawing earmarked gold from Paris and Phillips replied that when Blum Government took office they had not withdrawn it because they expected prompt devaluation, but now because of danger of an embargo and so many Communists they think it better to withdraw gold.

Phillips expressed opinion Monick is one of small group favoring devaluation by French but they do not have necessary Government backing.

Phillips suggested right level for French devaluation would be 90 francs to the pound.

Sept. 4th

Cable 826 from Cochran re request of Bank of France for earmarking of gold was not brought to H.M.Jr.'s attention promptly for the reason that Mr. Lochhead had left the office before it arrived.

Sept. 4th

Meeting in Secretary's office to discuss inquiry from Cariguel (Cochran's Cable 826) to F R B of New York whether Bank of France could ship \$100,000,000 gold to be earmarked for account Bank of France and asking for assurances if Franc should be devalued or leave the gold standard, would there be difference in procedure.

Bank of Sweden made similar inquiries.

Result of meeting: Cable to Cochran that earmarking of gold is covered by general license issued to F R B.

H.M.Jr.'s telephone call to Cochran - applications from France and Sweden for earmarking would be sympathetically received, but question of acquisition not being discussed at this time.

Sept. 4th

Meeting in Secretary's office to discuss Cochran's cable 831 reporting call on Auriol in which latter said draft of pre-stabilization agreement ready for submission and inquiring specifically if Secretary Morgenthau would prefer draft presented him secretly and unofficially through Cochran in advance of similar copy to Britain by Monick or simultaneous submission of the two copies. Decided on simultaneous submission.

Sept. 4th

Lochhead's report of meeting to discuss Cochran's Cable 831.

Sept. 5th

Cable 833 from Cochran. Text of draft document will be handed Cochran Tuesday and copy to Monick to deliver in London Wednesday, both copies therefore being received simultaneously.

Sept. 5th

Letter to the President advising him of Auriol's inquiry about presentation of draft document and quoting latest cable from Cochran on delivery of text.

Sept. 5th

Meeting between H.M.Jr., Mallet, Lochhead present. Advised Mallet of Auriol's inquiry about delivery of draft document and Treasury's reply.

Sept. 8th

Cable 843 from Cochran that he has received French text of document. Is making English translation. Monick leaves tonight for London with text for British.

Sept. 8th

Letter to President advising of receipt of Cochran's cable.

Sept. 8th

Mallet's letter to Secretary advising message delivered him personally has been communicated to Chancellor of the Exchequer. British Treasury has not received any note from French.

Sept. 9th

Cable 844 from Cochran giving text of draft document. Hull requested to send someone to assist in preparation of reply. Feis came over.

General discussion. H.M.Jr. recommended each nation put up \$100,000,000 in form of gentlemen's agreement. If England asks if we will give up gold, answer is yes. H.M.Jr. suggested draft of reply.

H.M.Jr. called Secretary Hull and received appointment for 4 o'clock.

16
H.M.Jr. called Waesche and ordered plane for 5 o'clock to take draft of reply to President. Also wired McIntyre to deliver message to President tonight.

- (1) Copy of letter to President transmitting copy of cable from Cochran and copy of proposed reply.
- (2) Telegram from Starling message delivered to President at 10:30.

Archie Lochhead's report of conference with Secretary Hull. Secretary Hull questioned that part of French document which referred to gold standard. HM,Jr. told Hull he would not give any assurances of this and was not ready at this time to enter into any firm agreement on stabilization.

Sept. 9th

Meeting at Secretary's home to discuss British French situation. HM,Jr. expressed doubt anything would come of French devaluation because Exchequer would not be likely to receive the plan favorably.

Sept. 9th

H.M.Jr.'s letter acknowledging Mr. Fisher's message.

Sept. 10th

H.M.Jr.'s report on telephone call last night from President commending H.M.Jr. on draft of Treasury reply to French note. Feis asked to send coded message to Cochran. H.M.Jr.'s telephone conversation with Cochran.

Sept. 10th

Letter from Federal Reserve Bank of New York enclosing memoranda of telephone conversations with Cariguel and Bank of England.

Sept. 10th

Cable from Cochran asking clarification of one paragraph in Secretary's answer to French draft. Also said quick response from Secretary Morgenthau appreciated by Auriol. American reply being discussed by Auriol with Blum. Baumgartner advised Cochran Monick delivered British text yesterday to Phillips.

Sept. 10th

Cable to Cochran that Secretary Morgenthau referred to sentence, "The stipulation of such an arrangement" and ended "when the conditions necessary are found realized".

TW

Sept. 10th

Archie Lochhead brought to Secretary's attention telephone call from Cariguel to F R B of New York asking if U.S. Treasury would be willing to earmark \$10,000,000 gold. H.M.Jr. refused permission. (Lochhead's memo on this request and disapproval attached, also dated Sept. 10.)

Sept. 14th

Cable 865 from Cochran that British reply received by Monick. Auriol hopes to have reply for transmission to Secretary of Treasury on Wednesday.

Sept. 14th

Mallet transmitted Sir Warren Fisher's message to the Secretary that French note had been received and considered by the Chancellor and including paraphrase of English reply to French given to Monick.

Sept. 14th

Mallet called at Secretary's home. HM, Jr. asked his permission to transmit to Cochran the substance of the British reply. Mallet agreed. Dr. Feis, Oliphant and Taylor also present. Cable prepared to Cochran.

Sept. 15th

HM, Jr. talked to Cochran on phone. Cochran acknowledged receipt of cable sent him last night, giving him substance of British reply. Cochran gave it to Baumgartner before Monick had returned to Paris with British reply.

Acknowledgment sent to Chancellor of the Exchequer of his message to the Secretary.

Cochran's cable 870 confirming phone conversation of this date.

Sept. 16th

HM, Jr. talked to Cochran. Because of strike situation, French cabinet probably will not have opportunity to discuss British note until Thursday.

Sept. 16th

Cable 875 from Cochran that because of French cabinet meeting yesterday and today, Minister of Finance has not yet been able to study message brought from London by Monick. Probably no word for HM, Jr. before Thursday.

Sept. 16th

Mallet called on Secretary. HM, Jr. told him that because of strike situation in Lille, Cabinet was unable to take up discussion of the notes, and earliest we may expect answer is Friday. Mallet inquired if it would be safe for him to carry out his plans to go to Harvard Tercentenary Celebration, but HM, Jr. would not advise him. Offered plane service from Boston to Poughkeepsie.

Sept. 17th

Cable 882 from Cochran that he will see Auriol at 7 o'clock to receive draft of "joint declaration." Leith-Ross will see Auriol at 6:30.

Sept. 17th

Cable 884 from Cochran transmitting French draft of proposed text of joint declaration.

Meeting at Secretary's house to discuss French draft. HM, Jr. very disappointed at its contents; it leaves in reference to gold standard.

Bullitt, at this meeting, told Secretary Reynaud knows all about negotiations and Reynaud fears franc will be cut only about 28%.

Draft of reply prepared, but conference adjourned with no action decided upon.

Sept. 18th

HM, Jr. spoke to the President. President told HM, Jr. to let French know their draft is impossible.

HM, Jr. talked to Cochran and told him points on which US could not agree and asked Cochran to try to find out percentages. HM, Jr. also told Cochran United States would prefer simultaneous declarations rather than joint statement.

Sept. 18th

Meeting in Secretary's office. Viner strongly of opinion Eccles, as Governor of Federal Reserve Board, should be informed of pending negotiations. HM, Jr. positively disagreed.

Asked group to work on draft of reply.

HM, Jr. spoke to Cochran again. Cochran gave proposed limits of devaluation as probably 100 to 110.

Sept. 18th

Meeting at Secretary's home to discuss cable 892 from Cochran which confirms telephone conversation of this afternoon.

Group presented draft of reply. Secretary very pleased. Made suggestion that sentence be included warning other nations not to try to disrupt these arrangements.

Sept. 19th

Meeting in Secretary's office before he went to White House. Discussed percentage of devaluation.

HM, Jr. saw President. President very pleased; made one or two very slight changes in language.

Feis took copy of draft of reply to Secretary Hull.

Hull suggested two changes. President approved one and disapproved other.

Message dispatched to Cochran containing directions to Cochran and giving text of statement.

Sept. 20th

Cable 898 from Cochran. He had read the message from the Secretary to Baumgartner. Monick leaves today for England.

Copy of our reply handed to Broadmead of the British Embassy in Washington.

Copy of 898 furnished the President.

Sept. 21st

HM, Jr. talked to Cochran from farm. French liked first and fourth paragraphs of our reply; also got significance in fourth paragraph and liked it.

Sept. 22nd

HM, Jr. talked to Cochran from the farm. Chamberlain does not get back until today. Reynaud doing a lot of talking upon his return to Paris and as a result the Paris stock market went up. Bank of England has man in Paris to try to find out if US will give up gold. HM, Jr. told Cochran that he had already told Bewley we would.

Cable 907 from Cochran, confirming telephone conversation of yesterday. Cochran says if agreement can be reached, French hope to have the declaration made some time Friday and French Parliament will probably convene on Sunday.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
LA 851.5151/933

August 29, 1936.

*Monick letter dated
8/16/36*

My dear Mr. Secretary:

I transmit herewith a sealed envelope which
Mr. Monick requested the American Embassy in
London to forward to you in the diplomatic pouch.

Sincerely yours,

Cordell Hull

Enclosure:
Sealed envelope.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

Personal.

The Honourable

Wayne C. Taylor,

United States Treasury,

Washington, D.C.

BRITISH EMBASSY,
WASHINGTON, D.C.



DEPARTMENT OF STATE
WASHINGTON

September 9, 1938.

Dear Lochhead:

I have made a careful translation of this note and I am returning the original as you requested with two copies of the translation.

In accordance with what I am sure is Secretary Morgenthau's wish, I am acquainting Secretary Hull with the text of this communication.

Sincerely yours,

Herbert Feis
Herbert Feis,
Economic Adviser.

Enclosure:
Original note
and two copies of
translation.

Mr. Archie Lochhead,
Technical Assistant to the
Secretary of the Treasury.

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TRANSLATION

EMBASSY OF FRANCE

LONDON

Financial Attaché

1 Hyde Park Gate

S.W. 7.

London, 16th August, 1936.

My dear Mr. Secretary:

After the valuable and trustful conversations that I had with you at Washington, I feel that I owe you a word of explanation.

I do not wish you to believe that we have met unexpected difficulties in England. Such is not the case. Certainly, Mr. Neville Chamberlain preferred a unilateral text (in the form of a letter addressed to us) rather than a tripartite declaration of the sort that I had under consideration in Washington. But apart from the question of procedure, the British letter, over which we negotiated during several days, conveys to us very interesting assurances such as in my opinion will permit us to act, at the appropriate moment, with an equivalent declaration on your part.

I must say that the delay is being caused rather by my own Government which, for serious reasons connected with domestic politics, does not believe the moment is yet opportune, although it is now convinced that an alignment of the franc, accompanied by an "understanding" with England and the United States is both inevitable and desirable.

This leaves the following situation:

Mr. Neville Chamberlain's letter upon which I have reached agreement with the British Treasury has been

unofficially transmitted to us, but unsigned. The original is at our disposition at the British Treasury. It will be transmitted to us, however, only when we request it officially, which will mean that we have decided ourselves to take action immediately, the following week, for example.

(I understand perfectly this manner of procedure on the part of the British Treasury which does not wish to seem to be pushing France to a monetary alignment which ought to come of our own free will. It is also necessary to avoid indiscretions in connection with a document which gives an indication regarding parity of exchanges.)

I have not been able therefore to send you, as I had contemplated, the text of the British letter and to continue the conversations with you, using your Embassy in Paris as intermediary, with the object of obtaining an equivalent text from you. In fact we can transmit the British text to you only at the moment that the French Government will have officially requested the signed text from the British Government. However, to request it officially will mean that we have decided to take action immediately, which the French Government does not wish to declare formally yet.

There we are. I wait with patience. I believe there is no instance in which a child which has reached the moment of birth has been prevented from entering the world. And this one obviously is seeking birth.

I believe, Mr. Secretary, that it is requisite to get ready to act quickly when the moment arrives, which can

hardly be much further delayed. I will do everything possible, however, as far as it is within my power, to avoid precipitate haste in this matter, and to communicate the British text to you if only unofficially, as soon as the French Government considers that it must act.

In any event I take this occasion to say again, Mr. Secretary, how much I have appreciated the cordial welcome that you have extended to me at Washington.

I hardly need say with what feeling I have read the magnificent speech of President Roosevelt at Chautauqua. It has made a deep impression in France.

Please accept, Mr. Secretary, the expression of my deep respect.

MONICK

P.S. May I ask you to consider this letter not only secret but absolutely personal on my part.

TRANSLATION

EMBASSY OF FRANCE

LONDON

Financial Attaché

1 Hyde Park Gate

S.W. 7.

London, 18th August, 1938.

My dear Mr. Secretary:

After the valuable and trustful conversations that I had with you at Washington, I feel that I owe you a word of explanation.

I do not wish you to believe that we have met unexpected difficulties in England. Such is not the case. Certainly, Mr. Neville Chamberlain preferred a unilateral text (in the form of a letter addressed to us) rather than a tripartite declaration of the ~~sort~~ ^{kind} that I had under consideration in Washington. But apart from the question of procedure, the British letter, over which we negotiated during several days, ~~contains~~ ^{contains} ~~is~~ ^{is} ~~no~~ ^{no} ~~very~~ ^{very} ~~interesting~~ ^{interesting} ~~aspects~~ ^{aspects} such as in my opinion will permit us to act, at the appropriate moment, with an equivalent declaration on your part.

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Please accept, Mr. Secretary, the expression of my deep respect.

HOWARD

P.S. May I ask you to consider this letter not only secret but absolutely personal on my part.

AMBASSADE DE FRANCE
À LONDRES.

L'ATTACHÉ FINANCIER.

ADR. TELEGR.
FINATTAC KENS LONDON.
TEL: WESTERN OCEAN.
WESTERN OCEAN.

177
1. HYDE PARK GATE,
(6 1st QUEEN'S GATE)

S.W.7.

LONDRES, le 19 Août 1938.

Cher Monsieur le Secrétaire,

Après les entretiens si confiants et si précieux que j'ai eus avec vous à Washington j'estime que je vous dois quelques explications.

Je ne voudrais pas que vous croyiez que nous avons éprouvé des difficultés inattendues en Angleterre. Tel n'est pas le cas. Sans doute, Mr. Neville Chamberlain a préféré un texte unilatéral (sous la forme d'une lettre qu'il nous adresse) plutôt qu'une déclaration tripartite telle que celle que j'avais envisagée à Washington. Mais sous réserve de la procédure, la lettre britannique, sur laquelle nous avons d'ailleurs négocié pendant plusieurs jours, nous donne des assurances très intéressantes et qui à mon avis nous permettront d'agir, le moment venu, avec une déclaration équivalente de votre part.

Je dois dire que le retard vient plutôt de mon propre Gouvernement, qui, pour de sérieuses raisons de politique intérieure, ne juge pas encore le moment opportun, bien qu'il soit maintenant convaincu qu'un alignement du franc, accompagné d'un "understanding" avec l'Angleterre et les Etats-Unis est à la fois inévitable et souhaitable.

Dès lors nous arrivons à la situation suivante.

La lettre de Mr. Neville Chamberlain, sur laquelle je me suis mis d'accord avec la Trésorerie britannique, nous a été officieusement communiquée, mais non signée. L'original est à notre disposition à la Trésorerie britannique. Il ne nous sera remis toutefois que lorsque nous le réclamerons officiellement, ce qui voudra dire que nous aurons décidé chez nous de passer à l'action incessamment, dans la semaine qui suivra par exemple. (Je comprends parfaitement cette manière de faire de la Trésorerie britannique qui ne veut pas avoir l'air de pousser la France à un alignement monétaire qui doit venir de notre propre gré. Il y a aussi les indiscretions à éviter au sujet d'un document qui comporte une indication de parité de changes).

Je n'ai donc pu, comme je l'envisageais, vous communiquer le texte de la lettre britannique et continuer la conversation avec vous, par l'intermédiaire de votre Ambassade à Paris, pour obtenir de votre part un texte équivalent. En effet, nous ne pouvons vous communiquer le texte anglais qu'à partir du moment où le Gouvernement français aura réclamé officiellement le texte signé au Gouvernement britannique. Or, le réclamer officiellement cela veut dire que nous avons décidé de passer à l'action immédiatement, ce que le Gouvernement français ne veut pas encore déclarer formellement.

Nous en sommes là. J'attends avec patience. Je songe qu'il n'y a pas d'exemple qu'on ait empêché de venir au monde un enfant qui est à terme. Et celui-ci ne demande manifestement plus qu'à naître.

,...

Je crois, Monsieur le Secrétaire, qu'il faudra s'apprêter à agir vite, lorsque le moment, qui ne saurait plus tarder beaucoup, sera venu. Je ferai tous mes efforts cependant, autant qu'il dépendra de moi, pour éviter la précipitation dans cette affaire, et pour vous communiquer le texte britannique, ne serait-ce qu'à titre officieux, aussitôt que le Gouvernement français envisagera qu'il doit agir.

De toute façon, je saisis cette occasion pour vous redire, Monsieur le Secrétaire, combien j'ai été touché de l'accueil si cordial que vous avez bien voulu me réserver à Washington.

AI-je besoin de vous dire, avec quelle émotion j'ai lu le magnifique discours du Président Roosevelt à Chautauqua. Il a d'ailleurs fait en France une profonde impression.

Veillez trouver ici, je vous prie, Monsieur le Secrétaire, l'expression de mon profond respect.

Sam. Youich

P.S. - Puis-je vous demander de considérer cette lettre non seulement comme secrète mais comme absolument personnelle de ma part.

P. M.

Treasury
F D I C

New York

Hon. Franklin D. Roosevelt,
Hyde Park,
New York.

Dear Mr. President - There is evidence hereabouts that Mr. Leon Crowley, F.D.I.C. Chairman, is quietly under attack in banking circles. They are saying that he is indebted to banks in Wisconsin and has used his position to borrow personally in Washington; Riggs bank is mentioned. They assert he rides about in high priced cars and lords it over people. If these facts be true, concerning his alleged indebtedness, very probably an "exposure" is in the making. Of the circumstances as to his securities and practices I know nothing. I have heard this repeated and felt that you should know of it personally. Incidentally, there is marked hostility to your administration in bank examining circles. Certainly, this is one department capable of doing much harm and in which political activity should be taboo under pain of dismissal.

Respectfully submitted,

A SINCERE WELL WISHER.



Hon. Franklin D. Roosevelt,
Hyde Park,
New York.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 17, 1936

TO Secretary Morgenthau
FROM Mr. Taylor

Mr. Mallet, Counselor of the British Embassy, called to deliver to me a personal message for you of the attitude of His Majesty's Government toward monetary reforms, et cetera, in China. I enclose a copy of the message.

I had considerable conversation with him about the Far Eastern situation and told him that we understood that September 1st was the date set for introducing the national currency into South China. I also informed him that the Central Bank of China had not utilized any of the silver credit.

As I told you over the telephone, Mr. Mallet emphasized the fact that this message was a personal one for you in response to your question to Bewley just before the latter's departure.

well

L. B. ...

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Y

Our latest information is that T. L. Soong has been appointed Financial Commissioner for Kuangtung and that Kung who is lending him full support anticipates extension of currency scheme to Canton in the near future.

His Majesty's Government fully share desire of United States Government to see strong Government in China and would in consequence welcome successful extension of currency scheme.

Diary

August 18th, 1936.

Memorandum of conference at Secretary Morgenthau's farm on Monday,
August 17th at 11 o'clock.

Present: The Secretary, Messrs. Graves, Anslinger, Gorman and
Shamhart.

The Secretary questioned Mr. Gorman and Mr. Shamhart with regard to the plans for the reorganization of the Customs Border Patrol. He was given a memorandum showing the steps to be taken in the reorganization which he indicated had his approval.

At the Secretary's request, Mr. Shamhart made a statement of his (Mr. Shamhart's) record and experience in the Government service, with a view to his proposed assignment as head of the Border Patrol.

Mr. Morgenthau inquired whether Mr. Oliphant had approved the release of Mr. Shamhart from the ~~Legal~~ Division and was advised that this had not been done pending consideration by the Secretary of Mr. Shamhart's qualifications for the new assignment. The Secretary asked that this be done promptly.

Mr. Shamhart was then excused from the conference.

The Secretary advised Mr. Anslinger that it was his desire to place all investigative work abroad, having to do with the illicit traffic in narcotics, under the Customs Agency Service. He said that he desired that Mr. Eyer and his assistants in France should, under the plan which he had in mind, be responsible to and report through officers of Customs.

He indicated also that he was much dissatisfied with the decision of the State Department that the Treasury should conduct no narcotic investigations in the Japanese Empire and that he expected to remedy this condition as promptly as possible, if need be by personal contact with Secretary Hull.

The Secretary said that he wanted the Bureau of Narcotics to discontinue all direct contacts with the State Department with reference to the international aspects of the narcotic traffic. He said that such matters should be handled through Mr. Gibbons' office by someone in that office specially charged with this responsibility. He asked Mr. Graves to see Mr. Gibbons upon the latter's return from abroad and perfect this arrangement. He said that at the proper time a letter should be prepared for him to sign to the Secretary of State advising that Mr. Gibbons would hereafter handle all matters with the State Department having to do with law enforcement work, leaving Mr. Taylor to handle Treasury contacts with the State Department on all other subjects.

The Secretary requested Mr. Graves to prepare a plan for the transfer of all narcotic investigations abroad to the Customs Service and to submit this to him in writing on Monday, August 24th. He said that he wanted Mr. Amelinger to have full opportunity to state any objections that he might have to this proposed plan.

At this point Mr. German was excused from the conference.

The Secretary told Mr. Amelinger that he was not satisfied with

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the work being done by the Bureau of Narcotics either in this country or abroad, and with reference to the work in this country he told Mr. Anslinger that he desired to bring about a reorganization of the Bureau which would more sharply divide its activities between enforcement and permissive work. He said that he wanted Deputy Commissioner Weed to be assigned exclusively to permissive work and that he proposed to detail to the Bureau of Narcotics for an indefinite period Special Agent H. C. Palmer, of the Intelligence Unit, to have charge under Mr. Anslinger's supervision of all criminal investigations and enforcement work.

Mr. Anslinger made a defense of the record of the Bureau of Narcotics, and stated among other things that the Bureau had put more criminals in Federal penitentiaries per agent employed than any other enforcement organization of the Federal government. Mr. Morgenthau commented on this to the effect that the bulk of the Bureau's defendants were petty violators, chiefly peddlers and addicts, and indicated that he felt the Bureau had not made a sufficient effort against the criminal organizations which were responsible for the distribution of narcotics in wholesale quantities.

The Secretary asked Mr. Graves to prepare and have ready for his approval on Monday, August 24th, the necessary orders for the assignment of Mr. Palmer to the Bureau of Narcotics as above indicated.

Mr. Anslinger at this point was excused from the conference.

The Secretary told Mr. Graves that he had read the report made by Special Agent Wilson, of the Intelligence Unit, with regard to the

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Secret Service and that he considered this a very excellent report. He inquired whether this report had been made available to Chief Moran. Mr. Graves told him that so far as he knew that was the case. The Secretary indicated dissatisfaction that Chief Moran had done nothing to carry into effect the recommendations made by Special Agent Wilson, and said that he was now ready to detail Wilson to act as Assistant Chief of the Secret Service. He requested Mr. Graves to prepare the necessary orders and have them ready for submission to him on Monday, August 24th.

The Secretary asked Mr. Graves to secure a small quantity of Heroin for him to exhibit to the President, together with a narrative account of a number of interesting narcotic cases.

The Secretary turned over to Mr. Graves Mrs. Klets' memorandum covering her visits to Paris and Vienna. He asked Mr. Graves to read this memorandum and return it to Mrs. Klets so that it might later be read confidentially by Mr. Gibbons and Mr. McRaynolds.

The Secretary asked Mr. Graves to have Admiral Peoples prepare and submit to him a complete report of the disposition of seized automobiles, under the provisions of the Liquor Law Repeal and Enforcement Act approved August 27, 1933.

Messrs. Graves, Anselinger, Gorman and Shambart left the Secretary's farm at approximately 12 o'clock noon.

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OFFICE OF
THE COMMISSIONER OF NARCOTICS

Washington, D.C., August 18th.

Memorandum for the Secretary,

I suggest that you read the
enclosed minutes of a private
meeting of the Opium Advisory
Committee.

H. J. Anslinger

In order to expedite the preparation of the final text members are requested to send in their corrections of the present minutes within 24 hours of the receipt of the provisional text.

LEAGUE OF NATIONS.

Confidential.

O.C./21st Session/P.V.3.

ADVISORY COMMITTEE ON TRAFFIC IN OPIUM AND

OTHER DANGEROUS DRUGS.

STRICTLY CONFIDENTIAL

TWENTY-FIRST SESSION.

Provisional Minutes.

THIRD MEETING (Private).

held at Geneva on Tuesday, May 19th, 1936 at 3.30 p.m.

Chairman: Dr. CHODZKO (Poland).

Present: All members who had attended the preceding meeting.

CONSIDERATION OF THE REPORT BY THE SUB-COMMITTEE ON SEIZURES (Document O.C.S./281) (Continuation).

Confidential. Annex to Document O.C.S.281.

Dr. HOO (China) wished to raise the question of principle whether the discussion of this Annex should take place in private or in public session. He himself held that discussions should always take place in public if possible. The text now under consideration was intended to dispel a certain misunderstanding which had received publicity in the Press and elsewhere. He felt that since the members of the Sub-Committee had taken exception to the opinion expressed by the President of the Central Board, and desired publicly to refute that opinion, those members especially should welcome an opportunity for a public discussion regarding it.

Mr. L'ETALLE, Assessor, thought that a private discussion had been suggested out of consideration for his own feelings. As he had made his statement in public, he thought that it should be discussed and criticised in public also.

Col. SHARMAN (Canada) thought that any discussion that might take place on police efforts and control, as referred to in this passage of the report, should be held in private. He thought that there was no objection to the remainder of the discussion being held in public, and that in any case a public statement should be issued at the end of the discussion.

M. CASARES (Spain) entirely associated himself with the observations of the delegate of China. An opinion of a general character had been expressed in public and had been given a certain publicity in the Press. If any counteracting effect were now to be achieved, comparable with the effect produced on that earlier occasion, the present discussion must also take place in public.

Mr. HARDY (India) said that all the members of the Committee must have felt, in view of the considerable publicity that had been given to the phrase in question, that some public refutation of it was essential. It seemed to him only natural, however, that the Committee should discuss in private the form which that refutation should take.

M. KRSTAND, Director of the Opium Traffic and Social Questions Sections, entirely agreed with the views expressed by Col. Shorman and Mr. Hardy. He thought that there were certain aspects of the question which should certainly be discussed in private. It was not the discussion itself that the public would be interested in, but the result of the discussion.

Mr. LYALL said that if only part of the discussion were to be held in private, he would be placed in a difficult position, as it would be necessary for him to repeat in the public meeting the grounds for his opinion which he would have already stated in the private meeting.

M. CASARES (Spain) said that he must press his point of view. ~~Two quite opposite opinions had been expressed regarding the results~~ achieved in the campaign against narcotics, and it was essential that the public should be given the facts. He would urge, therefore, that at least the main part of the discussion should be held in public.

M. de VASCONCELLOS (Portugal) said that in his experience, as far as purely political meetings were concerned, the Press always managed to obtain some account of what had happened in private meetings. Such accounts were almost always inaccurate and there was no means of guarding against them.

The CHAIRMAN said that he was in a very difficult position. If the whole discussion were to be held in public, it would be the first occasion on which one organ of the League had discussed in public the activities of another organ. The responsibility that would rest upon himself as Chairman would therefore be great.

He did not share the view of the delegate of China that a question of principle was involved. It was rather a matter of interpretation of statistics, regarding which interpretation the Central Board and the Advisory Committee held divergent opinions. He felt that it would be sufficient to discuss the matter in private and to announce the result in public. He thought that in any case the discussion should be either wholly public or wholly private, for, in the interests of the League, he would deprecate any alternation between private and public discussion. He felt, however, that he could not take a decision on this question on his own responsibility, but would have to put this decision to a vote.

M. de VASCONCELLOS (Portugal) suggested that the decision should be left to the officers of the Committee.

Dr. SCHULTZ (Austria) agreed with the view expressed by the Chairman. The Advisory Committee and the Central Board were not independent organisations but were complementary within the framework of the League. Divergence of opinion between them could not, therefore, be discussed in public.

M. DELOORNE (Netherlands) thought it far preferable that the discussion should be private, especially as it would then be possible to refer freely to police action.

M. BOURGOIS (France) thought that a public discussion on a question of divergence of opinion between two organs of the League would in no way further the common purpose which the members of each had at heart, but would on the contrary present many disadvantages. It would be most unwise to make public "family quarrels" of this kind.

Dr. CARRIÈRE (Switzerland) thought that the word "quarrel" was much too strong a one. He agreed with M. Bourgois, however, that it would be better to hold the discussion in private and to give only the result in public.

Dr. HOO (China) said that there was certainly no dispute between the Central Board and the Advisory Committee. The phrase to which objections had been raised had been only an expression of personal opinion, and had not been adopted by the Board.

The CHAIRMAN hoped that those members who wished for public discussion would not press their point of view; otherwise, he would have to put the question to the vote.

He wished to pay a tribute to the courage and sincerity of Mr. Lyall. This was not a personal matter, however, but one which primarily concerned the interests of the League.

M. CASARES (Spain) said that he would not urge his point of view against that of the majority. He asked that it should be put on record, however, that certain members of the Committee had said that the interests of the League would have been better served if the discussion had been held in public.

The CHAIRMAN thanked M. Casares for his decision.

It was ~~agreed~~ that the meeting should continue in private.

Colonel SHEARMAN (Canada), Chairman of the Sub-Committee on Seizures, said that it was with regret that the Sub-Committee had felt itself obliged to bring this matter to the attention of the Advisory Committee. The text before the Committee had been carefully considered, and he now submitted it for examination.

Mr. LYDALL said that he had stated publicly, as the Sub-Committee had pointed out, that in his opinion "the present system of fighting the illicit traffic had broken down entirely".

With regard to opium, the signatory powers to the Hague Convention had bound themselves gradually to suppress opium smoking as far as circumstances permitted. In the last 15 years, the representatives of England, France, Holland, Portugal, India and Siam had informed the Committee that it was impossible for them to suppress opium smoking because they were utterly unable to deal with the illicit traffic. A more humiliating confession could not well be imagined. It meant that for over 15 years it was not the policy of the Governments that had prevailed, but the wishes of the gangs of opium smugglers.

With regard to manufactured drugs, the position was rather better. The Committee had learnt a lesson from its failures to check opium smuggling, and had drawn the correct conclusion that if the smuggling of narcotic drugs were to be suppressed, it must be suppressed at the source, and not after the drugs had passed into the illicit traffic. The Committee had therefore drawn up the Limitation Convention. As he had often stated himself, that Convention had done a great deal of good. Europe could no longer be accused of the wholesale poisoning of other nations by drugs manufactured in factories authorized and, at any rate nominally, controlled by Governments. At the time the Convention had been drawn up, however, Sir John Campbell had prophesied that the only result of the Convention would be that the manufacture of drugs for the illicit traffic would be transferred to countries where Government control was ineffective. Unfortunately, this prophecy had proved true.

As yet the Committee had no data by which it could calculate the extent of the illicit consumption of narcotic drugs in most countries in the world. The Committee was now, he was glad to say, taking steps to obtain these data. The general belief, correct or incorrect, was

that drug addiction was not common in Europe. He was not surprised therefore that the representatives of the European countries should be content with the situation in their respective countries. But the complacency of the representatives of China and the United States filled him with astonishment. All the information at his disposal led him to believe that the situation with regard to heroin in China was absolutely appalling. As this question, however, formed a special item on the Agenda, he would not deal with it now. He would confine his remarks to America, and as the information with regard to the United States was more complete than that for Canada, he would confine himself to the former country.

Fortunately Mr. Anslinger, probably the greatest living authority on the illicit traffic, was present at this meeting, and if Mr. Iyall made a mistake in his facts he would be glad if Mr. Anslinger would correct him.

In December 1934, Mr. Anslinger had stated in his evidence before the Sub-Committee of Congress which was to decide the Budget credit for 1936 for the campaign against the illicit traffic that about one in every thousand of the population of the United States was a drug addict, and that the average daily dose taken by an addict was approximately 6 grains. Mr. Anslinger had also said that practically the whole of this illicit supply came from abroad. He had said that he thought addiction was increasing in some parts of the country, and that there was nothing to suggest that it was decreasing elsewhere.

In 1934 the population of the United States had been 126 millions. 1 in 1000 would give 126,000 addicts; to take a conservative estimate - 100,000. 100,000 addicts taking 6 grains daily, gave an aggregate annual consumption of 14,215 kilos - say 14,000 kilos.

In 1934, the seizures made by the Customs had amounted to 17 kilos 345 grammes, and those made by the police to 17 kilos 038 grammes; taking the two together, 34 kilos, 384 grammes - say 34 kilos.

In other words, the total seizures effected by the Customs and by the Police had amounted in that year to 0.025 per cent of the total amount of drugs smuggled into the United States. In 1935 the proportion had been almost exactly the same.

It was evident that seizures of this dimension could not affect the illicit traffic in any way, for the profits made in the illicit traffic were not counted by decimals of one per cent; they were probably several hundred per cent.

For their failure to deal effectively with the illicit traffic the American Customs officials were not in the least to blame. He had spent 40 years in the Customs Service of a country where the smuggling of opium and narcotic drugs was unfortunately prevalent, and he could say with confidence that it was utterly impossible to suppress the smuggling of narcotic drugs by Customs examination. When England, France, Holland, Portugal, India and Siam all admitted that they could not even suppress opium smuggling, how was it possible to suppress the smuggling of morphine or heroin, a task which was a hundred times more difficult?

Something could be done with the help of informers. But this was a very expensive method, and also a dangerous one. Junior Customs officers, were the men that made seizures, were not well paid, and when they were brought into business relations with informers, it sometimes happened that instead of the informer helping them, the large bribes offered tempted them to enter into collusion with the informer. He had himself had quite a number of very painful experiences of this sort.

He had no special knowledge of police work; but it seemed to him that as the packages of morphine the police had to trade were much smaller than the consignments the Customs officers had to search for, the police must have an even more difficult task. He was not therefore in the least surprised that the police seizures in the U.S.A. were no bigger than the Customs seizures, and he did not believe that the police were any more to blame for their failure to suppress the illicit traffic than were the Customs. He had not therefore been accusing the police, nor reflecting on them in any way, in anything he had said.

He was merely drawing attention to the hopelessness of their position and to the monstrous injustice inflicted on America by other countries, who poisoned her people by exporting each year 14 tons of morphine, heroin and cocaine to the United States. It might seem superfluous on his part to draw attention to this question, when the United States were represented on this Committee, but being a disinterested party, he believed that the United States delegate would welcome his doing so.

He was convinced that the only effective way to deal with this menace was to hunt down the factories which supplied the illicit traffic. It was much easier to find a haystack than a needle, a factory than a one ounce packet. Something had been accomplished in this direction, especially in Turkey and Bulgaria. But it was no use for the members of the Committee to shut their eyes to the facts. The illicit traffic was continuing. 14 tons of drugs were introduced yearly into the United States, and incalculable quantities into other countries. For 10 years or so the Fujitsuru brand of cocaine had been constantly cropping up in the illicit traffic, and it was not yet known where it came from. It was not by congratulating themselves on their past successes, considerable as these had been, that those engaged in the campaign against narcotic drugs would win the day, but by devoting their attention to the tasks that still lay before them.

Mr. Lyall proposed therefore that a Sub-Committee should be formed, composed of Mr. Anslinger and certain other members who had similar special experience, in order to consider what steps could best be taken to hunt down the illicit factories which were supplying the illicit traffic.

In conclusion, Mr. Lyall wished to make it quite clear that he had spoken, not as Chairman of the Central Board, but as Assessor to the Committee.

M. DELGOURGHE (Netherlands) said that he admired Mr. Lyall's perseverance in fighting against the monopolies for prepared opium, but that he regretted that he had made use in this connection of his position as Chairman of the Central Board. Mr. Lyall's statement that

the present police system had entirely broken down had been partly based on the fact that a number of Governments had not been able to stamp out the use of prepared opium in accordance with their obligations under the Hague Convention. For the moment, he would not make any comment as to how far this conclusion was correct, but he would be quite ready to explain and defend the attitude of his Government in this respect. He felt that he must point out, however, that under Article 23 of the Geneva Convention of 1925 it was "not within the competence of the Board to question or to express any opinion upon" the statistics regarding prepared opium.

With regard to the other observations of Mr. Lyall, he would leave it to those members whose countries were more concerned with the illicit traffic in manufactured drugs to give their opinion.

Mr. LYALL wished formally to state that the Central Board had passed no opinion whatever on the construction to be placed on the statistics regarding prepared opium.

Mr. FULLER (United States of America) said that in his country this question had not received the same degree of publicity as in other countries. Only two classes of the population had paid much attention to it. On the one hand, there were persons with a special knowledge of the question, who had greeted the statement with ridicule and who considered it to be due to ignorance or else a total disregard of the facts. On the other hand, there were the traffickers themselves who had seized upon the statement as a heaven-sent means of bringing into discredit all suppressive measures.

He had himself been amazed at the publicity given to this statement throughout the world. The most serious consequence would be that countries who had not been anxious to participate in the campaign against the illicit traffic would now seize upon it as a justification for relaxing or abandoning their efforts.

It was most regrettable that such a statement should have been made at a public meeting of the Board, and should have been contained in a draft report issued to the Press. The conclusion in question was, moreover, based upon altogether incomplete data.

With regard to the statement which Mr. Lyall had just made, it must be remembered that, among the total number of addicts he had referred to, opium smokers must also be included. Further, in connection with the average daily dose taken by addicts of six grains, it must not be forgotten that in the case of heroin this drug was now sold in so adulterated a form that its narcotic content represented only about one-fifth.

The figures for seizures in the United States during 1934, as given in its report for that year, had been 351 kg. in the case of seizures effected by the Customs, and 85 kg. in the case of internal seizures by the Federal authorities. In addition, 35 kgs. represented seizures by local authorities, with 41 States and one territory not heard from, in seven States alone.

Mr. Fuller thought that the Committee was fully justified in holding that considerable progress had been made in the campaign. It was felt in the United States that the best index of such progress was the price of drugs in the illicit traffic, and there was no comparison between the prices ruling some five or six years ago and those now asked, which were twenty times as high.

In reply to a question by Col. SHAWMAN, Mr. LYALL said that he had referred also to Canada in his general observations regarding the situation in North America. He understood that the total seizures in 1934 had amounted to only 2 kg., and that there were 8,000 addicts in Canada.

Colonel SHAWMAN (Canada) pointed out that the figure 8,000, representing the number of addicts, had been a maximum one. In its report for 1933, the Government of Canada had stated that there had been a material reduction in addiction in the latter part of that year, and that there had been a similar decrease in previous years.

Seizures effected inside the country in the year 1934 (exclusive of Customs seizures) had been as follows: Morphine, 5 lbs. 13 oss.; cocaine, 2 lbs. 4 oss.; and heroin, 1 lb. 3 oss.

All indications pointed to a marked shortage of narcotic drugs on the illicit market. For instance, in a city like Montreal, with a population of a million, addicts were only able to obtain one or two grains, and often not even that amount. The Canadian authorities had put a stop to the smuggling of morphine from Japan, which had previously been taking place on a very large scale. Their work was reflected in the decrease in the number of prosecutions: in the case of manufactured drugs, from 835 in 1934 to 226 in 1935, and in that of opium smoking from 373 in 1929 to 42 in 1935. They had every reason to be proud of their work. Sensational statements, such as the one quoted in the passage under consideration, would not, however, help them in obtaining funds for continuing that work.

Mr. ANSLINGER (United States of America) said that there had been an enormous decrease in the smuggling of manufactured drugs into the United States, as a result of the reduction in the manufacture of these drugs in Europe. In 1930 addicts had been able to obtain as much morphine as they wanted, at a price of \$12.00 an ounce. Its price had now increased enormously, and in the Middle West and many other parts of the country there were no supplies whatever of morphine in the illicit traffic.

In 1930 and 1931 there had been cases of individual seizures of morphine and heroin of European origin, representing as much as 25,000 or 17,000 ounces each. Seizures of this kind were now a thing of the past.

Rewards were still offered to informers in the same proportions as before, but there seemed to be very few cases on which such informers could report.

Certain powerful gangs, e. g. the Rulopoulou gang, and Delgracio and his associates, had been suppressed.

There was no question that in 1930 and 1931 addicts had been able to obtain as much as 5 ounces of morphine a year. At the present time they could only procure a very thin solution of adulterated heroin. Surveys which had been made in several States showed an increase of 50% in the number of addicts coming to the hospitals to be cured. In a recent case in New York City a trafficker had stated, in evidence, that there was no heroin available in the City, that if any supplies came they would be highly adulterated, and that there were a large number of addicts who were now ill as a result of being deprived of their supplies.

The authorities had been struck by the increasing number of cases of divergence of drugs into illicit channels through the connivance of doctors. Over 2,000 such cases had been reported in the past year. There had also been an increasing number of thefts from pharmacies and from wholesale dealers. This situation was reflected in the increase in the amounts asked for the legitimate traffic, and it had been necessary to exercise special care in examining such requests.

To sum up, thanks largely to the assistance which the American authorities had received from the police of Canada and of Europe, the situation in the United States had very greatly improved.

M. de VASCONCELOS (Portugal) thought that from one point of view it was really a matter for satisfaction that this discussion had taken place, since it had proved a very interesting and valuable one.

The delegate of the United States had explained that, while the position in his country was not as perfect as might be desired, it was not, on the other hand, as bad as Mr. Kyall had feared.

In a short period of fifteen years it was obviously not possible entirely to abolish the illicit traffic, which was the result of vices that were rooted in custom, owing to psychological and pathological reasons. Up to the present, however, a fair measure of success had been achieved. Europe was no longer manufacturing drugs which were afterwards used to poison the overseas countries. This was one door that had been closed. He knew that there were other doors still open, but this particular aspect of the situation had, after all, been the most immoral one.

M. BOURGOIS (France) said that just as surgeons received praise for successful operations of amputation whereas the work of hygienists, which had saved thousands of lives passed, unrecognised, similarly the preventive work of the Advisory Committee had failed to receive due recognition. Thanks to that work, important bands of traffickers, operating with a huge capital, had now been broken up. Only the League, and no national organisation, could have secured such a result. It was, indeed, certain that but for the work of the Committee the number of gangs would have increased and the volume of the illicit traffic would have become infinitely greater. It must be admitted, therefore, that the League had at least arrested the development of an evil which was becoming a serious menace.

Major COLES (United Kingdom) said that he also felt that the publicity which had been given to Mr. Kyall's statement was most unfortunate. In the United Kingdom that statement had received a publicity far in excess of any other statement that he had ever made in the Press regarding the illicit traffic. The phrase in question had even been reported in the small provincial papers throughout the country.

He agreed with M. Bourgois that seizures were only a very partial indication of the success achieved in suppressing the illicit traffic. The work done in frustrating that traffic was at least as important. His own Service had conclusive evidence that as a result of the co-operative action taken during the last year by his own country and others, one of the largest and best known gangs had now been completely immobilised. This gang had formed an extensive plan, on which large sums of money were to be spent, for the transfer of large quantities of drugs. It was known, however, that certain of the leaders had sent messages to the effect that every move they endeavoured to make was supervised by the Police and that they might as well abandon the plan. One leader had written that he was unable to move "a single ounce of dope". Preventive work of this kind was at least as important as the Customs' seizures that would have occurred had it been possible for the gang to carry out their transaction.

M. BOURGOIS (France) remarked also that a single seizure might have the effect of disorganising and thus breaking up a gang.

M. CASARES (Spain) thought that it could not be said that the present system had failed, but only that while the Committee had not obtained from that system all the results that it had hoped for, it must endeavour to obtain fuller results in the future. The Hague Convention, the 1925 Convention and the 1931 Convention had all marked so many stages in the campaign. A conference had now been convened for the purpose of drawing up a Convention which would further supplement those previous ones, and the Committee had also considered the possibility of drawing up a Convention for the limitation of the production of raw materials.

The statement which had been adopted by the Board had not been intended to cast any reflection upon the Police Services, nor had it been intended to disparage these previous Conventions. It had only drawn attention to the necessity of supplementing the present system.

Dr. HOO (China) entirely associated himself with the point of view expressed by M. Casares.

Since the situation in China was to be discussed under a separate item of the agenda, he would refer later to Mr. Lyall's observations in this connection. It would then be possible to establish the responsibilities for that situation.

He associated himself with the congratulations that had been expressed to the representatives of European countries and he was glad to note that at least officially drugs manufactured in Europe were not now being diverted into the illicit traffic. Nevertheless, the problem for China remained as urgent as before, the only difference being that the sources of supply had changed and drugs for the illicit traffic were now obtained from countries nearer to China.

He wished to support Mr. Lyall's proposal, which was a truly constructive one, that a study should be made of the best means for suppressing clandestine manufacture in all parts of the world. The problem before the Committee was a world-wide one and must be dealt with as such. He did not wish to imply that the League had done nothing to help China. On the contrary, the Advisory Committee had shown great goodwill. The action hitherto taken by the League had, however, been rather slow. It was true that a special Committee had been set up in order to effect closer collaboration with China, and that this Committee had adopted certain resolutions and had sent out a questionnaire. Certain Governments, however, including some of those most closely concerned, had not even replied to that questionnaire.

Mr. LYALL said that he wished to apologise to Col. Sharrow for having overlooked the reference in the Report of the Government of Canada to the considerable decrease in the number of drug addicts. With regard to the total quantity of seizures in Canada, he had not taken

into account in his statement seizures made inside the country.

He did not quite understand some of the criticisms which Mr. Fuller had made. In taking his figures from the Annual Report of the United States for 1934, he had not taken into account the figures for seizures of opium, for he could not conceive that any trafficker wishing to obtain supplies of morphine would go to the trouble of first smuggling opium into the country and afterwards converting it.

Mr. Fuller had also said that if the number of addicts were taken as 126,000, this figure must be understood to include opium smokers. Mr. Lyall could not suppose, however, that Mr. Anslinger, when giving evidence concerning this number of addicts and stating at the same time that each addict took an average daily dose of six grains, was referring also to opium smokers.

He had not noticed, when reading Mr. Anslinger's evidence, any mention that this dose of six grains was largely diluted, but he of course accepted Mr. Anslinger's statement that he had in fact mentioned this in his evidence.

Major Coles had pointed out that illicit exportation of drugs from England had now become impossible. No doubt this also applied to all well-governed European countries. It was his belief, however, that Sir John Campbell's prophecy had proved true and that the clandestine manufacture of drugs had now been transferred to other countries in which the supervision exercised was less efficient. He still felt, therefore, that in spite of the many successes already achieved, the Committee must intensify its efforts. The sources of the illicit traffic must be tracked down, if China and other countries were to be saved from poisoning.

The CHAIRMAN asked Col. Sherman, together with M. DELGADO, as Rapporteur, to draw up a passage for the Report in the light of the discussion that had taken place.

He had noted with great pleasure that there was no question of a dispute between the Advisory Committees and the Central Board, especially as Mr. Lyall had made it quite clear that he was speaking not as Chairman of the Board, but only in his capacity of Assessor of the Committee. He had listened with great pleasure to the speech of M. de Vasconcellos, in which the delegate of Portugal had pointed out that this discussion had afforded an opportunity for registering the progress which had actually been made. Moreover, as M. de Caezars had justly observed, each of the Conventions had represented a step forward. A Conference which would draw up a Convention for further supplementing the methods of suppression was to meet shortly, and there was reason to hope that the Conference for the limitation of the production of raw materials would meet at an earlier date than had at first been supposed.

Excessive optimism and excessive pessimism must alike be avoided, but there was no doubt that considerable progress had been made. Illicit traffic in Europe had been in a large measure suppressed, and the same results must now be achieved in the United States and in China. In this task, the work already done by the American authorities was especially encouraging. It was a task that called for the closest collaboration between all the organs of the League and he was sure that that collaboration would continue to be a cordial one.

The meeting rose.

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CONFERENCE TO SUPPRESS THE
ILLEGIT TRAFFIC IN NARCOTIC DRUGS.

BACKGROUND.

The Draft Convention was conceived in the minds of the Austrian Government, which has for many years desired to make Vienna the headquarters for international police activity, and to direct international investigations into narcotic traffic, counterfeiting, etc. Some years ago a Counterfeiting Convention with almost parallel provisions to those of the Narcotic Convention, was signed at Geneva. To date only twenty governments have ratified this Convention. The American Government signed the Counterfeiting Convention but did not send it to the Senate for ratification, as it contained provisions that were likely to cause criticism of executives.

There were several Drafts of the Narcotic Convention. Mr. Anslinger was on a Sub-Committee which considered the Draft for several years. A Conference was finally called for June 8, 1953, in which 40 nations participated.

DELEGATES.

President Roosevelt appointed Mr. Stuart J. Fuller, Assistant Chief of the Division of Far Eastern Affairs of the State Department, and Mr. Harry J. Anslinger, Commissioner of Narcotics, Treasury Department, as delegates with full powers to sign the treaty if satisfactory to the American Government.

AMERICAN PROPOSALS.

Mr. Oliphant's office and the Solicitor's office of the Department of State examined the provisions of the Convention, and agreed on amendments to be submitted by the Delegates. The main American proposal was to substitute for Article I an amendment "to limit narcotic drugs to medical needs." This amendment was to supplant the provisions of Article I, which were very sketchy.

The idea of the American Delegation was to get a Convention that would afford a good basis for a criminal narcotic statute instead of the present tax measure, and also to give a basis for controlling Marijuana. The American proposal almost caused the Conference to break up the first day, as nearly all the other delegates stated it was beyond the scope of the Conference and that they did not have instructions to discuss such a proposal. This was, of course, a screen to hide the real purpose of objections, because the American amendment would have obligated the Governments to prohibit smoking opium in their territories. The American Delegation pointed out that they could make reservations about their smoking opium monopolies, but most of the delegates were adamant that the proposals be rejected because they were outside the scope of the Conference.

The American Delegation then produced a letter from the Secretary General of the League of Nations, which it had the foresight to obtain before accepting an invitation to attend the Conference, and which letter was to the effect that we could make any proposals; that the only way was the limit. This

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placed the President, the Conference and the League of Nations in a very embarrassing position, because none of the other nations had been so notified, and their invitations were extended only to discuss the Draft Convention before the Conference.

The American Delegation received an apology from the President and from the Delegates for the ruling that our proposals were outside the scope of the Conference. The President then appointed a Conciliation Committee, on which Mr. Anslinger represented the American Government. The only support he could receive was from Russia and China. Accordingly, the Conciliation Committee reported to the Plenary Session that it had been agreed upon by the Conciliation Committee to place the American recommendation in the Final Act of the Convention, which is usually signed by all nations. Mr. Anslinger pointed out to the Conference that the provisions in Final Acts were merely pious promises and were rarely carried out, and that in effect the Conference had started out to hunt elephants and had bagged a rabbit.

After disposing of the American proposal, the Conference balled along under the domination of the English, French, Dutch and Portuguese Delegates, who were all jurists, and who proceeded to write a Convention although they admitted that they had no illicit narcotic traffic in their country and had no experience in handling narcotic cases.

The American Delegation remained to serve on committees and sub-committees, and to cooperate in drafting the Convention.

CONSPIRACY.

Knowing that Canada had instructions to sign whatever treaty was produced regardless of its merit, in order to join with the

British Government in keeping the League together in view of the Italian-Ethiopian fiasco, Mr. Asplinger assisted the Canadian Delegate in spirited debate, and obtained a provision to have the crime of conspiracy to violate narcotic laws made extraditable.

IF WILLFULLY COMMITTED.

These three words almost caused the Conference to break up after the American flight was over. The code of law of a number of nations requires that intention must be proved in every criminal act, whereas in countries like the United States and Canada, violation of narcotic laws is *malum per se* and not *malum prohibitum*. Accordingly, in the United States and in Canada, intent does not have to be proved.

The American Delegation joined hands with Canada in insisting upon the elimination of these three words, and the American Delegation's debate supporting Canada in having those three words eliminated was construed by the Conference as meaning that the American Government would sign the Convention if they were eliminated.

The British Delegates made private proposals to the American Delegation that if the Conference could get the promise of the American Delegation to sign the Convention, these three words would be eliminated. The American Delegation finally had to take the position as to these three words that in or out they would not sign the Convention. This was quite a shock to the Conference.

AMERICAN DELEGATION'S STATEMENT ON REFUSAL TO SIGN.

The substance of the enclosed statement, which was prepared jointly by Delegates Anslinger and Fuller, was cabled to the State Department, and was agreed upon by Treasury and State Department legal experts. At no time was there any dissension between the State and Treasury Departments.

THE PRESIDENT OF THE CONFERENCE.

The President of the Conference was a distinguished jurist, M. Limburg of the Netherlands, who, belonging to a country which maintains an opium smoking monopoly, could hardly conceal his leanings toward the opium bloc proposed by England, Holland, France, Portugal, Japan and Siam. He was prejudiced, arrogant, egotistical, and arbitrary. He was also ignorant of narcotic treaties and laws, and had no knowledge of the illicit traffic. The opium bloc was represented by distinguished jurists.

AMERICAN REACTION TO REFUSAL TO SIGN.

The editorials in the American papers strongly supported the American Delegation's stand. It will be remembered that the American Delegation to the Narcotic Conference in 1925 walked out on the same grounds, but this Delegation showed a stronger spirit of cooperation.

SECRET.

The American Delegation was usually supported in all its

proposals by Canada and the other nations of North and South America; by Russia, Egypt, China, Poland and Spain.

The Yugoslav Delegation was disappointing, particularly so since the United States is their best customer for opium for medicinal purposes.

Yugoslavia, along with Portugal, is one of the smaller nations which does the dirty work for the larger nations at Geneva, introducing proposals and resolutions which the larger nations dare not present but are able to support.

Mr. Anslinger took the Yugoslav Delegation to task for not supporting a good customer, and intimated that American opium business was likely to go to a country like Russia, for instance, which exports crude opium and which supports every American narcotic proposal, and itself limits narcotic drugs to medicinal needs.

In the very deep background, Austria and some of the smaller nations attempted to obtain an amendment setting up an international narcotic police office in Vienna where records of all traffickers would be kept. The American Delegation joined with Canada, Great Britain and France to defeat this proposal.

VERY SECRETLY, a French Delegate informed the American Delegation that such an office in Vienna containing all of this valuable information, would be a distinct hazard to any large nation in time of war.

CONTROL OF MARIJUANA.

The American Delegation was not disappointed in failure to get the control of Marijuana incorporated under the treaty in order to form the constitutional basis for a criminal

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statute in the United States.

The American Delegation sounded out the Canadian and Mexican Delegates regarding the possibility of obtaining a three-power treaty to control Marihuana. As these two nations are contiguous to the United States and both have the Marihuana problem, such a treaty will, according to the best legal opinion, afford a much better basis for controlling Marihuana by criminal statute. Preliminary discussions on a treaty will soon be under way.

HJ Anshing

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LEAGUE OF NATIONS

(O. C. /21st Session/P.V.13)

ADVISORY COMMITTEE ON TRAFFIC IN OPIUM AND OTHER DANGEROUS DRUGS

TWENTY-FIRST SESSION

Provisional Minutes

THIRTEENTH MEETING, (Public),

Held at Geneva on May 28th, 1936, at 10:30 a.m.

* * * * *

Chairman: Dr. CHODZKO (Poland).

Present: All the members of the Committee,
except the representatives of Austria,
Italy, Sweden, and Uruguay.

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SITUATION IN THE FAR EAST

Mr. FULLER (U.S.A.) made the following statement:

"We are now considering the situation in the Far East, which includes, as we are reminded by the agenda, the general situation in China and also the situation in respect of Chapter IV of the Hague Opium Convention of 1923, which deals with co-operation between the governments of China and of other nations; and it may be well to recall, at this juncture, that in this area, i.e., in China, north and south of the Great Wall, over 90% of the opium grown in the entire world is produced, to say nothing of vast quantities of heroin many times the world's needs for medical and scientific purposes. Let this be questioned, I call attention to a single seizure, reported by the Chinese Government in its 1934 Report as made at Fuping, of one-tenth of the annual needs of the world for heroin. It is in this area, China, that the prices of drugs sold for the purpose of satisfying addiction are lower than anywhere else in the world, a circumstance which I need not tell you is vitally significant.

It will doubtless be recalled that at a previous session of this Committee, in speaking of the vast flood of opium produced in China - practically none of which is used for any purpose save the gratification of addiction - I characterized that production as a menace to the world. I still consider that production as a menace and I repeat the hope that the Government of China will be able in time to suppress entirely production within its borders. Let us now attempt to marshal the facts available which have a bearing on this situation.

It may be well to recall that the bulk of this production of opium in China takes place in what have been characterized as the "frontier" provinces, which form a semicircle around the country from Yunnan and Szechwan on the south through Siping, Manchuria, Chinghai, Kansu, Shensi, Ninghsia, Suiyuan, Chahar, Jehol, Hailiangkiang, Kirin, and Lianming. In other words, China consists of a central core which is practically free from opium cultivation, surrounded by a belt in which most of the world's opium is produced. It should be borne in mind that in some of the provinces in that belt the National Government of China has for some time past had no control. This circumstance should always be borne in mind.

The Chinese representative, at our last session, stated that it is the object of his Government to suppress the cultivation of the poppy and the use of prepared opium in China by about the end of 1940. It is to be hoped that the Government of China, in its annual reports, will keep the other parties to the Limitation Convention of 1923 informed of the progress which it achieves toward these two ends.

We have before us the Chinese Annual Report for 1934, we have a mass of military laws and regulations, and we have a certain amount of civil law.

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We should not forget that the report in question deals only with 1934, the year in which the Government of China had merely made a start in setting up the organization designed to handle the problem along the new and very different lines which it has decided to follow. The report deals with a transition period. However much we may regret that it contains nothing regarding the production of opium, no figures concerning the movement of opium, practically no specific information in regard to illicit traffic and clandestine manufacture in the interior of the country, and nothing concerning the revenue derived from the opium trade, we should not, in my opinion, undertake to base upon a report for 1934 any conclusions as to the results accomplished by the new plan for meeting the opium and narcotic drug problem.

Some inkling is given in the report, on page 14, of the possible volume of illicit traffic in heroin in Peiping, where it describes a single seizure which involved 90 kg. of heroin, but the almost total absence of data concerning the internal illicit traffic makes it impossible to base on this report definite conclusions concerning that traffic, or concerning clandestine manufacture of derivatives.

As for the laws and regulations which have already been circulated to members of the Committee, it appears to be not yet quite clear whether they are part of the substantive law of China as a result of having been passed by the body constitutionally clothed with authority to enact legislation or are merely military orders. The Secretariat informs me that they have not yet been sent to the Secretary-General by the Chinese Government for transmission to the other parties to the Limitation Convention of 1921.

As to the suppression of opium smoking, I do not propose to enter into a discussion at the present time other than to say that I still believe that the way to suppress is to suppress, and that I deprecate the establishment anywhere of Government monopolies. It is not going to be easy in 1940 to give up the rich revenue to be derived by the Government from peddling opium to its citizens.

What I do wish to speak about is the production in China of raw opium and that of opium derivatives.

Realizing the danger which results from the enormous production of opium in China, the American authorities enlisted the aid of reliable, well-informed and public spirited Chinese citizens in every province of China to conduct a nation-wide survey of the production of raw opium and of the production of opium derivatives. This survey was made in an entirely independent manner. It was made without the cooperation or even the knowledge of diplomatic or consular officers. The figures were largely obtained from Chinese officials, who would naturally speak more freely under these circumstances.

The survey covered the cost of production, taxation, selling prices, volume of production, movement of the opium, and production of derivatives. It covered every province in China,

both north and south of the Great Wall. The figures are illuminating. The figures for opium production were tabulated, the lowest estimate being taken for each province. The total production came to 12,861 metric tons, or over 90% of the world production. Had the maximum estimates been taken, the total would have been 18,000 tons.

The largest producers in 1935 were: Yunnan (about the size of Poland) which produced 4,644 metric tons and Szechuan (about the size of France) which produced 4,384 tons. Manchuria and Jehol accounted for 1,333 metric tons.

In Yunnan, measures (which I am informed were effective) were taken in 1935 to suppress cultivation in certain haunts (counties). At the same time, however, official encouragement was given to increased cultivation in the rest of the province, so that it remains to be seen whether the total production will decrease. Poppy is sown in Yunnan in October. Just before the sowing season in 1935 an order is reported to have been issued by Mr. Loh Young-Jen Commissioner of Finance, and, concurrently, Head of the General Opium Suppression Bureau of the province. This order is reported to have been widely circulated in various parts of the province and posted in public places. Since the proclamation decreed by Generalissimo Chiang Kai-shek, calling for the suppression of opium in Yunnan in the spring, many farmers had hesitated to cultivate poppies in the autumn of 1935. The purpose of the order issued was apparently to assure the public that poppies may still be grown and that those who discontinue growing them may be subjected to heavy punishment. The contents of the order in question are reported to have been as follows, in translation:

ORDER OF THE GENERAL OPIUM

SUPPRESSION BUREAU

YUNNAN:

The public is hereby notified that this province is the poorest province in the whole nation, and that there are hardly any Yunnan products which are marketable in other parts of the country with the exception of opium. Perfectly aware of the evil of opium, the Government, with the interests of the people at heart, realising the suffering which results from famine and poverty, deems it expedient to allow cultivation of the poppy as a means to relieve the people of their financial stringency. But if the cultivation of the poppy does no more than supply the local consumption of the province, it only impairs the health of the people and contributes nothing toward their income. The result will be that the suffering will become more serious and the conditions of poverty remain.

For this reason, the Opium Suppression Bureau has formulated a plan for the Government to undertake the sole transportation and distribution of opium, and also to limit the smoking addicts in this province. All these plans are carried on for the sake of the people and not to enrich the Government. It is very disappointing to know that a group of ignorant people in this province has recently circulated the rumor that it is illegal and unprofitable to cultivate the poppy. They have either cultivated other crops in place of the opium poppy or have left their old poppy field lie barren. Such practices cannot be of any harm to the Government, for these people will have to pay the poppy tax regardless, consequently, the loss falls upon these people. Furthermore, the transportation and trade in opium under Government auspices may realize funds for the Government to push reconstruction along various lines of development in the interest of the public.

The people of Szechuan have been compelled by circumstances to pay in advance over fifty years of land tax. If no revenue is derived from opium in this province, how could we meet the civil and military expenses? The result will be, of course, to collect more taxes from the people, and more suffering will naturally ensue.

The public is hereby earnestly warned against refraining from cultivation of the poppy. They are advised to continue cultivation in old poppy fields. They should not be inconsistent and irregular in the cultivation. Such actions are equivalent to ignoring Government orders and offering negative resistance to the authorities. If such cases are discovered, the offenders will be subjected to fines doubling the rate of regular poppy taxes and they will be looked upon as counter-revolutionary.

In order to dispel any doubt on the part of the public, this order will serve to reiterate the stand of the Government in this issue. It is hoped the public as a whole will obey this order and sow poppy as usual. They should not listen to rumor and thus involve themselves in trouble.

(Signed) Luh Tung-Jen

Commissioner.

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In Szechuan some effort was made toward suppression in 1935, but the ten haicms (counties) which have in the past produced the bulk of the Szechuan production were officially permitted to continue production. It remains to be seen, therefore, whether and to what extent there will be any reduction in Szechuan production or not.

In Manchuria and Jehol the production is conservatively estimated as increasing by about 8% annually and little or no effective measures to limit or suppress cultivation are in evidence anywhere.

There was a decrease in 1935 in two provinces, Kwichow (about five times as large as the Netherlands) which produced in that year 290 1/2 metric tons, and Hunan (about the size of Austria, Hungary and Switzerland together) 194 metric tons. Cultivation was to have been totally suppressed in Hunan but the Central Government has authorized twenty haicms (counties) to continue. The decrease in Kwichow was due to the ravages of Communist bandits.

In twelve provinces there was no production worth mentioning. These are: Kiangsi, Kwangtung, Fukien, Chekiang, Kiangai, Hupah, Anhui, Kiangsu, Hunan, Shensi, Hopei and Shantung.

In all the other provinces except Ninghsia production increased in 1935. In Siliang, Gansu, Suiyuan and Chahar there was no evidence of suppression. In Kansu and Shensi the total production increased despite suppression in limited areas. In Ninghsia the production, 780 metric tons, was about average and, with the recent establishment of Government sales agencies in Hupah, threatens to increase.

The members of the Committee will doubtless recall the establishment in April, 1933, by interests connected with the National Government of China, of the Farmers' Bank, the real purpose and object of which were made public by the fearless and conscientious Mr. Chow Li-sung, of the Central Yuan, to whom I have previously paid tribute in this committee and would now repeat that tribute. The announced purpose of this Bank was to afford farmers assistance in financing their operations. The real purpose was to finance the opium trade. In the past two years, this Bank has extended its operations to various opium producing districts and has opened branches in the leading cities of China with a view to facilitating the opium traffic. The Bank, which has a \$7,000,000 paid-up capital, is now reported to have been authorized to issue \$100,000,000 worth of banknotes, a circumstance which indicates that the opium trade has been a profitable one for the past three years and that some confidence in its future is felt.

With regard to the smuggling of opium into China, I should like to call attention to the estimates made public by the Academic Sinica as a result of a study made by that body of China's foreign trade for the past ten years. That estimate places the quantity of opium thus smuggled in 1925 and 1926 at 44,000,000 Chinese ounces, equivalent to 1,637 tons of which about 1,000,000 Chinese ounces, equivalent to about 37 tons were estimated to have been smuggled into

Dairun. While this estimate seems entirely too high, it may be noted that 278 1/2 metric tons of Iranian opium left Dairun for China in 1933 and 48 metric tons in 1934, and that the rumor persists that additional Iranian opium has also been brought into China from Iran through other countries.

OPINION SUMMARY

The survey, naturally, did not develop, in regard to opium derivatives, information as complete as that in regard to raw opium, but the data obtained is illuminating nevertheless.

It is interesting to note that Yunnan ships out about 19 metric tons per annum of opium gross.

As to morphine and heroin, the following provinces are apparently free from clandestine manufacture: Kiangsi, Chekiang, Kiangsi, Szechwan, Chinghai, Kansu, Shensi, Anhui, Shansi, Ninghsia and Chahar.

Manufacture of derivatives appears to exist in all of the other provinces. In China, south of the Great Wall, crude morphine is produced in the principal opium producing provinces and shipped to Shanghai, Hankow, Tientsin and Peiping for refining and conversion into heroin. The clandestine manufacture of heroin in Southern Fukien appears to continue unabated.

In Manchuria and Jehol where, as we were informed by the Japanese representative, there is no legislation to control manufacture or trade in derivatives, the situation is terrifying.

With regard to the situation in Manchuria, I should like to quote the following from the "Manchuria Daily News", a Japanese newspaper published at Dairun:

"More than one million yen worth of narcotics such as morphine, opium, and other drugs are being smuggled into Dairun every month, the local police authorities declare.

"These drugs are being secretly conveyed to this city by professional smugglers disguised as innocent travelers, who obtain their goods from illicit manufacturers in Mukden and other centers in the district, it is said.

"Until a few years ago, with Dairun as the base, drug traffic on a huge scale was carried on in this country. Most of the big dealers in and manufacturers of narcotics had their headquarters here. With the enforcement of strict regulations for the control of the traffic in the Kwantung Leased Territory following the All-Manchuria Judicial Conference last fall, however, most of the drug dealers in Dairun were forced to flee to Tientsin and Mukden. Here they set up a thriving business, and these cities soon

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became the centers of revived drug traffic in this part of the world. Between them they captured the markets of Manchuria and North China. Heroin produced in Tientsin mostly found their way to Tientsin, Shanghai and other parts of North China, while the Russian dealers gained a monopoly of the Manchurian markets.

"The flight of the narcotic producers and dealers from this city, however, has not changed the conditions of supply and demand here. In fact, the amount of smuggled drugs has been increasing of late, until today it is estimated that about 1,000,000 yen worth of the illicit goods are being smuggled into this district.

"The police authorities have instituted stricter measures to stamp out the traffic, orders having been issued to all police officers at stations and on the trains to Hairen to keep a close watch on all passengers."

All our information from this part of the world tends to confirm the above report.

Not only this, but also the almost unbelievable conditions obtaining in the so-called "demilitarized zone" in Hopeh, the disgraceful state of affairs in Tientsin and Peiping, the terrifying spread of drug addiction in the Hopeh countryside, and the conditions found to exist in Shanghai, for all of which Japanese and Korean traffickers are responsible, are eloquent testimony of the helplessness of the Japanese authorities in China, who are limited by their law to penalties which are perfectly ridiculous. This matter of penalties has, in the past, repeatedly been brought to the attention of the Japanese representative by the Committee. For years the matter has been an open scandal. Year after year the Opium Advisory Committee has called attention to this perfectly indefensible state of affairs. It is certainly most unfortunate that in all these years no effective action has been taken to remedy this situation which makes not only China but Japan itself and all Japanese possessions a haven, a refuge and an unsurpassed headquarters for callous Japanese and Koreans who are so successfully and blithely poisoning their fellowmen for gain. I speak of this with feeling because I have been brought to regard this failure to discipline and punish these poisoners in Japan and China not only as an act of unfriendliness to the Chinese but also as an unfriendly act towards the nations of the North American continent, Canada, Mexico and my own country. Let us face facts. Where Japanese influence advances in the Far East what goes with it? Drug traffic. What is the reward? Maximum penalty, a few weeks' rest in a comfortable jail and a fine amounting almost to the profits of one day's business of a petty trafficker.

When asked to offer suggestions in regard to measures of co-operation with the Chinese and other Governments in respect of the China situation, the American Government suggested:

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1) That the Chinese Government should publish annually detailed statistics by provinces of the acres planted with poppy, the production of raw opium, the movement of opium, both raw and prepared, the quantities of raw opium used for producing opium prepared for smoking, stored at the end of each year, and revenues obtained from the traffic;

2) That the Chinese Government should render more effective its prohibition of the import into China of Iranian or other foreign opium;

3) That the British Government should continue to supply, as in the past, details in regard to the movement of opium from the Persian Gulf;

4) That the Chinese Government should submit for transmission to all the parties to the 1953 Convention individual reports on all important cases of illicit traffic and clandestine manufacture discovered in China; and

5) That the authorities of the International Settlement of Shanghai should continue to send reports on individual cases of illicit traffic for distribution to the authorities of parties to the 1953 Convention, and that similar reports should continue to be submitted in regard to other foreign concessions in China.

I hope that these suggestions will be followed out.

I wish to add to these suggestions another, viz., that the Japanese Government, whose subjects have been more widely and more closely connected with the illicit traffic in China in morphine, heroin and cocaine, than those of any other country, should without further delay take steps to punish effectively the Japanese and Koreans who are responsible for the clandestine traffic and illicit manufacture and who have thus brought the name of Japan into disrepute.

As to China, it is to be hoped that this vast flood of opium will cease to be stemmed. That is the root of the trouble. Who in these days is going to smuggle morphine, heroin or cocaine from Europe or America to China when he could sell them in Europe for five times, or in the United States for from sixteen to twenty times what they are sold for at retail in China. My suggestion is to concentrate, so far as smuggling is concerned, on cocaine from Japan and Formosa, and on Iranian opium from whatever part it comes; but, above all, to cut down the vast supply of opium within the country itself. Until this is done, China will continue to be a

narotic menace to the world.

Mr. Chairman, I submit that it remains to be seen whether the system established in China will really lead to a reduction in the number of addicts and to a decrease in the production and consumption of opium or whether it will lead to the perpetuation and extension in China and elsewhere of toxicomania. We should not lose sight of the fact that the present plan, whatever its ultimate results may be, cannot fail to make money for the Government. The big problem of the world is now up to the Governments of China and Japan, and may God grant that they may not be led astray by the siren song of profits. Alibis and excuses will not avail them before the bar of world public opinion."

In conclusion, the U.S.A. Representative endorsed the laudable sentiments expressed by the Chinese Central Committee for the Suppression of Opium and quoted by the Chinese Government's representative at the Committee's preceding meeting:-

"1) The Government is firmly determined to suppress totally the opium scourge within the prescribed period of 6 years;

"2) The Government will not allow the petty revenue accruing from the sale of opium to nullify its six-year plan for the suppression of opium;

"3) The whole nation must support the Government, give it guidance and encourage it in its campaign against the menace of narcotic drugs. The future of the nation depends on the success of this campaign and the whole nation must immediately wage a fight to the death with the scourge which menaces us until the day when we shall achieve our purpose."

Colonel SHANNON (Canada) reminded the Committee of the following remarks which he had made at its eighteenth session (cf. page 57 of the Minutes of the Eighteenth Session):

"For a number of years past Canada has made an honest effort, involving heavy expenditure of money, to control narcotic trafficking on its Pacific Coast. This effort has been strongly supported by the Courts in imposing heavy sentences, and in fact a very large proportion of the prisoners in its penitentiaries on the Pacific Coast were incarcerated on narcotic charges, involving narcotics which undoubtedly came, and much of which were definitely known in Canada to come, from the Far East, not necessarily from one particular country. Yet during 1935 more opium, more marijuana and more heroin was seized on the Pacific Coast of Canada than in 1934. The Canadian Government, for that reason and for others upon which Colonel Shannon did not deem it advisable to dilate at the present session, viewed the present situation, and particularly the future, with acute anxiety and was anxious to impress that anxiety upon the Committee."

That this statement did not inaccurately represent the view of the Canadian Government was indicated by the fact that it was referred to by the Canadian delegation to the 1934 Assembly which was led by the Prime Minister who, in his report, mentioned that "the position gave rise to grave apprehensions".

Colonel Shannon fully realized the unpleasant situation of those who had to bear the brunt of complaints as serious as those made today, but he could assure the Japanese representative that he himself had been in a similar position. Some ten years ago Canada, unfortunately, was the chief center supplying narcotics to Detroit and Chicago in the United States and the Federal authorities had very properly complained to Canada. The result was a wholehearted cooperation between the authorities of both countries culminating in the arrest of the big traffickers and the imposition of heavy penalties.

In using, two years previously, the words "not necessarily from one particular country" in the statement already quoted, he had had Japan particularly in mind, as his strong conviction, based upon

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knowledge but not upon proof, was that Canada was the victim of a well-organized traffic from Japan. Now that they had the information contained in O.C.S.274 regarding five arrests made in Vancouver and certain arrests of Japanese made about the same time in Seattle, it was possible to be much more explicit. The Sub-Committee on Seizures had made a close study of the information contained in O.C.S.274 but he would like also to remind the Advisory Committee that the trafficker in Kobe, Japan, who had supplied all the narcotics, had himself written, inter alia, as follows:

"Because we learned that there is a very strict Customs inspection at all American and Canadian ports, we studied and found that the best methods to overcome this difficulty are as follows:

1. In using members of ships' crews for this business we will supply them with double coated sales on their shoes. This method has been adopted in our business with China and India and proved so successful that not a single case was discovered. By this method each person can carry one pound or less on each trip ashore.

2. In case of shipping as common cargo, it is sent into the country as canned goods, each can being perfect in weight, size, etc., to conform with the shipping papers. (It is very dangerous to attempt to use this method with pickled goods).

"With these above methods you will be absolutely free from any danger of discovery. Kindly consider this matter seriously and arrange introductions to us with such members of the crew as you believe to be trustworthy and who would like to enter this business

"Price list as follows: (Japan)

1. Hydrochloric Acid-Morphine (Crystallized like cotton fibre) 10 oz. bottle at \$25 per oz.
2. Heroin - Powdered - 25 oz. bottle at \$25 per oz.
3. Cocaine - (Crystallized in scale form) 25 oz. bottle at \$25 per oz.

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"The above goods are manufactured by permission of the Minister of Interior and are of best quality for injection, or applied in tobacco. They are all in common use, especially favoured by Chinese.

"If you do not wish to handle these goods by sailors, you may handle them as common cargo as above mentioned (an absolutely perfect method). In this case if you deposit \$100 we will ship the goods to you. This is a rather difficult proposition to begin with, but we have done it previously with good results.

X. Yuki

88 Inohara,
Emanishi-dori,
Kobe, Japan.

Cable address: Yuki, Kobe.

"P.S. When you order by cable, please use above address."

There was, moreover, the following statement made by Furukawa, one of the men arrested in Vancouver:

"The Morphine came from Japan, where it was 'cheap as dirt' and available in unlimited quantities. He said that the drugs were turned over in Japan to members of the ring who were employed as members of the crew on various Japanese boats. The men had instructions to throw the drugs overboard if there was the slightest chance of their being discovered as, owing to their low cost in Japan, their loss was of little consequence. Furukawa further stated that these drugs were not only smuggled into Vancouver but also into Seattle, Portland, San Francisco and other United States ports, and that deals of ten, twenty or fifty pound lots could be arranged if desired. He also said that the men on the boat with whom they were at present dealing would not allow the drugs to be brought ashore unless first paid for, and if this did not happen before the boat sailed again from Vancouver they were taken back to Japan. They had formerly been dealing with a man who had allowed them to keep the drugs in Vancouver and dispose of them between voyages, but they had had trouble with him on a former deal and he would no longer do business with them that way."

Unquestionably the traffic had been extensively organized by means of carriers on a number of boats, as a study of the twenty-six photostats accompanying the report indicated. It was most unfortunate that, even though this extremely important and persistent

wholesale trafficker in Kobe was arrested and convicted, he would seem to be liable only to three months' imprisonment and a small fine, which, in the circumstances and in comparison with the sentences imposed in Canada and the United States, the victim countries, would appear to justify the use of the word "derisory".

He appealed to the Japanese authorities, in conclusion, to view the existing situation as a very serious matter both from the standpoint of present punishments and future deterrents.

Mr. RAHW (India), Vice-Chairman, reminded the Committee that India's most serious problem in the sphere of illicit traffic was the illicit importation of cocaine. It was known in India that the cocaine came from the Far East, it was suspected, from Japan, but there was no evidence to prove it. Some five years ago an official had been sent to the Far East who succeeded in establishing the incorrectness of the suggestion which had been advanced that the drugs illicitly entering India under forged Japanese labels were of Chinese origin. It had, however, proved impossible to secure direct evidence in Japan itself as to whether the drugs were or were not of Japanese origin.

Now that the report of the discoveries made in Vancouver was available, the Indian authorities felt that their suspicion as to the Japanese origin of the cocaine smuggled into India were confirmed. Though the Japanese Government had been supplied with all available information on the subject, he regretted to say that no assistance had really been received from that quarter. He, therefore, endorsed the appeals made by the United States and Canadian representatives that the Japanese Government should give the most serious attention to the complaints made and take effective penal action to put an end to the traffic in question.

M. HATA (Japan), confirming the explanation already supplied to the Sub-Committee, said that, on realizing the extremely serious nature of the information contained in C.S.N. 274, he had immediately called to Japan to inquire what action had been taken. The document, unfortunately, had not yet been received by the Japanese authorities but he felt sure that when it arrived the police authorities would immediately take action against the traffickers complained of. The Japanese Government's attention had recently been drawn to the increase in the illicit traffic in drugs on the American Pacific Coast and instructions had frequently been given to the Japanese consular authorities in America to collaborate closely with the American authorities in tracking down and suppressing the illicit traffic. At a conference held at Washington in April last, Japanese consular officials had also been instructed to study the most effective means of coping with the problem.

Regarding the inadequacy of the sentences imposed by Japanese law, he regretted that there were still many obstacles to be overcome in remedying this defect. The problem was, however, being seriously studied and he hoped that in the near future a start would be made in amending the existing legislation on the subject. He could assure the Committee that the Japanese Government was by no means indifferent and was giving the problem its serious attention.

Maj. GILES (United Kingdom) joined in the appeal made to the Japanese Government to take effective action against drug trafficking by Japanese nationals. Though the United Kingdom was not often directly affected, the activities of Japanese traffickers were a great worry and embarrassment to its authorities in the Far

East. Evidence in the form of labels, packages and detailed reports had often been supplied to the Japanese authorities proving that cocaine was being smuggled from Japan or Japanese possessions. If the Japanese Government could take effective action at an early opportunity it would be of great assistance to the United Kingdom authorities in the Far East.

The discussion was adjourned.

The meeting rose.

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STATEMENT MADE BY THE AMERICAN REPRESENTATIVE
AT THE TIME WHEN THE CONVENTION OF 1936 FOR THE
SUPPRESSION OF THE ILLICIT TRAFFIC IN DANGEROUS
DRUGS WAS, ON JUNE 26, 1936, PRESENTED FOR SIG-
NATURE.

Statement made by Mr. Stuart J. Fuller

As you will recall, from the statement which I made shortly after the opening of this assemblage, the American Government sent delegates to participate in the work of this Conference with the understanding that the task of this body was to draft a Convention which would (1) strengthen the measures at present available to prevent infringement of the principles laid down in the opium and drug conventions; and (2) provide international agreement to prevent and to punish in an effective and deterrent manner the illicit traffic in narcotic drugs whether raw or refined.

We hoped that the Conference would enlist the increased cooperation of other Governments in the international effort to suppress the abuse of narcotic drugs, particularly in the suppression of all kinds of illicit transactions in opium and its derivatives, in coca and its derivatives and in cannabis and its derivatives.

With that end in view, the American Delegation drew up and presented to the Conference certain carefully thought out suggestions which we felt would modify the draft text in a way to promise real and practical results.

The Convention now presented to us for signature, however, contains a number of stipulations which the American Government finds itself quite unable to accept; and I rise to place on record and to present to you the American Delegation's statement concerning the features which render this Convention unacceptable.

Law enforcement officers the world over know from experience that the first object for them to attain in combatting and preventing crime is to deprive the criminal of the profits of his illegal acts. The Convention contains no stipulation in regard to this. This Conference rejected a proposal for such a provision and must assume the responsibility for that omission.

The American Delegation placed before the Conference its view that embodying in the Convention a specific enumeration of acts required to be penalized as criminal offenses was not practicable and would lead to the very difficulties which have occupied the time of this Conference for days past, that is, questions arising from the difficulty of precisely setting forth these offenses in such a way that the description would accord with all of the different systems of law.

We also pointed out the inadvisability from a practical point of view of undertaking to dictate thus in detail to legislative assemblies.

We regret that the Conference did not see fit to adopt our suggestions, which would have bound each High Contracting Party to enact, within its own framework of law, measures to punish illicit traffic severely and measures designed to aid the officers of the law in their efforts to suppress that traffic.

Such frequent reference has been made in the course of the Conference to the Multilateral Treaty for the Suppression of Counterfeiting that it seems pertinent to present a few observations in regard to the bearing which it has been assumed that that Convention has upon the one which we are now asked to sign. Aside from the fact that the connection between falsifying money and poisoning one's fellow man, if it exists at all, is at best tenuous, we cannot forget that the Counterfeiting Convention, signed over seven years ago, has to date been ratified or acceded to by only twenty-three Governments. Only three Governments in the Americas have ratified or acceded to it. For reasons constitutional and otherwise, much the same as those which preclude my Government from subscribing to the Convention now presented for signature, the American Executive has not presented the Counterfeiting Convention to the Senate of the United States for consent to ratification. Of the components of the British Empire, we understand that only one, the Irish Free State, has ratified that Convention. We also understand that another one of the great powers, France, has not yet ratified it.

As we have already informed the Conference, it is our view that the offenses enumerated in the Draft Convention are not set forth with sufficient precision to afford a clear and legally adequate basis for the legislation necessary to make their prosecution possible.

Law officers of the American Government have held that the embodiment in the Convention of this list of offenses would call upon the American Government to replace its existing system of control, prevention and prosecution - (a system which has proved its worth and has received thorough interpretation in the courts) - by a much weaker system largely devised by those who state that their Governments do not have an illicit traffic problem to handle.

Those who have had ample experience in the actual handling of this problem were in attendance at the Conference and presented the results of that experience, but in few instances does it appear that that experience was taken into account.

We had hoped that the Convention would be drafted in such a way as to provide a legally adequate basis for the legislation necessary to make possible the punishment of illegal cultivation and gathering of cannabis, a drug the increasing menace of which is causing apprehension throughout

the world. The Convention now presented for signature will afford no constitutional basis for federal prosecution in the United States of such offenses in respect of which we must, therefore, continue to rely on the efforts of forty-eight States.

The American Delegation stated, in explaining its proposed amendment of the extradition Article, that it considers the final paragraph thereof to be practically a nullification of the entire Article. That paragraph vests discretion in any Government to refuse a request for extradition on the sole ground that "the High Contracting Party or its proper tribunal considers that the offense of which the fugitive offender is accused or convicted is not sufficiently serious".

When consideration is given to the fact that a number of Governments do not appear to consider as "serious" offenses which many nations punish by very severe penalties, it will be apparent that the final paragraph of the extradition Article would render that Article practically worthless as a basis for extraditing narcotics offenders from any country which is disposed to deal lightly with such offenses.

As we have pointed out to the Conference, we consider that the first paragraph of the extradition Article raises a serious question as to the effect of the Convention on existing and future extradition agreements.

In our opinion the effect of the Convention now presented for signature would be to inject uncertainty into the interpretation of our existing and future extradition treaties insofar as narcotics offenses are concerned and would seriously impair if not destroy the effectiveness of our extradition conventions in narcotics cases.

We came here hoping that a long step forward might be taken by this Conference and that it might draw up a Convention which all could sign -- one which would serve to strengthen the measures intended to prevent infringement of the provisions of the older drug Conventions.

It seems to us apparent that some of the nations do not as yet find themselves in a position to take steps along this path any more effective than those embodied in the Convention now presented for signature. We regret that those nations are not able to obligate themselves to any greater extent than this Convention provides but we are impelled to state that the United States cannot, on that account, undertake to discard its existing system, which has been tried and has proved effective, for a system which would impose upon the narcotics administration in the United States the limitations which are embodied in this Convention -- limitations which, in our opinion, would constitute, in our case, a distinct retrograde step and would bring about results directly contrary to the purpose of this Convention.

To sum up, the principal reasons why we find ourselves unable to sign the Convention are the following:

In the first place, we consider that application of the stipulations of the Convention by governments which at present find themselves the principal victims of illicit narcotic traffic would weaken rather than strengthen the international measures available today to suppress the abuse of narcotic drugs.

In the second place, we consider that the stipulations of the Convention do not tend in any increasing measure effectively to prevent or adequately to punish the illicit traffic.

In the third place, we consider the stipulations of the Convention to be impracticable because they attempt by means of a treaty to dictate to legislative bodies the exact terms of legislation which those bodies should pass to meet the obligations of this and of the other drug conventions.

In the fourth place, we consider that the Convention fails to meet the situation in countries where extraterritoriality obtains, those being the countries where the drug situation is at present most acute.

In the fifth place, we regard the Convention as inadequate insofar as cannabis is concerned.

In the sixth place, we consider that it would be a retrograde step for the United States to discard its present system of prevention, prosecution and punishment as the ratification of this Convention would require it to do.

In the seventh place, ratification of this Convention would jeopardize the established and well tried system which the United States now maintains of extradition for narcotic offenses.

We may say, however, that the American Government, while it cannot undertake to sign this Convention, will nevertheless continue to extend to all nations, in the campaign against the abuse of narcotic drugs, the fullest possible cooperation, as it has in the past. We believe that this can be done more effectively under our existing system than under the limitations which this Convention would impose upon us.

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OPIUM ADVISORY COMMITTEE NEXT SESSION

LEAGUE OF NATIONS

GENEVA

The Subcommittee on Seizures met from May 11th to May 16th under the Chairmanship of Colonel Sharnan, Chief of the Canadian Narcotic Service. All important seizures having an international angle were discussed and an endeavor was made by the Governments concerned to close the avenues of escape of the drugs into the illicit traffic.

The meetings of the Subcommittee are secret and reports of these meetings are made to the Plenary Committee which held a public discussion of the Subcommittee report during which many Governments were criticized for the lax narcotic laws and regulations permitting escape of drugs into the illicit traffic.

BAHAMAS

The first subject discussed was Sir Anthony Eden's statement in the League Council to the effect that the American report for 1934 was erroneous in its assertions regarding the illicit traffic between the Bahamas and the United States. Mr. Anslinger made a statement of the facts which led the American Government to make those assertions and produced much evidence showing the extent of the traffic between West End and Bimini, Bahamas, and Florida, chiefly by airplane, in 1934. He concluded by saying that this traffic had now practically ceased. Mr. Fuller pointed out that Eden's statement was a reflection on the Opium Advisory Committee, the Seizures Committee, and the United States Government. With the assistance of Major Cohen a passage was inserted in the Subcommittee report taking exception to Eden's statement, point-

ing out that neither the Subcommittee nor the American Government had accused the British Colonial Authorities of neglect, that illicit traffic was certainly carried on from West End and Bimini to the United States in 1934, and that the situation had materially improved in 1935, West End and Bimini having been practically abandoned as bases.

PLENARY SESSION

The Plenary Session started out in private with a discussion of the statement given to the press by Mr. Lyall, British representative and Chairman of the Permanent Central Opium Board, who is also an Assessor acting in an expert and advisory capacity on Far Eastern affairs for the Opium Advisory Committee:

LYALL'S STATEMENT

This statement was to the effect that the present system of combatting the illicit traffic had completely broken down. Mr. Fuller and Colonel Sherman (Canada) stated that this statement, based on incomplete and inaccurate information, constituted a reflection on the United States and Canada; that it was based solely on statistics of customs seizures for one year, 1934, those for the United States being given as 37 kilos, whereas the actual figures of all seizures amounted to 351 kilos. Much evidence was adduced to show that the system of controlling the illicit traffic was having very satisfactory results. It was pointed out that the prices in the illicit traffic afforded an excellent barometer and they showed an increase of five hundred per cent. The Subcommittee was unanimous in condemning Lyall's statement, which was regarded as most unfortunate, despite Dr. Hoo's

efforts to have the Committee take note merely of the revised version of Lyall's remarks finally published in the Board's Report.

The discussion in the Plenary Committee was equally interesting, Mr. Lyall having taken occasion to repeat the very statement to which objection had been made. Mr. Analinger refuted Lyall's assumption that American addicts were consuming on an average of six grains of morphine a day. Lyall's other assertions in the case of United States were shown to be without foundation. Mr. Fuller deplored the damaging effect of the statement which, he said, was hailed with delight by traffickers and those opposed to control of the illicit or licit traffic, and with loud guffaws of laughter by those who knew anything about the subject. The Canadian and British representatives took the strongest exception to Lyall's remarks. Major Coles (British) said that the erroneous statement had been featured in practically every newspaper in the British Isles. The French, Dutch and Indian representatives chimed in, and the consensus of opinion was clearly that Lyall's statement was wrong and entirely uncalled for. The rapporteur was instructed to put a full resume of the debates in the Committee's Report. The discussion was in private session.

ACID ACETIC ANHYDRIDE

Statistics of imports and exports of Acid Acetic Anhydride, used in the manufacture of heroin, were closely examined by the Committee and many cases were traced to Japanese consignees in China and Japan.

SURVEILLANCE OF SHIPS IN PORT

The American observer's statement contained a carefully prepared analysis of measures to be taken by Governments and by steamship companies with respect to smuggling by ships. The Canadian Government

outlined the strict measures taken by the Canadian-Pacific, which has spent \$34,000 a year for such surveillance, and considers the money well spent. It was mentioned that airplane escorts for incoming and outgoing ships to observe any contact with small boats were sometimes necessary. The practice of fining ships when seizures are made aboard is carried out only in the United States. In certain countries it is impossible to fine ships and the endeavor is made to hold the country of source and export of the drugs responsible.

The Chinese delegate spoke of the use of police dogs in Chinese ports. There are three German wolfhounds and two Chinese dogs in service there. The period of training is six months. In twenty actual cases where the dogs were a help, sixty arrests were made for transporting opium illegally.

The increasing use of tankers for drug smuggling was noted. The establishment of a Seaman's Black List was urged. The case of Reinhold THOMAS, arrested in Baltimore on the S.S. EXILONA, was the case in point. As a result of the publicity given this debate, the representative of the America-France Line in Paris was instructed to explain to the American representatives the methods employed by that company in watching its ships in port.

ANNUAL REPORTS

The annual reports of all Governments were considered and many Governments were scathingly criticized because of lax conditions. Employees of the League of Nations serving since its formation openly stated that in no other meeting of the League are nations so hostile and critical of each other as when they meet to discuss opium problems. Statistics on the drug traffic are thoroughly combed and all discrepancies are brought fervently to the attention of the offending Government.

Portugal came in for many bad minutes at the hands of the American observer because of conditions thought to be intolerable in Macao in the Far East, in view of evidence of graft and corruption in connection with the handling of the Portuguese Opium Monopoly, the United States and Canada suffering from the back-wash from this scandal in the way of illicit drugs.

IRAN

The representative of Iran took an attitude of indifference to any criticism of the Iranian Government, reiterating that Iran is a sovereign nation and was sending opium to the Far East on legitimate certificates, whereas it was shown that the minor Chinese officials in some provinces sent these certificates to Iran without consulting the National Government in Nanking. It was shown that 95 tons had been exported to the Far East, not on proper import certificates recognized under existing treaties. A list of ships leaving the port of Bushire was furnished the Iranian representative; two ships leaving under cover of night, destination unknown. The Iranian representative raised objection to such a list on the ground that it was furnished by the British Government and not by the Iranian Government. After considerable debate it was decided to allow the Iranian representative to present a list of sailings at the next meeting. It was privately agreed, however, that if the list was not forthcoming from the Iranian representative, that the British agent at Bushire would furnish such a list which would be made public.

CLANDESTINE FACTORIES

An attempt was made by several nations to bring this matter up for public discussion, but the representatives of nations having had police experience, refused to enter into a discussion, stating that

they considered the subject one for private discussion among police only, and that public discussion would result in disclosure to the narcotic traffickers the methods used by police to ferret out such factories.

CONFERENCE TO CONSIDER THE POSSIBILITY OF CONTROLLING
AND LIMITING THE PRODUCTION OF OPIUM AND
CULTIVATION AND HARVESTING OF THE
COCA LEAF

The Committee passed a resolution which will be sent to the Council of the League, urging that preparatory work continue on the basis of information already obtained from the opium producing countries. However, no information has been obtained from the coca-leaf producing countries, and inasmuch as over 90 per cent of the problem is with opium, and as it would be impossible to control the production of the coca leaf because of its wild growth in South America and in Java, it was resolved to eliminate the coca leaf from further discussion in order to speed up the control of opium.

CANNABIS AND DRUGS DERIVED FROM CANNABIS (MARIJUANA)

A special committee was set up to consider this problem and it was unanimously decided that insufficient information was available and that the report would be awaited from the International Research Committee of which the United States has membership. However, this special committee went on record in reporting that the use of Cannabis in medicine could be abandoned.

INQUIRY INTO DRUG ADDICTION

This subject was explored and some criticism was directed at the opium monopoly countries for not setting aside a certain part of their revenue for education and propaganda.

The Secretariat presented a document giving its findings on the extent of drug addiction in the various countries which brought forth such loud protest that the League withdrew the document. This caused considerable embarrassment as the newspapers had already published reports that the League had estimated that there were 50,000 drug addicts in England whereas the British Government has admitted only 700 drug addicts in the British Isles.

CONFIDENTIAL. The Head of the Opium Secretariat approached the American delegation and discussed the propriety of withdrawing the League report because it was causing great embarrassment to the League and to other nations. The American delegation was the only one thus approached as it was felt that would be the only source of objection to the withdrawal. It was stated privately to the Head of the League's Opium Secretariat that public discussion of the report with respect to addiction would not in any way embarrass the United States as the American delegation was fully prepared to enter into a full and complete discussion of details of drug addiction in the United States. It appeared that other nations were jittery over a discussion of the problem as it appeared in the League's report.

DIPLOMACY-MORPHINE B

This is a new drug discovered under the direction of the National Research Council, the patent for which was presented to the Treasury Department by Dr. Lyndon F. Snell of the University of Virginia. The drug is 20 times more powerful than morphine and the American delegation presented a lengthy report showing that research had been conducted in connection therewith and its conclusion that the drug should never be permitted to be manufactured. A sample of the drug is to be

submitted to the Health Committee of the League of Nations to be referred to the Office international d'Hygiene publique in Paris for further study. It is interesting to note that a Swiss firm is arranging to take out a patent in Germany on this drug. This situation is being carefully watched, as a drug 20 times more powerful than morphine in the illicit traffic would obviously cause trouble to nations double that caused by heroin.

METHODS OF DISTRIBUTING LAWS, REPORTS, AND
SEIZURE REPORTS TO MEET THE STIPULATIONS
OF THE DRUG CONVENTIONS

The American delegation has been extremely critical of the League of Nations in the past for not distributing laws, annual reports, and seizure reports to signatories of drug conventions. These documents have reposed in the League files in spite of provisions in the conventions for distributing them, and before the matter came out for public discussion the League Secretariat presented a document to the American delegation outlining the method which would be followed in the future. This was done to avoid public criticism of the League and to forestall the American attack known to be forthcoming.

GREECE AND TURKEY

Important information was received from the Greek and Turkish Governments regarding the fagaries of the Greek S.S. LIMNI, known to have carried huge quantities of raw opium ostensibly destined for Abyssinia, Paraguay, and Venezuela in 1934 and 1935, but which is thought to have been landed in France clandestinely. The principal smuggler, Nissim TROUEROUT, was sentenced in Istanbul to 18 months in prison and a fine of \$27,145. The Turkish authorities expect eventually to ascertain just where the opium was landed.

Some of it was landed at Toulon and seems to account for considerable seizures of raw opium in France subsequently.

The Turkish representative stated that Turkey had reduced the area of opium poppy cultivation in the country 50 per cent, but found that other countries were increasing such cultivation. The cartel with Yugoslavia has been removed. It was pointed out that clandestine manufacture in Turkey centered in Istanbul but was certainly decreasing owing to the energetic measures of the authorities who had recently discovered four small factories, with primitive equipment. The elaborate establishments seem to have disappeared from the scene.

CHINA AND JAPAN

The high spot of the session was a debate on the situation in China and Japan. The American delegate's speech showed the deplorable conditions in China, and followed with a scathing indictment of the Japanese Government for tolerating and fostering an extended traffic which was poisoning hundreds of thousands of Chinese, the United States getting the back-wash of drugs due to such a condition. This speech created a sensation in League circles and was regarded as the most vicious attack ever made on a Government during the history of the League. The Japanese delegate objected to the use of the words "unfriendly act" in describing the laissez faire attitude of the Japanese Government, such words being usually recorded as meaning an act of war in diplomatic parlance. It was urged by many delegates that Japan at least take steps to set up adequate penalties for drug trafficking. At the present time the penalty is only two months in jail. The Canadian representative stated that his Government regarded the situation in China, where mostly drugs of Japanese

manufacture were being sold at prices lower than anywhere else in the world, as serious and alarming. The terrifying spread of drug addiction was shown by facts and figures. Nine hundred Chinese were executed for drug peddling.

The total opium production of the Chinese "exterior provinces" was stated to be 12,500 tons annually. Of this, some 2,500 tons were used for the manufacture of drugs, yielding possibly 200 tons of morphine. The improved cooperation between Chinese and foreign authorities in Shanghai and other international settlements was noted with satisfaction. The representative of India stated that Japanese cocaine was continually being smuggled into India and this traffic was their main preoccupation. The Japanese delegate assured the Committee that his Government was by no means indifferent to the illicit traffic and would most certainly take steps to put an end to it. A resolution was drawn up and passed by the Committee urging Japan to take action to remedy the unfortunate situation as soon as possible.

Dr. Hoo (China) gave information to the effect that there are four clandestine factories in Hankow, capable of producing seven to eight kilos of red pills daily; and he asked the Japanese delegate to have an investigation made. The use of these heroin and morphine pills is said to be spreading to an alarming extent.

The American statement on the illicit traffic in China and Japan is attached.

H. G. Anshing

LEAGUE OF NATIONS

(O. C. /21st Session/P.V.13)

ADVISORY COMMITTEE ON TRAFFIC IN OPIUM AND OTHER DANGEROUS DRUGSTWENTY-FIRST SESSIONProvisional MinutesTHIRTEENTH MEETING, (Public),

Held at Geneva on May 28th, 1936, at 10:30 a.m.

Chairman: Dr. CHODZKO (Poland).

Present: All the members of the Committee,
except the representatives of Austria,
Italy, Sweden and Uruguay.

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SITUATION IN THE FAR EAST

Mr. FULLER (U.S.A.) made the following statement:

"We are now considering the situation in the Far East, which includes, as we are reminded by the agenda, the general situation in China and also the situation in respect of Chapter IV of the Hague Opium Convention of 1918, which deals with co-operation between the governments of China and of other nations; and it may be well to recall, at this juncture, that in this area, i.e., in China, north and south of the Great Wall, over 90% of the opium grown in the entire world is produced, to say nothing of vast quantities of heroin many times the world's needs for medical and scientific purposes. Last this be questioned, I call attention to a single seizure, reported by the Chinese Government in its 1934 Report as made at Peiping, of one-tenth of the annual needs of the world for heroin. It is in this area, China, that the prices of drugs sold for the purpose of satisfying addiction are lower than anywhere else in the world, a circumstance which I need not tell you is vitally significant.

It will doubtless be recalled that at a previous session of this Committee, in speaking of the vast flood of opium produced in China - practically none of which is used for any purpose save the gratification of addiction - I characterized that production as a menace to the world. I still consider that production as a menace and I repeat the hope that the Government of China will be able in time to suppress entirely production within its borders. Let us now attempt to marshal the facts available which have a bearing on this situation.

It may be well to recall that the bulk of this production of opium in China takes place in what have been characterized as the "frontier" provinces, which form a semicircle around the country from Yunnan and Kwichow on the south through Sikkim, Szechuan, Chinghai, Kansu, Shensi, Kiangsi, Suiyuan, Chahar, Jehol, Heilungkiang, Kirin, and Liaoning. In other words, China consists of a central core which is practically free from opium cultivation, surrounded by a belt in which most of the world's opium is produced. It should be borne in mind that in some of the provinces in that belt the National Government of China has for some time past had no control. This circumstance should always be borne in mind.

The Chinese representative, at our last session, stated that it is the object of his Government to suppress the cultivation of the poppy and the use of prepared opium in China by about the end of 1940. It is to be hoped that the Government of China, in its annual reports, will keep the other parties to the Limitation Convention of 1931 informed of the progress which it achieves toward those two ends.

We have before us the Chinese Annual Report for 1934, we have a mass of military laws and regulations, and we have a certain amount of civil law.

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We should not forget that the report in question deals only with 1934, the year in which the Government of China had merely made a start in setting up the organization designed to handle the problem along the new and very different lines which it has decided to follow. The report deals with a transition period. However much we may regret that it contains nothing regarding the production of opium, no figures concerning the movement of opium, practically no specific information in regard to illicit traffic and clandestine manufacture in the interior of the country, and nothing concerning the revenue derived from the opium trade, we should not, in my opinion, undertake to base upon a report for 1934 any conclusions as to the results accomplished by the new plan for meeting the opium and narcotic drug problem.

Some inkling is given in the report, on page 14, of the possible volume of illicit traffic in heroin in Peiping, where it describes a single seizure which involved 90 kg. of heroin, but the almost total absence of data concerning the internal illicit traffic makes it impossible to base on this report definite conclusions concerning that traffic, or concerning clandestine manufacture of derivatives.

As for the laws and regulations which have already been circulated to members of the Committee, it appears to be not yet quite clear whether they are part of the substantive law of China as a result of having been passed by the body constitutionally clothed with authority to enact legislation or are merely military orders. The Secretariat informs me that they have not yet been sent to the Secretary-General by the Chinese Government for transmission to the other parties to the Limitation Convention of 1931.

As to the suppression of opium smoking, I do not propose to enter into a discussion at the present time other than to say that I still believe that the way to suppress is to suppress, and that I deprecate the establishment anywhere of Government monopolies. It is not going to be easy in 1940 to give up the rich revenues to be derived by the Government from peddling opium to its citizens.

What I do wish to speak about is the production in China of raw opium and that of opium derivatives.

Realizing the danger which results from the enormous production of opium in China, the American authorities enlisted the aid of reliable, well-informed and public spirited Chinese citizens in every province of China to conduct a nation-wide survey of the production of raw opium and of the production of opium derivatives. This survey was made in an entirely independent manner. It was made without the cooperation or even the knowledge of diplomatic or consular officers. The figures were largely obtained from Chinese officials, who would naturally speak more freely under those circumstances.

The survey covered the cost of production, taxation, selling prices, volume of production, movement of the opium, and production of derivatives. It covered every province in China,

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both north and south of the Great Wall. The figures are illuminating. The figures for opium production were tabulated, the lowest estimate being taken for each province. The total production came to 12,261 metric tons, or over 90% of the world production. Had the maximum estimates been taken, the total would have been 18,000 tons.

The largest producers in 1935 were: Yunnan (about the size of Poland) which produced 4,644 metric tons and Szechuan (about the size of France) which produced 4,334 tons. Manchuria and Jehol accounted for 1,325 metric tons.

In Yunnan, measures (which I am informed were effective) were taken in 1935 to suppress cultivation in certain haïens (counties). At the same time, however, official encouragement was given to increased cultivation in the rest of the province, so that it remains to be seen whether the total production will decrease. Poppy is sown in Yunnan in October. Just before the sowing season in 1935 an order is reported to have been issued by Mr. Luh Tsung-Jen Commissioner of Finance, and, concurrently, Head of the General Opium Suppression Bureau of the province. This order is reported to have been widely circulated in various parts of the province and posted in public places. Since the proclamation decreed by Generalissimo Chiang Kai-shek, calling for the suppression of opium in Yunnan in the spring, many farmers had hesitated to cultivate poppies in the autumn of 1935. The purpose of the order issued was apparently to assure the public that poppies may still be grown and that those who discontinue growing them may be subjected to heavy punishment. The contents of the order in question are reported to have been as follows, in translation:

ORDER OF THE GENERAL OPIUM

SUPPRESSION BUREAU

YUNNAN,

The public is hereby notified that this province is the poorest province in the whole nation, and that there are hardly any Yunnan products which are marketable in other parts of the country with the exception of opium. Perfectly aware of the evil of opium, the Government, with the interests of the people at heart, realizing the suffering which results from famine and poverty, deems it expedient to allow cultivation of the poppy as a means to relieve the people of their financial stringency. But if the cultivation of the poppy does no more than supply the local consumption of the province, it only impairs the health of the people and contributes nothing toward their income. The result will be that the suffering will become more serious and the conditions of poverty remain.

For this reason, the Opium Suppression Bureau has formulated a plan for the Government to undertake the sole transportation and distribution of opium, and also to limit the smoking addicts in this province. All these plans are carried on for the sake of the people and not to enrich the Government. It is very disappointing to know that a group of ignorant people in this province has recently circulated the rumor that it is illegal and unprofitable to cultivate the poppy. They have either cultivated other crops in place of the opium poppy or have left their old poppy field lie barren. Such practices cannot be of any harm to the Government, for these people will have to pay the poppy tax regardless, consequently, the loss falls upon these people. Furthermore, the transportation and trade in opium under Government auspices may realize funds for the Government to push reconstruction along various lines of development in the interest of the public.

The people of Szechuan have been compelled by circumstances to pay in advance over fifty years of land tax. If no revenue is derived from opium in this province, how could we meet the civil and military expenses? The result will be, of course, to collect more taxes from the people, and more suffering will naturally ensue.

The public is hereby earnestly warned against refraining from cultivation of the poppy. They are advised to continue cultivation in old poppy fields. They should not be inconsistent and irregular in the cultivation. Such actions are equivalent to ignoring Government orders and offering negative resistance to the authorities. If such cases are discovered, the offenders will be subjected to fines doubling the rate of regular poppy taxes and they will be looked upon as counter-revolutionary.

In order to dispel any doubt on the part of the public, this order will serve to reiterate the stand of the Government in this issue. It is hoped the public as a whole will obey this order and sow poppy as usual. They should not listen to rumor and thus involve themselves in trouble.

(Sealed) Luh Tsung-Jen

Commissioner.

In Szechuan some effort was made toward suppression in 1935, but the ten haïens (counties) which have in the past produced the bulk of the Szechuan production were officially permitted to continue production. It remains to be seen, therefore, whether and to what extent there will be any reduction in Szechuan production or not.

In Manchuria and Jehol the production is comparatively estimated as increasing by about 6% annually and little or no effective measures to limit or suppress cultivation are in evidence anywhere.

There was a decrease in 1935 in two provinces, Kwichow (about five times as large as the Netherlands) which produced in that year 290½ metric tons, and Hunan (about the size of Austria, Hungary and Switzerland together) 194 metric tons. Cultivation was to have been totally suppressed in Hunan but the Central Government has authorized twenty haïens (counties) to continue. The decrease in Kwichow was due to the ravages of Communist bandits.

In twelve provinces there was no production worth mentioning. These are: Kwangsi, Kwangtung, Fukien, Chekiang, Kiangsi, Bupoh, Anhui, Kiangsu, Honan, Shensi, Hopoh and Shantung.

In all the other provinces except Ninghsia production increased in 1935. In Sikuang, Chinghai, Suiyuan and Chahar there was no evidence of suppression. In Kansen and Shensi the total production increased despite suppression in limited areas. In Ninghsia the production, 780 metric tons, was about average and, with the recent establishment of Government sales agencies in Hopoh, threatens to increase.

The members of the Committee will doubtless recall the establishment in April, 1935, by interests connected with the National Government of China, of the Farmers' Bank, the real purpose and object of which were made public by the fearless and conscientious Mr. Chow Id-seng, of the Control Yuan, to whom I have previously paid tribute in this committee and would now repeat that tribute. The announced purpose of this Bank was to afford farmers assistance in financing their operations. The real purpose was to finance the opium trade. In the past two years, this Bank has extended its operations to various opium producing districts and has opened branches in the leading cities of China with a view to facilitating the opium traffic. The Bank, which has a \$7,000,000 paid-up capital, is now reported to have been authorized to issue \$100,000,000 worth of banknotes, a circumstance which indicates that the opium trade has been a profitable one for the past three years and that some confidence in its future is felt.

With regard to the smuggling of opium into China, I should like to call attention to the estimates made public by the Associated States as a result of a study made by that body of China's foreign trade for the past ten years. That estimate places the quantity of opium thus smuggled in 1935 and 1934 at 44,000,000 Chinese ounces, equivalent to 1,637 tons of which about 1,000,000 Chinese ounces, equivalent to about 37 tons were estimated to have been smuggled into

Dairen. While this estimate seems entirely too high, it may be noted that 272 1/3 metric tons of Iranian opium left Bushire for China in 1933 and 43 metric tons in 1934, and that the rumor persists that additional Iranian opium has also been brought into China from Iran through other countries.

OPIMUM DERIVATIVES

The survey, naturally, did not develop, in regard to opium derivatives, information as complete as that in regard to raw opium, but the data obtained is illuminating nevertheless.

It is interesting to note that Yunnan ships out about 19 metric tons per annum of opium gross.

As to morphine and heroin, the following provinces are apparently free from clandestine manufacture: Kwangsi, Chekiang, Kiangsi, Sikang, Chinghai, Kansu, Shensi, Anhui, Shansi, Ninghsia and Chahar.

Manufacture of derivatives appears to exist in all of the other provinces. In China, south of the Great Wall, crude morphine is produced in the principal opium producing provinces and shipped to Shanghai, Hankow, Tientsin and Peiping for refining and conversion into heroin. The clandestine manufacture of heroin in Southern Fukien appears to continue unabated.

In Manchuria and Jehol where, as we were informed by the Japanese representative, there is no legislation to control manufacture or trade in derivatives, the situation is terrifying.

With regard to the situation in Manchuria, I should like to quote the following from the "Manchuria Daily News", a Japanese newspaper published at Dairen:

"More than one million yen worth of narcotics such as morphine, opium, and other drugs are being smuggled into Dairen every month, the local police authorities declare.

"These drugs are being secretly conveyed to this city by professional smugglers disguised as innocent travelers, who obtain their goods from illicit manufacturers in Mukden and other centers in the district, it is said.

"Until a few years ago, with Dairen as the base, drug traffic on a huge scale was carried on in this country. Most of the big dealers in and manufacturers of narcotics had their headquarters here. With the enforcement of strict regulations for the control of the traffic in the Kwantung Leased Territory following the All-Manchuria Judicial Conference last fall, however, most of the drug dealers in Dairen were forced to flee to Tientsin and Mukden. Here they set up a thriving business, and these cities soon

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became the centers of revived drug traffic in this part of the world. Between them they captured the markets of Manchuria and North China. Narcotics produced in Tientsin mostly found their way to Tsingtao, Shanghai and other parts of North China, while the Madren dealers gained a monopoly of the Manchurian markets.

"The flight of the narcotic producers and dealers from this city, however, has not changed the conditions of supply and demand here. In fact, the amount of smuggled drugs has been increasing of late, until today it is estimated that about 1,000,000 yen worth of the illicit goods are being smuggled into this district.

"The police authorities have instituted stricter measures to stamp out the traffic, orders having been issued to all police officers at stations and on the trains to Dairen to keep a close watch on all passengers."

All our information from this part of the world tends to confirm the above report.

Not only this, but also the almost unbelievable conditions obtaining in the so-called "demilitarized zone" in Hopeh, the disgraceful state of affairs in Tientsin and Peiping, the terrifying spread of drug addiction in the Hopeh countryside, and the conditions found to exist in Shanghai, for all of which Japanese and Korean traffickers are responsible, are eloquent testimony of the helplessness of the Japanese authorities in China, who are limited by their law to penalties which are perfectly ridiculous. This matter of penalties has, in the past, repeatedly been brought to the attention of the Japanese representative by the Committee. For years the matter has been an open scandal. Year after year the Opium Advisory Committee has called attention to this perfectly indefensible state of affairs. It is certainly most unfortunate that in all these years no effective action has been taken to remedy this situation which makes not only China but Japan itself and all Japanese possessions a haven, a refuge and an unsurpassed headquarters for callous Japanese and Koreans who are so successfully and blithely poisoning their fellowmen for gain. I speak of this with feeling because I have been brought to regard this failure to discipline and punish these poisoners in Japan and China not only as an act of unfriendliness to the Chinese but also as an unfriendly act towards the nations of the North American continent, Canada, Mexico and my own country. Let us face facts. Where Japanese influence advances in the Far East what goes with it? Drug traffic. What is the reason? Maximum penalty, a few weeks' rest in a comfortable jail and a fine amounting almost to the profits of one day's business of a petty trafficker.

When asked to offer suggestions in regard to measures of co-operation with the Chinese and other Governments in respect of the China situation, the American Government suggested:

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1) That the Chinese Government should publish annually detailed statistics by provinces of the areas planted with poppy, the production of raw opium, the movement of opium, both raw and prepared, the quantities of raw opium used for producing opium prepared for smoking, stocks at the end of each year, and revenues obtained from the traffic;

2) That the Chinese Government should render more effective its prohibition of the import into China of Iranian or other foreign opium;

3) That the British Government should continue to supply, as in the past, details in regard to the movement of opium from the Persian Gulf;

4) That the Chinese Government should submit for transmission to all the parties to the 1931 Convention individual reports on all important cases of illicit traffic and clandestine manufacture discovered in China; and

5) That the authorities of the International Settlement of Shanghai should continue to send reports on individual cases of illicit traffic for distribution to the authorities of parties to the 1931 Convention, and that similar reports should continue to be submitted in regard to other foreign concessions in China.

I hope that those suggestions will be followed out.

I wish to add to those suggestions another, viz., that the Japanese Government, whose subjects have been more widely and more closely connected with the illicit traffic in China in morphine, heroin and cocaine, than those of any other country, should without further delay take steps to punish effectively the Japanese and Koreans who are responsible for the clandestine traffic and illicit manufacture and who have thus brought the name of Japan into disrepute.

As to China, it is to be hoped that this vast flood of opium will commence to be stemmed. That is the root of the trouble. Who in these days is going to smuggle morphine, heroin or cocaine from Europe or America to China when he could sell them in Europe for five times, or in the United States for sixteen to twenty times what they are sold for at retail in China. My suggestion is to concentrate, so far as smuggling is concerned, on cocaine from Japan and Formosa, and on Iranian opium from whatever port it comes; but, above all, to cut down the vast supply of opium within the country itself. Until this is done, China will continue to be a

narcotic menace to the world.

Mr. Chairman, I submit that it remains to be seen whether the system established in China will really lead to a reduction in the number of addicts and to a decrease in the production and consumption of opium or whether it will lead to the perpetuation and extension in China and elsewhere of toxicomania. We should not lose sight of the fact that the present plan, whatever its ultimate results may be, cannot fail to make money for the Government. The big problem of the world is now up to the Governments of China and Japan, and may God grant that they may not be led astray by the siren song of profits. Alibis and excuses will not avail them before the bar of world public opinion."

In conclusion, the U.S.A. Representative endorsed the laudable sentiments expressed by the Chinese Central Committee for the Suppression of Opium and quoted by the Chinese Government's representative at the Committee's preceding meeting:-

"1) The Government is firmly determined to suppress totally the opium scourge within the prescribed period of 6 years;

"2) The Government will not allow the petty revenue accruing from the sale of opium to modify its six-year plan for the suppression of opium;

"3) The whole nation must support the Government, give it guidance and encourage it in its campaign against the misuse of narcotic drugs. The future of the nation depends on the success of this campaign and the whole nation must immediately wage a fight to the death with the scourge which menaces us until the day when we shall achieve our purpose."

Colonel SHARMAN (Canada) reminded the Committee of the following remarks which he had made at its eighteenth session (Of. page 57 of the Minutes of the Eighteenth Session):

"For a number of years past Canada has made an honest effort, involving heavy expenditure of money, to control narcotic trafficking on its Pacific Coast. This effort has been strongly supported by the Courts in imposing heavy sentences, and in fact a very large proportion of the prisoners in its penitentiaries on the Pacific Coast were incarcerated on narcotic charges, involving narcotics which undoubtedly came, and much of which were definitely known in Canada to come, from the Far East, not necessarily from one particular country. Yet during 1933 more opium, more morphine and more heroin was seized on the Pacific Coast of Canada than in 1932. The Canadian Government, for that reason and for others upon which Colonel Sharman did not deem it advisable to dilate at the present session, viewed the present situation, and particularly the future, with acute anxiety and was anxious to impress that anxiety upon the Committee."

That this statement did not incorrectly represent the view of the Canadian Government was indicated by the fact that it was referred to by the Canadian delegation to the 1934 Assembly which was led by the Prime Minister who, in his report, mentioned that "the position gave rise to grave apprehensions".

Colonel Sharman fully realized the unpleasant situation of those who had to bear the brunt of complaints as serious as those made today, but he could assure the Japanese representative that he himself had been in a similar position. Some ten years ago Canada, unfortunately, was the chief center supplying narcotics to Detroit and Chicago in the United States and the Federal authorities had very properly complained to Canada. The result was a wholehearted cooperation between the authorities of both countries culminating in the arrest of the big traffickers and the imposition of heavy penalties.

In using, two years previously, the words "not necessarily from one particular country" in the statement already quoted, he had had Japan particularly in mind, as his strong conviction, based upon

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knowledge but not upon proof, was that Canada was the victim of a well-organized traffic from Japan. Now that they had the information contained in O.C.S.274 regarding five arrests made in Vancouver and certain arrests of Japanese made about the same time in Seattle, it was possible to be much more explicit. The Sub-Committee on Seizures had made a close study of the information contained in O.C.S.274 but he would like also to remind the Advisory Committee that the trafficker in Kobe, Japan, who had supplied all the narcotics, had himself written, inter alia, as follows:

"Because we learned that there is a very strict Customs inspection at all American and Canadian ports, we studied and found that the best methods to overcome this difficulty are as follows:

1. In using members of ships' crews for this business we will supply them with double cased soles on their shoes. This method has been adopted in our business with China and India and proved so successful that not a single case was discovered. By this method each person can carry one pound or less on each trip ashore.

2. In case of shipping as common cargo, it is sent into the country as canned goods, each can being perfect in weight, size, etc., to conform with the shipping papers. (It is very dangerous to attempt to use this method with pickled goods).

"With these above methods you will be absolutely free from any danger of discovery. Kindly consider this matter seriously and arrange introductions to us with such members of the crew as you believe to be trustworthy and who would like to enter this business

"Price list as follows: (Japan)

1. Hydrochloric Acid-Morphine (Crystallized like cotton fibre) 16 oz. bottle at \$3Y per oz.
2. Heroin - Powdered - 25 oz. bottle at \$3Y per oz.
3. Cocaine - (Crystallized in scale form) 25 oz. bottle at \$3Y per oz.

The above goods are manufactured by permission of the Minister of Interior and are of best quality for injection, or applied in tobacco. They are all in common use, especially favoured by Chinese.

"If you do not wish to handle these goods by sailors, you may handle them as common cargo as above mentioned (an absolutely perfect method). In this case if you deposit \$100 we will ship the goods to you. This is a rather difficult proposition to begin with, but we have done it previously with good results.

K. Tuki

53 Inchomei,
Kumuchidori,
Kobe, Japan.

Cable address: Tuki, Kobe.

"P.S. When you order by cable, please use above address."

There was, moreover, the following statement made by

Furumoto, one of the men arrested in Vancouver:

"The Morphin came from Japan, where it was 'cheap as dirt' and available in unlimited quantities. He said that the drugs were turned over in Japan to members of the ring who were employed as members of the crew on various Japanese boats. The men had instructions to throw the drugs overboard if there was the slightest chance of their being discovered as, owing to their low cost in Japan, their loss was of little consequence.

Furumoto further stated that these drugs were not only smuggled into Vancouver but also into Seattle, Portland, San Francisco and other United States ports, and that deals of ten, twenty or fifty pound lots could be arranged if desired. He also said that the men on the boat with whom they were at present dealing would not allow the drugs to be brought ashore unless first paid for, and if this did not happen before the boat sailed again from Vancouver they were taken back to Japan. They had formerly been dealing with a man who had allowed them to keep the drugs in Vancouver and dispose of them between voyages, but they had had trouble with him on a former deal and he would no longer do business with them that way."

Unquestionably the traffic had been extensively organized by means of carriers on a number of boats, as a study of the twenty-six photostats accompanying the report indicated. It was most unfortunate that, even though this extremely important and persistent

wholesale trafficker in Kobe was arrested and convicted, he would seem to be liable only to three months' imprisonment and a small fine, which, in the circumstances and in comparison with the sentences imposed in Canada and the United States, the victim countries, would appear to justify the use of the word "derisory".

He appealed to the Japanese authorities, in conclusion, to view the existing situation as a very serious matter both from the standpoint of present punishments and future deterrents.

Mr. HADOT (India), Vice-Chairman, reminded the Committee that India's most serious problem in the sphere of illicit traffic was the illicit importation of cocaine. It was known in India that the cocaine came from the Far East, it was suspected, from Japan, but there was no evidence to prove it. Some five years ago an official had been sent to the Far East who succeeded in establishing the incorrectness of the suggestion which had been advanced that the drugs illicitly entering India under forged Japanese labels were of Chinese origin. It had, however, proved impossible to secure direct evidence in Japan itself as to whether the drugs were or were not of Japanese origin.

Now that the report of the discoveries made in Vancouver was available, the Indian authorities felt that their suspicion as to the Japanese origin of the cocaine smuggled into India were confirmed. Though the Japanese Government had been supplied with all available information on the subject, he regretted to say that no assistance had really been received from that quarter. He, therefore, endorsed the appeals made by the United States and Canadian representatives that the Japanese Government should give the most serious attention to the complaints made and take effective penal action to put an end to the traffic in question.

M. HIRTA (Japan), confirming the explanation already supplied to the Sub-Committee, said that, on realizing the extremely serious nature of the information contained in O.C.S. 274, he had immediately cabled to Japan to inquire what action had been taken. The document, unfortunately, had not yet been received by the Japanese authorities but he felt sure that when it arrived the police authorities would immediately take action against the traffickers complained of. The Japanese Government's attention had recently been drawn to the increase in the illicit traffic in drugs on the American Pacific Coast and instructions had frequently been given to the Japanese consular authorities in American to collaborate closely with the American authorities in tracking down and suppressing the illicit traffic. At a conference held at Washington in April last, Japanese consular officials had also been instructed to study the most effective means of coping with the problem.

Regarding the inadequacy of the sentences imposed by Japanese law, he regretted that there were still many obstacles to be overcome in remedying this defect. The problem was, however, being seriously studied and he hoped that in the near future a start would be made in amending the existing legislation on the subject. He could assure the Committee that the Japanese Government was by no means indifferent and was giving the problem its serious attention.

Major COLES (United Kingdom) joined in the appeal made to the Japanese Government to take effective action against drug trafficking by Japanese nationals. Though the United Kingdom was not often directly affected, the activities of Japanese traffickers were a great worry and embarrassment to its authorities in the Far

East. Evidence in the form of labels, packages and detailed reports had often been supplied to the Japanese authorities proving that cocaine was being smuggled from Japan or Japanese possessions. If the Japanese Government could take effective action at an early opportunity it would be of great assistance to the United Kingdom authorities in the Far East.

The discussion was adjourned.

The meeting rose.

August 18, 1936

HMJr made a movietone on August 18 on the Farm

For the first time in sixteen years the Treasury has swept the Atlantic and Pacific free of rum-runners. This has been accomplished only through the most intensive drive and close cooperation of all Treasury Police Agencies.

We are now going to concentrate our efforts on the smuggling of narcotics - the most vicious of all types of smuggling. As a first step we have transferred some 600 men in the Board of Patrol to this work and I am very hopeful that we will be as successful in combating narcotic smuggling as we have been during the past three years in wiping out the overseas smuggling of liquor.

August 18, 1936

Mr. Bell was on the Farm today. HM, Jr. told him he wanted to know how much more money was being spent in this fiscal year than during the last fiscal year and how much we would have to save to make it under the last year's figure. HM, Jr. wants this information for the regular Executive departments and the larger independent agencies, such as Farm Credit and Home Owners Loan, but not necessarily the little ones. Based on this information, HM, Jr. will suggest to the President that he, the President, write Bell a letter authorizing him to instruct the various departments and agencies of the Government to set aside 5% "as a kitty" which will bring the expenditures below, or nearly below what they were last year.

Bell told the Secretary that his men are doing the accounting work for Tugwell's organization and that he needs space to house the accountants. Necessary space, he said, would cost about \$11,000 and HM, Jr. approved this item.

On the Farm today, HM, Jr. signed a letter to Preston Delano, in which he agreed to finance the cash requirements of HOLC for the next twelve months by purchasing the bonds of HOLC in an amount not to exceed \$150,000,000. By this arrangement it will not be necessary for HOLC to go into the market for the sale of securities. (Copy of the letter to Mr. Delano is attached. Also attached is copy of letter from Mr. Delano to Mr. Taylor in connection with HOLC's financial program.)

In connection with the Treasury's request that the Federal Reserve Bank of New York send one of their men to China to assist in the reorganization of the Chinese Central Bank, Governor Harrison wants to wait until about September 1 for the return of Arthur Young. Young is a former State Department man who has been in China as financial advisor to the Chinese Government. Harrison said he wants to talk things over with Mr. Young before the Federal Reserve sends someone. This was agreeable to HM, Jr.

July 22, 1936

Mr. Wayne C. Taylor,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Taylor:

The Home Owners' Loan Corporation desires to arrange a program to finance its cash requirements during the ensuing year. The interest collections of the Corporation are at present more than sufficient to cover all operating expenses, including bond interest, but the investments which are being made to support the capital assets of the Corporation, and also to purchase Savings and Loan shares necessitate the entry of the Corporation into the money market sometime within the next thirty days. There is attached herewith a schedule showing in detail the estimated requirements of the Corporation and the financing plan by which, subject to the approval of the Secretary of the Treasury, it is proposed to meet them.

You will note that for the period July 1, 1936 to August 31, 1937 it is estimated that the Corporation will invest some \$118,000,000 in the shares of Savings and Loan societies. It will probably make other capital investments in support of its own assets to the extent of some \$83,000,000. While these capital expenditures are being made, the Corporation will be receiving from its mortgagors monthly payments on the principal amount of its mortgages which should amount to a total for the same period of some \$178,000,000. These funds are by law earmarked for the retirement of the Corporation's securities and can not be diverted to any other purpose.

It is therefore proposed to meet the situation by the monthly issue of short term bonds which will be liquidated as they fall due by payment from the cash available in the bond retirement fund. At the end of the present month of July this bond retirement fund will have a cash balance of approximately \$68,000,000. It must meet on August 15 of this year a maturity of \$49,736,000 due on Series C 1 $\frac{1}{2}$ % HOLC bonds which are payable on that date. The balance remaining after this maturity together with the principal payments which the Corporation should receive during the period

-2-

under discussion will be just about sufficient to retire the short term bonds which it is proposed to issue, and also the \$49,843,000 maturity of the Series D 1 $\frac{1}{2}$ % HOLC bonds which mature on August 15, 1937. In other words, on August 31, 1937 the Corporation will have an operating balance of approximately \$10,000,000, a bond retirement fund balance of approximately \$5,000,000 and will have outstanding, subject to minor change, the following securities:

Series A	3%	bonds	1944-1952	\$1,097,576,325
B	2 $\frac{1}{2}$ %	"	1939-1949	1,285,965,075
E	2%	"	1938	49,532,100
F	1 $\frac{1}{2}$ %	"	1939	325,254,750
G	2 $\frac{1}{2}$ %	"	1942-1944	186,857,175
Matured 4% bonds not presented for redemption				3,231,500
Short term bonds due September 15, 1937				7,711,000

At this point the field can be resurveyed in the light of the then existing information and estimates, and a future financing plan be drawn accordingly.

The issuing dates and amounts of the 30 day bonds which the Corporation desires presently to create to accomplish the plan outlined above are as follows:

<u>Amount</u>	<u>Date of Issuance</u>	<u>Maturity</u>
\$ 2,889,292	August 15, 1936	September 15, 1936
4,238,000	September 15, 1936	October 15, 1936
19,380,000	October 15, 1936	November 15, 1936
5,171,000	November 15, 1936	December 15, 1936
2,617,000	December 15, 1936	January 15, 1937
20,506,000	January 15, 1937	February 15, 1937
2,417,000	February 15, 1937	March 15, 1937
4,739,000	March 15, 1937	April 15, 1937
21,737,000	April 15, 1937	May 15, 1937
7,578,000	May 15, 1937	June 15, 1937
9,446,000	June 15, 1937	July 15, 1937
26,097,000	July 15, 1937	August 15, 1937
7,711,000	August 15, 1937	September 15, 1937

-3-

We ask your advice as to the interest rate these bonds should carry and the manner in which they should be placed. We would prefer, if consistent with your policy, to place them privately, each month's issue in a single block, as this procedure will overcome the necessity of expensive printing and other costs incident to a public offering. The terms of each one of these transactions would, of course, be subject to your approval.

It is understood that the exact amount of these various issues is dependent upon the validity of the estimated expenses and investments, and some variation in accordance with experience will undoubtedly be necessary. The plan is, however, flexible in that the issues are timed thirty days apart, and the exact amounts can be altered to meet any changes in requirements which may develop. Should it become obvious at any time that the estimates are in error to such an extent that the bond retirement fund will not finance the complete operation to August 31, 1937, the situation can then be met by issuing additional Series E 2% HOLC bonds due in 1938, Series F 1 $\frac{1}{2}$ % HOLC bonds due in 1939, or longer term bonds, as the Treasury may direct.

Very truly yours,

Preston Delano
Acting Financial Advisor
to the Board

Filed for
Diary
8/18/36

My dear Mr. Delano:

I have received your letter of July 22, 1936, addressed to Mr. Taylor, advising that the Home Owners' Loan Corporation desires to arrange a program to finance its cash requirements during the ensuing twelve months.

I have given careful consideration to three methods of meeting your financial requirements, viz.: (1) As to whether you could legally use the payments received and to be received by the Corporation from its mortgagors and paid into the bond retirement fund; (2) whether, as suggested in your letter, it is advisable for the Corporation to sell short-term obligations maturing at such times as they may be conveniently retired through the operations of the bond retirement fund; and (3) whether it would be more advisable that all the financial requirements set out in your letter be handled through the Treasury rather than through market operations.

I have been advised by my General Counsel that the bond retirement fund must be held intact for the retirement of your outstanding obligations and is not, therefore, available to meet your current cash requirements. I understand that the General Counsel of the Corporation concurs in this view.

As to the second method, the Home Owners' Loan Act does not authorize the Corporation to issue any securities other than bonds. It does not seem to me to be advisable to offer publicly thirty, sixty or ninety-day bonds.

Under all the circumstances I have come to the conclusion that the only practical method available at this time for meeting your current cash requirements is for the Treasury to purchase the securities of the Corporation under authority of Section 4 (c) of the Home Owners' Loan Act of 1933, as

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SECRET. The Treasury is, therefore, prepared to purchase from time to time the bonds of the Home Owners' Loan Corporation in such amounts, not to exceed an aggregate of \$100,000,000, with such maturities, not to exceed a period of twelve months, with such rates of interest and upon such other terms and conditions, as may be approved by me at the time of each purchase. It is understood that the maturities will be arranged so that they can be met from the bond redemption fund and that the rates of interest on the securities to be purchased will, so far as practicable, conform to the rate of interest on comparable securities outstanding in the market, provided that in no case shall the rate be less than $1/4$ of one per cent.

If this arrangement is satisfactory to your Board, I should be glad to have you confirm it and as soon thereafter as possible submit to the Commissioner of Accounts and Deposits an estimate of your cash requirements for the period ending September 30th. It will be appreciated if you will also submit by the fifteenth of each month an estimate of your cash requirements for the succeeding month.

Very truly yours,

Secretary of the Treasury

Frederic H. Brown, Esquire,
Acting Financial Advisor to the Board,
Home Owners' Loan Corporation,
Washington, D. C.

RECEIVED
August 15, 1935

August 18, 1936

HM, Jr. spoke to McIntyre and said, "I hope the President or you will handle the press after tomorrow's meeting. (Meeting at Hyde Park on unemployment.) The story in it is the reclassification of the unemployed in order to put them back to work in private industry."

Mr. McIntyre told the Secretary that he has mental reservations on Mr. Persons, Chief of the U. S. Employment Service.

Mrs. Roosevelt is also down on Persons because she once asked him to put some young people to work and at that time Persons said that none of the people she suggested needed work.

They all seem to hate Mr. Persons (although they say he is a good administrator) because he is a good friend of the veterans.

HM, Jr. called Taylor and told him to get in touch with the Department of Agriculture and contact whoever is the Acting Secretary of Agriculture. He suggested that Taylor take the Acting Secretary of Agriculture to lunch and try to find out when they are going to send out checks to farmers on the Soil Conservation plan. HM, Jr. said he was under the impression that there ought to be about 400 or 500 million people who will receive these checks. He also said he had a hunch that under the present set-up the checks will not go out until after election and that he felt it was a great mistake to withhold these payments until that time; that every man ought to receive his check before November 1. He told Taylor not to make the purpose of his visit obvious, but to try and find out when the checks will go forward.

August 18, 1936

To: Secretary Morgenthau

From: Mr. Haas *JH*

*Want to take up
with H.O. and g. Haas.*
AM

TAX REVISION - 1937

Joint Committee on Taxation and Treasury Staff Meeting —
August 18, 1936

Present: L. H. Parker, G. D. Chasteen, and C. F. Stam of the Joint Committee Staff.

G. C. Haas, A. S. McLeod, L. H. Seltzer, and J. S. Zucker of the Treasury Department.

This conference was held for the purpose of outlining a program of study preparatory to presentation of information to Congress with respect to tax revision. Mr. Parker stated that he had received instructions from Senator Harrison and Representative Doughton to proceed with a study, in view of letter from the Secretary of the Treasury to the President, dated August 10, 1936. Discussion centered on two basic subjects, viz., "Miscellaneous Taxes" and "Income and Undistributed Profits Taxes."

With respect to the miscellaneous taxes it was deemed advisable that factual data be prepared setting forth those excise taxes, resulting in small yield, the elimination of which will cause no appreciable loss of revenue and may have a good effect both on the public at large and on general business conditions. Statement is also to be prepared which will show the inequities inherent in some of the miscellaneous taxes, together with suggestions for revision. Distinction will be made between those taxes which classify as "regulatory" and those which classify as "nuisance taxes." Schedules showing revenue yield from all miscellaneous taxes by separate items, followed by a discussion on the cost of administration, difficulties in collection, etc., will be prepared.

On the second phase of contemplated study dealing with the income tax on individuals and the flat tax and undistributed profits tax on corporations, it was the consensus of opinion that consideration be given to the inequities inherent in these taxes, some of which arose by virtue of provisions of the recently enacted Revenue Law of 1936. It is proposed to eliminate hardships and to attempt an equalization of burdens between the separate categories of taxpayers. A partial list of subjects which require study with the object in view of effecting coordination between the separate enactments, was discussed. The subjects are (1) net loss carry-over, (2) capital gains, (3) exempt income, (4) percentage depletion, (5) provisions covering improper accumulations (Section 102), (6) personal holding companies (Section 361), (7) the effect of high rates on business activity, and (8) the gift tax in relation to the present income taxes.

Information on excise taxes has already been obtained in answer to a request from the Secretary. Further contact will be had with Capt. Bliss, Deputy Commissioner of the Miscellaneous Tax Unit, in order to obtain complete and detailed information on all miscellaneous taxes.

G. S. Zucker

79
August 19, 1936

The Secretary asked Oliphant today to find out who owns the newspaper mills in the United States and the names of the Canadian and English interests connected with these mills. He also wanted to know to whom the newspaper mills sell in this country. HM, Jr suggested that Oliphant have Irey get this material together, but Oliphant said he had just the man to do this. The man he has in mind, he said, was formerly with NRA on the paper code. HM, Jr. told Oliphant that this was a rush job and he wanted it taken care of immediately.

TREASURY DEPARTMENT

80

INTER OFFICE COMMUNICATION

DATE August 19, 1956

TO Secretary Morgenthau
FROM Herman Oliphant

For your information I enclose memorandum, which I have had from Mr. Johnson. As you will notice, it enumerates certain further questions relating to German imports which will come up for consideration later.

Johnson and his family are in the West on vacation. He will be back on September 15, 1956.

Herman Oliphant

o g w c 1007-7
7018-c

for information purposes
8/22 1956

August 17, 1936.

To: Mr. Oliphant:
(Through Mr. Manning)

From: W. R. Johnson.

German subsidies

My final conversation with Dr. Baer on August 14 related to his consideration of situations in which he hopes that German goods may enter the commerce of the United States at prices lower (on the 40-cent mark basis) than those obtained in Germany, without application of our countervailing duty law. He is hopeful that blocked-mark balances may be used to finance the exportation of German goods to the United States as follows:

1. Import transaction financed in whole or in part with use of blocked funds originally and continuously owned by the American importer.
2. Proceeds from sale in Germany of American exports to be mingled with assets of a German concern (probably a subsidiary of an American organization); German goods then to be purchased for export to the United States and paid for from the general assets of the German concern.
3. Direct, two-party barter, without the use of money of any kind.

The questions involved require no immediate action by Customs, and Baer requested no opinion concerning the possibilities. Some of the questions will arise soon in actual cases. For example, an importation already made by the Chase National Bank falls under No. 1 above.

Baer understands clearly that the Treasury expects some kind of advice from the German Government before blocked marks are permitted to be used in any manner in connection with exports from Germany to the United States pursuant to agreements made after August 2, 1936.

I indicated to Baer that there was a desire in the Treasury that our requirement of special additional information on invoices for countervailing duty purposes should be eliminated as quickly and as completely as possible, in view of the dislike of this feature of our procedure which has been evidenced by the Germans. He apparently does not believe that the German Government is likely to remove any of its prohibitions against disclosure of the facts necessary to the assessment of countervailing duties in those cases where such duties may be payable. In the circumstances, I believe the additional information should be required until other possibilities of getting the necessary information can be thoroughly explored.

W. R. Johnson

AU

GRAY

Paris

Dated August 19, 1936

Rec'd 10 a.m.

Secretary of State

Washington

769, August 19, 2 p.m. (SECTION ONE)

FROM COCHRAN

First meeting held yesterday afternoon of new general council of Bank of France. Following his address of welcome Governor suggested and it was decided that the general council make use of the faculty given it by the banking law of July 24 "to delegate all or part of its powers to a permanent committee made up of the governor, the under governor and four councilors one of them chosen by the Minister of Finance from the ex-officio members of the general council and three designated by the general council"

The general council elected as its members to the committee Dalbouze representative of the Chamber of Commerce; Jouhaux delegate of the General Confederation of Labor; and Gaussel representative of Consumers Cooperatives. Martin, director of the Credit National, was designated by the Minister of Finance. In addition to the above constituted committee including the governor,

two

71A
AU -2- #769, August 19, 2 p.m. (Ses. 1) from Paris

two under governors and four councilors, the three
censors are authorized to attend meetings of the committee
in a cooperative capacity. This small group will meet
every Thursday beginning August 20 and will presumably
direct the affairs of the bank while the general
council will meet once each month. Various other
committees were set up and

(END SECTION ONE)

WILSON

KLP

SECTION TWO. No. 769 of August 19, 1936, from Paris.

the terms of office of the members of the general council were decided by drawing lots in order that each of three years the functions of one-third of them would expire.

This morning I called on Cariguel at the Bank of France, who two days ago returned from a holiday of a month. He told me that late yesterday evening the exchange market had begun to weaken and this morning was not good. Over \$2,000,000 gold destined for New York was lost by the Bank of France by 11 o'clock. Cariguel said that it was not easy to determine the sources of sales of francs. But he reminded me that the French are now practically the only holders of French francs. He thought the immediate cause for this movement might have been an interpretation of a sentence in Governor Labeyrie's speech of yesterday as anticipating devaluation of the French franc. I quote below the sentence referred to:

"What does the technical experience, central banks and their directors' energy, weigh against the vital necessity of safeguarding the national territory's integrity and assuring work and bread to men?"

Cariguel told me that practically none of the governors of the bank are known to him, but that those of his colleagues who did know some of them had no high regard for them. Fournier, Cariguel, and others, who are permanent officials, realize that their actions and statements are under the observation of a political organization, and that they must now be quite discreet.

SECTION THREE. No. 769 from Paris, August 19, 1936.

I was informed by Gariguel that no one knows particularly as to who will succeed Lacour-Gayet, who ceased functioning in the bank almost immediately after Labeyrie took office, and who returns to the Ministry of Finance, to become a member of the corps of inspectors of finance. I have been told by other contacts that it is likely Lacour-Gayet's successor will be a professor of law.

Gariguel is not optimistic about the general outlook. Most of the French people he said are now of the opinion that eventually there will have to be devaluation of the franc. There is fear on the part of manufacturers that there will also be a levy on capital. In addition to these factors are the worries lest such measures may lead to social troubles bordering on civil war in France, and that international warfare in Europe may be brought on by the Spanish situation. Although all of these possibilities may not develop still the outlook is sufficiently blue to weigh heavily upon the French franc, especially when there is not much on the other side of the picture to inspire confidence in the currency.

The details of Labeyrie's visit to Amsterdam and Berlin were not known to Gariguel. However he doubts seriously whether there was any significant purpose attached to

to the visit. He is convinced that Labeyle was not charged or authorized by the Ministry of Finance to discuss alignment of currencies or stabilization. As yet there has been no announcement whether Schacht will repay the call late this month as the press originally suggested. Trip, as I previously reported, informed me personally that the latter half of September he will come to Paris to repay the visit of Labeyle.

As for Labeyle calling soon on the Governor of the Bank of England, as was predicted in the press at the time of the visit to Berlin and Amsterdam, Carignel said he is not at all sure that Labeyle would be received by Norman.

When Tannery was Governor of the Bank of France Norman constantly opposed the idea of his visiting London, lest Tannery endeavor to discuss the matter of stabilization of currencies with him. It is likely that at present Norman might assume the same attitude, especially since the press has construed Labeyle's trip to Berlin and Amsterdam as inspired by a desire to negotiate currency alignment. In other words, Governor Norman does not want to be drawn into international conversations on a subject concerning which he has not in the past been completely in accord with the British Treasury.

I got confirmation from Carignel that the information to the effect that gold received from the Bank of Spain was merely placed on deposit with the Bank of France was correct. It was his opinion, however, that none of it

had

- 3 -

had come from gold earmarked on the French side of the border. All the gold came from the Bank of Spain itself in Madrid, even though corresponding losses have not been shown on statements of the Spanish institution to date.

There is a rumor in the British press that France is granting a new trade credit to Poland, but Cariguel said he is aware of no transaction other than that of renewal to the Bank of Poland of the existing Bank of France credit.

As for the Treasury credit to Rumania, the Bank of France has nothing to do with it.

Since Cariguel's return to duty he has not yet checked the figures but he is of the opinion that the British stabilization fund has ^{physically} withdrawn to date from the Bank of France to London approximately one-half of the twelve billion francs of gold which have been held under earmark in Paris for the British. Weeks ago Cariguel had told me that they knew the British were getting a little nervous because of the campaign certain British newspapers were carrying on against British gold being held in France under the present regime. ~~xxxxxxxx~~ The French, Cariguel said, had boxed up all of the British gold in complete preparation for its entire withdrawal whenever it might be desirable; he said he would rather see it all withdrawn than have the press make it a subject of contention.

END MESSAGE.

WILSON.

August 19, 1936

As a result of the survey made at the request of the President by Admiral Peoples (copy of which is attached) it was brought to light that there is a shortage of skilled workers for the building trade and furthermore brought out the fact that the classification of the unemployed is not what it should be.

The President ordered a reclassification made and Aubrey Williams took it upon himself to say that he would do it. On learning this I began to dig into this question myself and soon found out that this responsibility belonged to the United States Employment Service in the Department of Labor.

Bell, at my suggestion, got in touch with Mr. Burr, who is an assistant to Mr. Persons and who is in charge of this service, and tried to get the facts from Burr. Burr was reluctant. Therefore, last Sunday, I telegraphed Mr. Persons, who was away on vacation, and urged him to instruct Mr. Burr to give Bell all the information he wanted. Mr. Persons said he would and seemed delighted that I was taking an interest in this question.

When I rode with the President, Sunday afternoon, I told him I wanted two appointments this week, one to discuss the unemployment question with him, Hopkins, Persons and Bell, and the other appointment to take up the question of giving a speech entitled "My Next Four Years."

As a result of this, we got the appointment today. We had to wait one hour for the President, which gave me a chance to briefly outline what I had in mind. In the morning I had gone over a memorandum which Burr furnished Bell. (Copy is attached.) This cleared up the whole picture for me, so I was well prepared for the meeting. I thought the memorandum was so excellent that I rushed the last three pages up to the President with the message that he read it before the 2 o'clock meeting. I have every reason to believe that he read it, because when we were in his office it lay on the top of his desk.

In the discussion which we had together before seeing the President, Hopkins acquiesced that (1) Mr. Persons should be given \$1½ millions to reclassify the unemployed and (2) that he be given adequate funds to contact the

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employers so that they would use the United States Employment Service.

We were with the President about an hour and I sketched briefly what we had come for and then turned the meeting over to Mr. Persons who outlined the history and work of his Bureau. I soon gathered that the President was not really familiar with the work that Persons had been doing because even after he had given the President a lengthy explanation he still was laboring under the belief that the unemployed who work for Hopkins are classified by Hopkins. He suggested that Hopkins write him a letter outlining the needs and that then he would announce that he would give them the necessary funds. Hopkins sat there and did not open his mouth and seemed perfectly willing to leave the President under the impression that this work was being done by him.

I burst forth and explained to the President that the work of classification did not belong to Hopkins, but belonged to Persons. The President then said, "Then I have another idea." He said, "Can't the four of you develop a fifteen minute speech in which I can explain over the radio just how we handle the whole unemployment question?" I received this suggestion most enthusiastically and said to the President, "The time for you to give this speech is on the night of Labor Day." He seemed to like this idea but took quite a little time to digest the suggestion. I think he will do it. One of the reasons why I am anxious for him to do it is that before he gives the speech he will have to thoroughly understand this whole question of how the unemployed are handled, which he does not understand now.

When Persons did not ask for the money, I asked that he be given \$1½ millions and the President said, "O.K." and that we should have a memorandum prepared for him and he would announce it at his press conference on Friday.

I then continued to press him for a decision to give Persons \$250,000 a month for the next ten months with which to build up his organization in order to get private employers to accept more unemployed people through the U. S. Employment Service. The President cross-examined Persons on this at great length. He wanted to make sure that this money would

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not go to the States, for some reason which I do not understand. He finally agreed to allot \$2¹/₂ millions, but this announcement he would withhold until he made his radio speech although he told Persons he could go ahead as though he had the money.

I then said that I thought this particular activity was the most under-publicized in Washington and asked why. The President agreed. I said it seemed to me that what Persons needed was a good public relations man. Persons seemed quite embarrassed and finally said that Miss Perkins wanted her own publicity man to handle his work and if he was to get somebody to help him the suggestion could not come from him, but would have to come from the President. Persons seemed to me to have his tail between his legs. Somebody has been giving him an awful licking and certainly nobody has been fighting his battles.

He told me privately that he had been to Jim Farley in February and tried to get him to get this very money that he got today. I just cannot understand why Frances Perkins had not gotten it for him long ago, because, as Perkins said, men are going back to work and the Government is not getting credit for placing them. Last December he was placing at the rate of 80,000 men a month. Now he is placing over 200,000.

I consider what I was able to do today another milestone on the way to real recovery. The whole thing seems unbelievable. I just cannot understand why the President permitted the Hopkins' organization to pull the wool over his eyes, because that is what I feel they have been doing.

After Persons left the President turned to me and said, "This is fine. What we have done today will answer a lot of questions which have been unanswered so far." He seemed very much pleased with the results accomplished.

Bell handed me the memorandum (photostat attached) which will give Peoples the authority to make the same investigation of the Tugwell organization that he did of Hopkins and Iokes. I had to press Bell very hard on this as for some reason he seemed timid to present it to the President. He had no trouble to get the President to sign this. This would have been impossible last January. We certainly are making progress along bringing order out of chaos in the unemployment field.

Bell told the President that the Youth Administration wanted, I believe, about \$27,000,000; that for the first

three months of this year they had received \$13,000,000. The President hesitated a moment and said, Give them another \$13,000,000. This also surprised me because I know that Eleanor Roosevelt had been after him to expand this program and doubt whether they will be able to expand with the allotment the President gave them today.

BUREAU OF THE BUDGET

WASHINGTON

AUG 1 1944

MEMORANDUM FOR THE PRESIDENT.

In view of the illuminating and helpful information obtained by Admiral Peoples in his investigation of the construction projects carried on by P.W.A. and W.P.A., might it not be a good idea for him to look into conditions pertaining to the resettlement projects of the War Relocation Administration?

The investigation might be limited to subsistence home-
stead projects and suburban resettlement projects with a view
to ascertaining along with other information -

- (a) The percentage of labor taken from relief rolls
- (b) The cost of construction as compared with similar work carried on by other Government agencies and by private enterprise
- (c) The probability of the Federal Government being ultimately reimbursed for its expenditures
- (d) ~~The desirability of the various projects and~~ *The*
desirability of competition, ~~as to whether~~ *specific going*
projects to full size

It might also be well for him to look into ~~the~~ housing projects. At the end of July, less than \$1,000,000 had been expended out of allocations of \$10,000,000 for these projects.

Very respectfully,
Director.

Ch. No.
1401

August 17, 1935

MEMORANDUM

To: Mr. Daniel F. Bell
Acting Director of the Budget
Treasury Department
Washington, D. C.

From: Walter Perry
Associate Director
National Reemployment Service

The Wagner-Peyser Act (July, 1933) establishing the United States Employment Service, provided for a system of State-Federal public employment offices, through the affiliation of State Employment Services (under specified conditions) with the United States Employment Service. There were in existence at that time only 125 free (tax-supported) public employment offices under State control, and no affiliated State Services, since the process of affiliation was provided in the Act.

The National Industrial Recovery Act, Title II, Section 206, Subsection 4, providing for public works, required that preference be given, where available and qualified, to ex-service men with dependents and to residents of the county or political subdivision in which the work was being performed, or residents of the State in which the work was being performed.

In order to maintain the preferences of the Act, and to prevent wide-spread migration of workers to projects that would be exhausted from time to time, in June, 1935, the Special Board for Public Works enacted regulations including the provisions that labor required for projects should be chosen from lists of workers furnished by agencies designated by the United States Employment Service (with certain exceptions in the case of union contracts).

At the same time the Bureau of Public Roads enacted regulations providing that all workers to be employed on Highway

3-13-66

projects financed under the Act should be collected from lists furnished by agencies designated by the United States Employment Service. The then existing State-administered public employment offices were immediately designated to refer workers to Public Works projects. The National Employment Service was established to serve all areas where no offices of the State Service existed. So far as 35 States have affiliated with the United States Employment Service for the maintenance of State-controlled employment offices exist, although some of these maintain only a few employment offices each. The National Employment Service functions in 35 States in the areas not covered by the State Service, and in the balance of the States where no State Service exists.

With the expansion of the work program it became necessary to place supplementary EES personnel in the State Employment Offices, to the extent that this added personnel was necessary to carry the added burden placed upon the State offices due to the fact of their designation as agencies to serve in this capacity.

From July, 1933, until July, 1934, local offices of the National Employment Service were staffed largely by persons taken from the rolled rolls, and paid directly by the United States instructions. Headquarters in Washington and in each of the States were supported from funds transferred to the Department of Labor from the Public Works Administration for this specific purpose. Beginning with July, 1934, the entire Service, including local offices personnel and costs, was financed by funds administered from headquarters of the National Employment Service in Washington. Beginning with July 1, 1935, funds from the support of the National Employment Service were granted by Executive Order from funds appropriated under the Emergency Relief Appropriation Act of 1935. At present the work is supported from funds allocated by Executive Order under the Act of 1935.

**EXTENSION OF THE UNITED STATES EMPLOYMENT SERVICE
IN CONNECTION WITH PUBLIC WORKS PROJECTS UNDER THE
NATIONAL INDUSTRIAL MOVEMENT ACT.**

Funds appropriated under the National Industrial Recovery Act were expended under regulations of the Public Works Administration and the Bureau of Public Works. The Public Works Administration approved projects administered by the War Department, the Department of Agriculture, the Postmaster Service and other

Mr. Daniel M. Bell - 2

8-13-33

Federal agencies. Nearly all of these projects were executed under contract. The United States Employment Service, functioning through its emergency branch, the National Employment Service, has looked upon itself as a "service agency" in relation to public works projects and, therefore, has followed regulations of the Public Works Administration and the Bureau of Public Roads as issued from time to time.

The Employment Offices, with complete national coverage, have interviewed the unemployed, registered them and classified them according to skills, training, and experience, and have maintained a complete file on an occupational basis. The classification system in use was developed by the Division of Standards and Research of the United States Employment Service, with current cooperation of the Central Statistical Board. The classification system used is, therefore, in line with that authorized by regular Government agencies, and can readily be translated into terms used by the United States Bureau of the Census.

Under the program of the first two years of the Service, the contractor presented directly to the Employment Office which served a given project, a written requisition for workers possessing certain qualifications and skills.

Through a clearance system, both inter-state and inter-state, the Employment Offices provided workers of special skills who might not be available in the local community, or even within the State.

During the entire two-year period from July 1, 1933, to July 1, 1935, the relationships of the United States Employment Service and the various Governmental agencies operating public works under the provisions of Title II of the HRA were fully cooperative and satisfactory, and continue to be so today.

THE PROGRAM OF THE UNITED STATES EMPLOYMENT SERVICE IN RELATION TO THE WORKS PROGRESS ADMINISTRATION.

With the enactment of the Emergency Relief Appropriation Act of 1933, the Works Progress Administration was established and was authorized to control all projects financed in whole or in part under the terms of that Act. It was assumed by those who were in positions of administrative responsibility in the United States Employment Service, that procedures and methods previously

Mr. Daniel W. Bell - 4

2-17-36

developed over a two-year period in connection with the public works program would be continued in the referral of workers. The WPA, however, developed new procedures required, it was stated, for payroll and statistical purposes. A description of these procedures follows.

REGISTRATION

1. The United States Employment Service receives from local Relief Administrations a copy of FERA Form 600 "Certification of Eligibility" for every person who is declared eligible for employment on the above type of project. This certification may include names of several members of the same family. Each person, however, is registered separately.
2. The person or persons thus certified as eligible either appear at the nearest employment office for registration or, if they live at a distance, they are registered by itinerant interviewers who carry out the registration at a point nearest their place of residence. In interviewing these applicants the interviewer in either case fills out a registration card. This form is the basis upon which the applicant's occupational classification is determined.
3. At the time of the interview the United States Employment Service prepares "Identification Form" 390 in duplicate for each applicant. One copy is given to the applicant and the second copy is retained in the office of the registration. Later two additional copies of this form are prepared by the Employment Service and distributed as follows: one copy to the Relief Administration and one copy to the WPA.

REFERRAL OF WORKERS

1. Upon receipt of a properly approved work requisition (WPA Form 401) the United States Employment Service selects qualified applicants

Dr. David W. Bell - 5

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who have been properly certified, registered, and classified occupationally as above.

For each applicant thus selected the United States Employment Service prepares six copies of WDS Form 305 "Assignment Slip". One copy is given to the applicant and the other five copies are sent to the registering agency to be routed to the various interested agencies. A copy of this form is finally returned to the United States Employment Service with the proper notation made thereon. If the applicant has requested referral the United States Employment Service then prepares WDS Form 360 "Notice of Referral to Report or to Accept Referral." One copy of this form is sent to the Relief office and the second copy is retained in the registration office. If the applicant is accepted by the registering agency, his registration card, if he is employed at prevailing wages, is removed from the active files in the employment office and placed in the inactive file until the United States Employment Service receives notice of termination of employment "WDS Form 403."

If for any reason determined by the Relief Administration or the WDS, an applicant's certification of eligibility is cancelled, or if the applicant is reassigned to another project, or is reallocated, the United States Employment Service receives a notice to this effect. This fact is communicated to them through the use of one or another of the forms listed below. Receipt of any of these forms requires that the United States Employment Service make an appropriate notation upon the applicant's case files 1. WDS Form 461 "Notice of Case Change." 2. WDS Form 462 "Cancellation of Certification of Eligibility." 3. WDS Form 462 "Reassignment." 4. WDS Form 463 "Notice of Change in Work Certification." 5. WDS Form 464 "Reallocation/Transfer."

If a certified Relief applicant is referred to a job in private industry, the United States Employment Service in addition to the regular referral form, prepares WDS Form 340 in duplicate. One form is known as "Notice of Placement." Copies are sent to the WDS and the FWH.

Mr. Daniel W. Bell - 6

8-17-36

On May 22, 1935, subsequent to the passage of the Emergency Relief Appropriation Act of 1935, (April 8, 1935) under which the Works Progress Administration was established, the Federal Emergency Relief Administrator issued an order requiring all relief recipients to register with Employment Offices designated by the United States Employment Service. In many parts of the nation, however, relief recipients did not so register.

An order of June 24, 1935, of the Relief Administrator required State Relief Administrations to certify to the Employment Offices the names of all employable persons on relief prior to May 1, 1935, (the period later was extended to November 1, 1935.) This order was in the main carried out.

Regulation 2 of Executive Order 7060 (June 5, 1935) provided that persons registered with the United States Employment Service are eligible for employment (on projects financed under the 1935 appropriation); and Executive Order 7063 of June 24, 1935, provided that at least 90 percent of the persons employed on any project should be taken from the public relief rolls. Exceptions from these two requirements have been ordered by the WPA as follows:

1. WPA Administrative Order 29 of November 14, 1935, authorized regional field representatives of the WPA, in their discretion, to modify the requirement in connection with any project or portion thereof that only persons certified for assignment by the USES shall be employed on projects. Orders eliminating the use of employment offices in connection with the program were issued in Louisiana, California, and Montana, becoming fully effective in Louisiana, and partially effective in the other two states named. In several other states referrals to their own non-contract projects were made entirely or in certain areas thereafter by the WPA without reference to Employment Offices.
2. Exceptions from the requirement that at least 90 percent of workers on projects financed from the 1935 appropriation must be drawn from relief rolls were given from time to time with reference to

Mr. Daniel V. Hall - 7

8-27-36

certain projects, and were given in some instances with reference to projects conducted by certain Federal agencies.

On September 26, 1935, the Works Progress Administrator gave discretionary authority to the several State Works Progress Administrators, or representatives designated by them in writing, to exempt projects from the requirement that 90 percent of all the persons working on a project shall have been taken from the public relief rolls. (Where exemptions were granted by the Works Progress Administrator, the information was transmitted to the Headquarters of the United States Employment Service and sent through regular channels to the Directors of the Services in the States concerned.)

WPA Bulletin 33 of September 28, 1935, provided that "in scheduling the operation of projects, the State Works Progress Administrator shall give preference to projects financed in whole or in part by loans" (contrast projects of other Federal agencies, such as PWA, Bureau of Public Roads, etc.) It has been particularly required that where orders are received from contractors for workers on contract projects, there shall be a transfer of relief workers from WPA non-contract projects.

It has been the experience of the Employment Service that the transfer of workers from WPA non-contract projects to PWA and other contract work has been in many instances accomplished with great difficulty, and has at times failed to materialize entirely due, (as our men in the field report to us), to the following factors:

1. The tendency of a foreman on a project to wish to retain for the completion of the project his best workers.
2. The pressure on the part of the community to have their local projects brought to completion. (This apparently was often due to the fact that the local community had made contribution of materials and sometimes of supervisors, and, therefore, had an investment in the project.)

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6-17-76

**RELATION OF THE UNITED STATES EMPLOYMENT SERVICE
TO THE WORKS PROGRAMS ADMINISTRATION UNDER FUNDS
APPROPRIATED BY THE EMERGENCY RELIEF APPROPRIATION
ACT OF 1936.**

Although Administrative Order 14 of the Works Program Administration (of July 3, 1936), provided that assignments of certified relief persons to WPA non-contract projects financed under the 1936 Funds would be made directly by the WPA agencies, Employment Offices have in some areas been requested to continue to assist in the collection and referral of workers to such projects. In these cases the Employment Offices have been glad to cooperate, and procedures followed are essentially the same as those in operation during the past year.

In all other cases, the function of the Employment Service includes the following:

1. Refer persons to all WPA projects, Bureau of Public Projects, and all other Federal agency contract projects financed from any emergency appropriation (within their respective regulations).
2. Refer non-certified persons, as needed, upon registration of the WPA District Division of Employment, to WPA non-contract projects, and to all other Federal non-contract projects operating under funds of the Emergency Relief Appropriation Act of 1936.
3. To meet the requirements of the program, to maintain active files of registrants, segregated as to relief status.

Administrative Order 14 of the WPA states that all certified eligibles are "expected" to register with the Employment Service, and to maintain active registration whether or not they are assigned on a WPA non-contract project.

RECLASSIFICATION OF WORKERS.

We have requested a statement as to the present status of classification of workers, and as to the desirability of re-interview and reclassification. The following suggestions are submitted:

1. The experience over a three-year period of the United States Employment Service and its agency,

Mr. Daniel W. Bell - 9

8-17-36

the National Employment Service, has developed a system for classification of workers as to experience and skills, which has in actual practice with both public works contractors and private employers proven to be sound and efficient. It is the system concurred in by the Federal departments concerned with data having to do with industrial classification of workers. Many of the persons employed on the staffs of Employment Offices have had three years' experience and training in operating this system. It is, therefore, our strong conviction that the workers employed on all types of public works should be called in to their Employment Offices for re-interview and for re-classification where (a) the rush of referrals on WPA precluded the possibility of adequate time for careful interview, and (b) where experience on new types of jobs during the past year may have qualified the worker for skills which do not appear on his previous registration card.

2. A consistent and special effort should now be made to place the unemployed in private industry, including employment with private contractors. Since Employment Offices are the agencies for the use of private employers, the only way that workers on public works projects, of whatever kind, can be assured their fair chance with others for placement in private industry is to have them carefully interviewed and classified as to skills in their Employment Offices, so that they may be made available to fill the orders of private employers. Otherwise, it appears to us that they will be stratified as a group continuously dependent upon Federal agencies for jobs.

CONCLUSION

The United States Employment Service should re-interview and bring down to date the classification of all workers on public

Mr. Daniel W. Bell-10

8-17-36

works projects. They should make those immediately available to employers in private industry, and in order to do this should currently contract during the present fiscal year all employers in the United States with the purpose of keying into industry the largest possible number of the unemployed, both on relief rolls and self-sustaining. These are two phases of one program. The re-interviewing and reclassifying program could begin at once and be entirely completed in a period of three months. It would cost approximately \$1,500,000.00. Beginning also at once should be the special effort to contact private employers everywhere for the placement of these workers. This phase of the expanded program would cost an additional \$9,500,000.00.

In the application presented by the United States Employment Service on June 16, 1936, for funds for the current fiscal year beginning July 1, 1936, there two items were included and the total amount requested to be allocated from emergency funds was \$15,000,000.00. On July 9, notification was received that there would be allocated \$2,550,000.00, for the first quarter of the fiscal year. This amount is sufficient to pay the cost of the National Reemployment Service at approximately the rate of present expenditures, without the special effort as represented in the above mentioned two phases of an intensive program. It would be necessary, therefore, in order to continue the work of the National Reemployment Service on the present basis, and to add to the fundations as just above indicated, that there be the additional allocation of \$12,450,000.00 for the balance of the fiscal year beginning October 1, 1936.

CONFERENCE WITH THE PRESIDENT AT HYDE PARK ON AUGUST 19, 1936.

Those present besides the President were -

Secretary Morgenthau,
Harry Hopkins,
Frank Persons,
D. W. Bell.

The Secretary of the Treasury started the conference by referring to Admiral Peoples' recent report in which, among other things, he recommended (1) rechecking of WPA rolls to see whether or not persons were employed under the Works Program who had sufficient funds from other sources to maintain them, and (2) a reclassification of the WPA employees so that the records would show their qualifications for various kinds of work.

The Secretary said that Bell and he had been giving the matter a great deal of consideration during the past week and they had come to the conclusion that the President should indicate whether or not he wants these recommendations carried out. He said that he had talked at some length with Mr. Gill, who had agreed that certainly the reclassification should be done at once and that the rechecking, while a considerable job, might be done on a test basis. He has agreed, therefore, to take two or three States and check the rolls of the WPA. It was understood that this work is now under way.

The Secretary said that on the reclassification of the WPA employees there was a question of whether the United States Employment Service should perform this task or the WPA. He told the President that while this group had been waiting for him an opportunity had presented itself for a preliminary discussion of the matter and both Mr. Hopkins and Mr. Persons agreed that the reclassification should be done by the U. S. Employment Service as it was better qualified than any other organization to do it.

The Secretary then said that he would like for Mr. Persons to explain to the President just what his organization does - historical background and what he thinks it can do if it has sufficient funds.

Mr. Persons gave a history of the United States Employment Service and said that the Service administers the Wagner-Peyser Act, which provides for a contribution on a fifty-fifty basis to various States that set up State employment offices. When the emergency program was started in 1933 these offices were not of sufficient size to take care of the program then inaugurated, so another service known as the National Reemployment Service was created, the expenses of which have been paid out of emergency funds. This service does not in any way duplicate the other services but is in the nature of a supplement to those services. Mr. Persons explained that the services under his administration have to a certain degree a continuous reclassification of the unemployed, - that they provide in their regulations that applicants for positions should re-register every 30 days so that they have a continuous check on them. He said, however, that difficulty had been experienced with WPA employees - many of them had failed to register and many of them had failed to submit their new qualifications acquired in the work on WPA projects. He thought, therefore, that it was highly desirable that the WPA employees be reclassified at once. To do this it would cost about \$1,500,000 and would require about three months to complete the work. After that it could be kept current with the present force.

He then told the President that there was another part of the Employment Service which had not been at all advertised but which had been very successful in a small degree putting people back to work. He said that last December the Employment Service received 85,000 requests from industry for qualified workers. In May and June of 1936 the requests totaled 200,000 each. He said

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that the Service places approximately 1,250,000 people every year and that if it had sufficient funds so that it could employ skilled personnel who would be qualified to contact industry and sell the Employment Service he would be able to double that figure. He estimated that for the next ten months it would require approximately \$2,500,000.

The President said that the program as outlined seemed reasonable and that he was in favor of carrying it out as suggested. He authorized me to submit to him the necessary papers allocating \$4,000,000 to the Employment Service for the two purposes indicated above.

dwB

1. RECLASSIFICATION OF W.P.A. WORKERS - \$1,500,000

The allocation of the sum of \$1,500,000 has been approved for the use of the United States Employment Service in the Department of Labor. This is to provide for an immediate program of refining and bringing down to date the occupational classifications of workers who have been employed under the program of the Works Progress Administration. It is essential that up-to-date data should be made readily available as to the work histories and occupational classifications of all of these workers whose services are being used and will be used in connection with work programs provided for the Fiscal Year 1936-37.

The allocation of work projects depends upon the availability of workers from relief rolls who have the required skills to do the work which the construction of a project demands. A part of the regular procedure of the employment offices has been to interview the unemployed, and classify them on the basis of their work histories according to their occupational classifications. From time to time reinterviews are made in order to refine the occupational data with regard to each applicant.

2. CONTACTING INDUSTRY - \$2,500,000

The records of the Employment Service show that to a rapidly increasing degree private employers are availing themselves of the use of their employment exchanges. The program for employment services in the United States is based upon the Wagner-Peyser Act, passed by the 73rd Congress, which provides for an affiliation of State Employment Services with the United States Employment Service. As necessitated by certain phases of the Recovery Program, the United States Employment Service established also in 1933 an emergency agency known as the National Reemployment Service, this agency has served all areas not covered by State Employment offices, and has placed supplementary personnel in State offices in so far as such personnel were needed to carry the extra volume of work required by public works programs.

Due to this complete National coverage by employment offices, the major number of the unemployed in the United States, including the majority of recipients of relief, are registered in these offices, and can be made available for employment not only on public works, but in private industry. With the manifest improvement in employment opportunities it is now a necessity that members of the staffs of these offices contact all employers, and acquaint them with the opportunities offered by the Service; and that since the record of experience shows that a very large increase in employer's orders for workers result from such contacts, there is a further necessity that the offices be more adequately equipped and staffed to respond to the demands of private industry.

The National Reemployment Service is supported regularly from emergency funds allocated from time to time for this purpose. Approval has been given to an allocation of the amount of \$2,500,000 for the current Fiscal Year additional to the sums regularly allocated, in order to make it possible for the employment offices to conduct currently a campaign for the placement of workers in private industry.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: August 20, 1936, 7 p.m.

NO.: 318

FOR COCHRAN FROM TREASURY.

Secretary Morgenthau would like to have you get a personal estimate of the situation in London by going there, to be there by Monday, and you should be prepared to remain for a two-day or three-day stay.

PHILLIPS

ACTING.

EA:LWW

OFFICE OF
THE SECRETARY OF THE TREASURY

diary

AM

August 20, 1936.

Memorandum to Mrs. Klotz:

For your files I am giving you a copy of
a message sent Commander Thompson in code this
date.

[Signature]
Harold N. Graves

AM

August 20, 1936.

C
O
P
YCONFIDENTIAL

"SECRETARY MORGENTHAU HAS UNDER CONSIDERATION EMPLOYMENT IN WASHINGTON OF SOME OUTSTANDING CHINESE CITIZEN AS HIS PERSONAL ADVISOR ON NARCOTIC MATTERS AS AFFECTING CHINA STOP HE DESIRES THAT YOU DISCUSS THIS CONFIDENTIALLY WITH NICHOLSON STOP IN DOING THIS YOU SHOULD CONSIDER WHETHER SECRETARY'S OBJECT COULD BEST BE ACCOMPLISHED BY FORMAL INVITATION TO CHINESE GOVERNMENT OR OTHERWISE STOP SECRETARY DESIRES ALSO TO CONSIDER PRECISELY SAME PLAN WITH REFERENCE TO JAPAN STOP PLEASE REPORT FULLY AFTER YOU HAVE DISCUSSED WITH NICHOLSON AND IF POSSIBLE GIVE NAMES OF PERSONS BOTH CHINESE AND JAPANESE WHOM NICHOLSON WOULD CONSIDER AVAILABLE".

GRAVES

The Secretary
For your general
information you may want
to see this summarizing
report on the A G & E
case

HP

8/25/36

August 21, 1936

103

MEMORANDUM FOR MR. OLIPHANT:

Re: Associated Gas & Electric Co.

The following status report, concerning the above case, is made in response to your request.

In June, 1934, certain creditors of the Associated Gas & Electric Company filed a petition in the District Court, for the Northern District of New York, praying, among other things, that the Court appoint a trustee for the company under the provisions of 77A and 77B of the Bankruptcy Act and that the petitioners be permitted to submit one or more plans and suggestions for the reorganization of the debtor corporation, including any disposition to be made of its assets and properties pursuant to 77B of the Bankruptcy Act, and that the Court, after hearing such objections as might be made to any plan, confirm the plan, if satisfied that compliance had been made with the provisions of Section 77B of the Bankruptcy Act. The company moved to dismiss the petition, claiming that it had not been filed in good faith. At least three motions of this kind have been made by the company, but all of them have been denied by the lower Court. The company appealed to the Circuit Court of Appeals, from the denial of its last motion, where the matter is now pending.

At the present time attorneys for the petitioners and for the company are carrying on negotiations, at the suggestion of Circuit Judge Manton, looking to a possible agreement which would terminate the Court proceedings. The government is not a party to the proceeding except that on December 23, 1935, the Court granted an application of the United States to appear as amicus curiae.

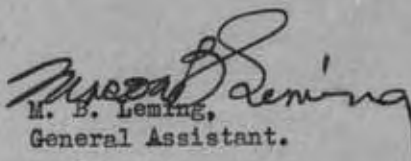
Prior to December 23, 1935, jeopardy assessments of federal income taxes were made against the company for 1927 to 1933, inclusive, in an aggregate amount of approximately \$51,000,000. The company filed appeals in the Board of Tax Appeals contesting the taxes covered by the jeopardy assessments. These appeals are now pending before the Board and have not been set for hearing. Government agents have been and are engaged in making an investigation of the company's tax liability. It appears that the investigation may be completed within two and one-half months from this time.

One other matter remains to be mentioned. In December, 1935, the United States instituted a suit in equity against the company in the District Court of the United States, for the Northern District of New York,

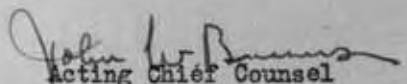
-2-

to foreclose its lien, created by the making of the above jeopardy assessments, and for the appointment of a receiver for the company. The company moved to dismiss this suit and that motion is now pending before the Court. The matter has been continued from time to time on account of the pendency of the bankruptcy proceeding mentioned at the outset of this report.

The use of the name "Associated Gas & Electric Company", in this report, is intended to be inclusive of the corporate entities making up the Associated Gas & Electric system.


M. B. Leming,
General Assistant.

Approved:


Acting Chief Counsel
for the
Bureau of Internal Revenue.

August 21, 1936

This was written by the Secretary while he was at
Wianno, on Cape Cod, for his vacation.

Aug 21, 1966

Called Pres at 11.30 A.M.

told him that Cochran informed he that he believed England had moved about half its gold from BK of Fr. to England. That I did not like it all. Pres. was much interested and concerned. He had no information for me.

Called Pres 3.4.5.

Told him stock market had broken $4 \frac{3}{4}$ pts.

That I was nervous. That it seemed that the financial news centers were telling us that we were going to have war.

told him that Fed. 107
Reserve N.Y. knew nothing
(I had talked to Burgess)
He said I have Senator
Nye sitting across
from me. I will make
swear not to tell - but
I will tell him what
you are saying.

4:00 o'clock called W.C.
Tayler told him to try
and find out thru S.E.C.
where selling came thru.
also to ask Fed. Reserve
N.Y. particularly if
selling came from
Europe and from which
countries

TELEGRAM SENT

August 21, 1936

1 p.m.

AMEMBASSY

PARIS (FRANCE)

319.

FOR COCHRAN FROM TREASURY.

Please check carefully Paris and London information
relative British gold shipments contained in your 769.

PHILLIPS, ACTING

EA:HF:LWW

Mr. Lull 109
DATE August 21, 1936.

OFFICE CORRESPONDENCE

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knoks

WITH BANK OF FRANCE.

I called Mr. Cariguel at 11:42 a. m. today upon learning that he had returned from his vacation early this week. Business was quiet, he said. There was no repatriation of capital whatever as far as he could make out. The balance of trade running against Paris explained the demand for sterling, dollars and other foreign currencies, with the result that gold was going to New York. The British Fund did not seem to have operated in Paris for over a week although he was told that the British were steady and substantial buyers of dollars. I suggested that such dollar purchases probably had to do with the resale to British interests of a block of shares in a British utility corporation previously owned in this country and also with the seasonal requirements of the tobacco industry, offset to the extent of about \$15,000,000 by the sale to American interests of a share in the "Philadelphia Inquirer" previously held by the Patemotre interests in France. Cariguel seemed to be much interested in this latter transaction and I made it clear to him that our information was entirely based upon newspaper reports.

I made reference to a recent rumor in this market that Amsterdam could not readily get gold from Paris even though the guilder rate in Paris stood above the upper gold point. Cariguel seemed to know about the situation and explained that the only reason was that French banks, for political motives, did not care to lend a hand in gold shipments to Amsterdam; since there were no Dutch banks in Paris which might be interested in doing this business (the same as the Paris branches of American banks handle shipments to

FEDERAL RESERVE BANK
OF NEW YORK

109A

OFFICE CORRESPONDENCE

DATE August 21, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knake

WITH BANK OF FRANCE.

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New York) no gold ^{was} shipped to Holland. He indicated, however, that this problem would be tackled in the near future because it was altogether desirable that gold should flow to Amsterdam just as freely as it flows to New York.

I inquired what the present total was of the gold held in Paris under earmark for the British Fund. Cariguel replied that about 8,000,000,000 francs were left out of a maximum of 12,600,000,000 and added that they were very pleased to see the gold go out because it was one thing for them to have 1,000,000,000 or 2,000,000,000 in custody but a totally different proposition when the total ran as high as it had with the British.

LWK:KMC



DEPARTMENT OF STATE
WASHINGTON

My dear Mr. Secretary:

I am transmitting a copy of a letter which Mr. Walton Butterworth, Secretary of Embassy at London, has recently written which contains a most instructive account of the background of Mr. Monick's activities in London, and no doubt was primarily intended for the Treasury.

Sincerely yours,

Enclosure:
Letter of August 31, 1938,
to Mr. Phillips from
Mr. Butterworth.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

EMBASSY OF THE UNITED STATES OF
AMERICA

London, August 31, 1936.

Strictly Confidential.

Dear Mr. Under-Secretary:

Perhaps you will recall our conversation before you left London about the middle of January regarding the discussions which I had had with Monick, French Financial Attaché, about possible developments in French monetary policy, in particular Monick's prediction that the inevitable French devaluation could only be brought about as a monetary re-alignment, based on at least a loose international understanding, and that therefore Washington would sooner or later be approached, but in any case before London. At that time "sooner" meant the spring, but events in France dictated that such an approach had to come "later", and further information on this question was reported in the Embassy's 285, May 28, noon. However, the recent telegrams sent by "No. 1" (i.e. Monick) to the Secretary of the Treasury, namely 363, July 23, 10 a.m.; 366, July 23, 7 p.m.; 370, July 24, 6 p.m.; and 376, July 28, 1 p.m., are evidence that that approach has now been made.

I have of course no knowledge as to how actively the Department has participated with the Treasury in the current situation

The Honorable
William Phillips,
Under-Secretary of State,
Washington, D. C.

situation, and it is with some hesitancy that I take the liberty of writing you this letter on the chance that some of the following information may prove of interest.

When Herbert Feis was here in May, I told him all I then knew about Monick's plans and intentions. Briefly, it was that, through a friend of Madame Blum, Monick had been put in touch with Blum shortly after the French elections. The fact that Tannery had tried unsuccessfully to have Monick removed from his London post created in Blum's eyes an initial presumption in his favor. Apparently they got on well together, and had several interviews during the period before Blum assumed power. Monick went far in convincing Blum of the eventual necessity for action, but Blum took the view that the Right by their rapid volte face had made devaluation a party issue, and that in order to preserve his Front Populaire bloc he had to get on with his promised reforms before entering the uncharted sea of monetary change. However, at Monick's instance he did put into his "defend the franc" declarations the caveat about realignment in the event of some international understanding, and on June 14th Monick, under instructions, left France to make a secret visit to Washington and discuss the situation with Mr. Morgenthau and attempt to obtain from him the requisite

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requisite assurances. I gather that Monick was in Washington about ten days; that he saw the Secretary of the Treasury on several occasions, and that his talks with him, which were conducted on an informal and personal basis, were eminently satisfactory. Monick's telegraphic reports to the French Government which arrived during the flight from the franc were most welcome to Blum and his Cabinet as offering the most likely means of extricating themselves from the then rapidly deteriorating situation.

Nevertheless, by the time Monick had returned to France the flight movement had dissipated itself, and Blum was much less enthusiastic about grasping the nettle. Monick was unable to obtain from Blum the authorization which he wished, namely to come to London to initiate official conversations. He was, however, authorized to come here and have discussions similar to those which he had had in Washington, but on the same personal and informal basis. This he did, with Waley and Phillips of the British Treasury, and as a result of these preliminary conversations, on June 24th a meeting was arranged between Neville Chamberlain and Blum, who was in London for the Locarno talks, with Monick acting as interpreter.

I gather that on the basis of the Washington conversations, the French felt able to employ somewhat aggressive tactics with the British, facing them with the burden of responsibility should they refuse to move at all. The

British are, of course, worried about the whole situation in France. At any rate, according to Monick, he has obtained from the British the promise of an undertaking the actual text of which has been virtually agreed upon. He was unable to obtain British consent to a tripartite declaration and therefore his plan now seems to envisage a Franco-British understanding and a Franco-American understanding.

Whether or when this plan will bear fruit remains to be seen. Monick is of the opinion that "the move will not be postponed much longer", and that this constitutes the final hour of grace for a moderate devaluation--and he has pressed for a moderate devaluation similar to Belgium's because it would not necessitate the imposition by Great Britain or the United States of further restrictions on the entry of French goods, and it would give force through example to that part of the declarations which will deal with "monetary dumping" on the part of any other country. He is of the opinion that, given such a devaluation, the consequent velocity of turnover will compensate for the increased French costs arising out of the Blum legislative program.

The French Cabinet is not of one mind, but Monick maintains that it now includes a substantial number favoring

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ing devaluation and some who complain that the contemplated devaluation is too moderate. The Communists are changing their attitude: the HUMANITE for three weeks has not published any anti-devaluation attacks, and according to Monick that party has now intimated that while they cannot support a devaluation proposal, due to their election pledges, they will not oppose it. The President of the Republic, who, under the French constitution, has certain rights of interference in matters of foreign affairs, is urging Blum to act. Spinasse, the Minister of National Economy, who has been in London this week, has informed Monick that he is under considerable pressure from the Labor Unions to put into effect the legislation governing the forty-hour week, but that he is afraid to do so before a devaluation lest 15 or 20% of French enterprises close down rather than attempt under present conditions to bear the added wage burden. According to Monick, Blum is still reluctant to act, but a renewal of the flight from the franc might effect a quick change in his attitude.

The means by which devaluation could be legally brought about in France is still a difficulty. The gold embargo, or export tax, is apparently not favored by Monick and his collaborators, who desire that the Chamber of Deputies be called, so that the Act authorizing "re-alignment" will
like

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like its American prototype, give power to the Government to devalue further if "monetary dumping" is undertaken by a fourth party (e.g. Germany). I gather that the intention is that the declarations by Great Britain and the United States would contain a provision about further depreciation if such monetary dumping is undertaken by a fourth party.

Monick emphasized that this whole matter had been kept a very close secret, so much so that the new Governor of the Bank of France was not fully acquainted with the situation, and "that is why he had made mistakes in Berlin and at The Hague."

In transmitting the above information, for what it may be worth, I think I should say, in view of the difficulties which arose over the Treasury telegrams and Mr. Morgenthau's recent enquiry No. 373, July 25, 12 noon, and the Ambassador's reply thereto, No. 374, July 27, 8 p.m., that I was not in London when these discussions took place, having been at Antibes on leave from July 15th to August 14th. On August 19th Monick got in touch with me in order to arrange that his sealed letter to the Secretary of the Treasury be despatched through the pouch (telegram No. 405, August 19, 8 p.m.). At that time he vouchsafed

vouchsafed the information given above, but I made no attempt to extract from him any further information regarding his negotiations either in London or in Washington.

I do hope we shall have the pleasure of seeing Mr. Phillips and you in London before you go to Rome.

With kindest regards,

Sincerely yours,

WALTON BUTTERWORTH.

Aug 22, 1936
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Secretary of Agriculture

Secretary of Commerce

Secretary of the Interior

Attorney General

Secretary of Labor

Secretary of the Navy

Secretary of State

Secretary of the Treasury

Secretary of War

President, Civil Service Commission

Director, Emergency Conservation Work

Chairman, United States Employees' Compensation Commission

Administrator, Resettlement Administration

Administrator, Rural Electrification Administration

Administrator of Veterans' Affairs

Administrator, Puerto Rico Reconstruction Administration

~~Administrator, Federal Emergency Administration of Public Works~~

Administrator, Works Progress Administration

THE WHITE HOUSE
WASHINGTON

Aug 22, 1936 ¹¹²

My dear Mr. Secretary:

I am writing to inform you that all applications for allocation of funds from the \$4,000,000,000 appropriation under the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 12, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (force account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935.

Sincerely yours,

My dear Mr. Administrator:

I am writing to inform you that, with respect to Public Works funds available for carrying out the purposes of the National Industrial Recovery Act, as amended, I desire that all future applications for allocations and all cancellations, rescissions and modifications of previous allocations be submitted to the Advisory Committee on Allotments, to be acted upon in the same manner and to the same extent as that Committee acts with respect to allocations made under the Emergency Relief Appropriation Act of 1935.

All applications for allocation of any funds must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 12, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (forfe account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935.

Sincerely yours,

Honorable Harold L. Ickes,
Administrator, Federal Emergency
Administration of Public Works.

This letter and enclosure prepared for:

Chairman, Advisory Committee on Allotments,
Executive Director, The National Emergency Council.

My dear Mr. Administrator:

I am sending herewith, for your information, a copy of a letter which I have today sent to the head of each Government Department or Agency that has had an allocation of funds from the \$4,880,000,000 appropriation under the Emergency Relief Appropriation Act of 1935.

Sincerely yours,

Inclosure

The Honorable,

The Administrator, Works Progress Administration.

THE WHITE HOUSE
WASHINGTON

My dear Mr. Secretary:

I am writing to inform you that all applications for allocation of funds from the \$4,000,000,000 appropriation under the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 12, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

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Sincerely yours,

WORKS PROGRESS ADMINISTRATION

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

August 22, 1936

HARRY L. HOPKINS
ADMINISTRATOR

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Philadelphia, New York

Dear Mr. Morgenthau:

I am enclosing herewith for your approval tentative draft of a proposed schedule to be used by investigators together with instructions to be sent to the field.

I am also enclosing an estimate of cost which should be handled by an allotment of \$383,305 to the Works Progress Administration over and above our administrative costs.

After a careful inquiry I am convinced that we should not make this study in either South Dakota or Chicago for the following reasons:

South Dakota was chosen because it was a drought state. We will, in effect, have comparable data from drought counties in Georgia and Colorado where the problem has been similar but not as great as in the Dakotas. It would be physically impossible to investigate all of the cases in South Dakota without bringing in trained investigators from outside of the State. Governor Tom Berry heard that we were planning to make the study and objected vehemently. Our regional staff agrees with the Governor's position, as does Mr. Hopkins.

For the past several weeks a carefully worked out plan of investigation has been formulated for all of Illinois including Chicago. This investigation will start in about thirty days and will last for sixty to ninety days thereafter. A hurried investigation such as is proposed for Chicago would disrupt present plans and would not be advisable in our opinion.

Hon. Henry Morgenthau, Jr.

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August 23, 1936

The work is ready to proceed as soon as I receive your approval of the instructions and schedule and your approval of the spending of these additional funds as administrative expense.

Data drawn from 13 representative cities in which we conduct regular surveys have an interesting bearing on the matter under consideration. An analysis of 2,900 cases with Works Program employment in June, which has just been completed, shows that 21 percent of these cases had some private employment during the month. Owing to the high rate of turnover in this group, however, only 14 percent had both private and Works Program employment on June 30th. In most cases the private earnings were small; those cases which had both types of employment on June 30th and earned \$50 or more from private industry amounted to only 5 percent of the total number of cases studied.

Sincerely yours,



Corrington Gill
Assistant Administrator

WORKS PROGRAM ADMINISTRATION

1. Name of Worker _____
 (Last Name) (Middle) (First Name)
2. Address _____
3. Name of Household Head _____
 (Last) (Middle) (First)
4. Relief Case Number _____
5. Number of Persons in Household _____
6. Color or Race _____
7. Date of Certification _____
8. Certified as Drought Case: Yes ☐ No ☐
- A. Schedule Number _____
- B. State _____
- C. County _____
- D. City or Town _____
- E. District Number _____

9. Employable Persons in Family

Line No.	(a) Name	WORK PROGRAM EMPLOYMENT								EMPLOYMENT IN PRIVATE INDUSTRY						(a) Name and Address of Employer	(a) Date
		(b) Sex	(c) Age	(d) Ident. No.	(e) Employed Work Program August 26	(f) Type of Work Symbol	(g) Wage Class	(h) Month-ly Wage Rate	(i) Month-ly Earn-ings	(j) Employed in Private Industry August	(k) Month-ly Earn-ings	(l) Employ- ed August 26	(m) Date Began Job				
1																	
2																	
3																	
4																	
5																	

10. Relief Income: _____
 (Yes or No)
- Source Amount
- (a) General Public Relief \$ _____
- (b) Pensions (based on need) _____
- (c) Private Funds _____
- (d) Other Aid _____
- (e) Total Relief Income _____
11. Household Income Other Than Work Program and Relief: _____
 (Yes or No)
- Source Amount
- (a) Total from Private Employment \$ _____
- (b) Other Non-Relief (Specify Source and Amount on Back) _____
- (c) Total _____
12. Relation of Household Income Other Than Work Program and Relief to Security Wage Standards:
- (a) Security Wage Standard for _____ Persons \$ _____
- (b) Household Income Other Than Work Program and Relief _____
- Below Standard ☐
- (c) Equal to or Above Standard ☐

Interviewer _____
 (Signature)Editor _____
 (Signature)Approved _____
 (Supervisor)

Regraded Unclassified

HOUSEHOLD INCOME SURVEY

INSTRUCTIONS TO SUPERVISORS

A. Purpose of Study. - The purpose of this survey is to ascertain the amount of income of relief families employed on Works Progress Administration projects which is derived from private employment and other non-relief sources, and to compare this income with the "Security Wage Standard" which is defined below. The study is based on the schedule which is attached, DBS Form _____, which is to be filled in part from the assignment files of the Employment Division and in part through personal interview.

B. Households to be Studied - Area Included. - All certified relief households with one or more persons employed on a Works Progress Administration or National Youth Administration project on August 26, 1936, in the States of Colorado, Georgia and Rhode Island and the cities of Baltimore, Cleveland and San Francisco are to be included in this survey.

C. Selection of Households to be Studied - Control Cards. - The list of the households to be studied is to be based on the names and addresses of all workers employed on WPA or NYA projects during the payroll period including August 26th. The assignment files or the August payroll covering August 26th is to serve as the source of this information. A standard 5 x 8 card is to be used for compiling the list of households to be interviewed. Each of these control cards is to contain the following information:

1. Serial Number
2. Relief Case Number
3. Identification Number
4. Name of Worker
5. Address
6. County
7. Date Schedule Assigned to Interviewer

8. Date Schedule Returned by Interviewer
9. Date Schedule Given to Editor
10. Date Schedule Edited and Approved
11. Date Schedule Tabulated

Sufficient space is to be left on the control card to permit entering the date on which a rejected schedule is returned to the interviewer for verification or correction and the date of its return for further editing. In general all movements of the schedule until its final disposition are to be recorded on this card so that the location of each schedule is known at all times.

A copy of the control card is appended as Exhibit 1.

When the control card file has been completed, the cards are to be arranged in alphabetical or relief case number order to determine whether there is more than one worker in any one household who is employed on a Works Progress Administration or National Youth Administration project during the payroll period including August 26. All similarities in name and address or relief case number are to be checked against FERA Form 600 to ascertain whether the workers concerned are certified as members of one household. In instances where they have been certified as members of the same household, the names of such workers are to be posted on the same control card and they are thereafter to be considered as representing a single household unit.

After this check has been completed, the cards are to be numbered serially from number one in each district office. Cards with the names of more than one worker in the same household are to receive only one serial number. The completed control file will contain a serial number for each household which is to be interviewed.

D. Preliminary 20 Percent Sample - Areas Included. - In order to obtain reliable results as quickly as possible, schedules are to be filled, edited and tabulated for a random sample of 20 percent of the households in all

districts which include a city with a population of 50,000 or more persons, except as provided for Rhode Island below. This will include the cities of Cleveland, Baltimore and San Francisco and the following districts in each of the states included in this survey:

Colorado	—	District	2	(Denver)
		"	4	(Pueblo)
Georgia	—	District	5	(Atlanta)
		"	2	(Augusta)
		"	7	(Macon)
		"	3	(Savannah)
Rhode Island	-	District	1	(Providence)
		"	1	(Pawtucket)
		"	1	(Woonsocket)

In Rhode Island the preliminary 20 percent sample is to be taken only in the cities of Providence, Pawtucket and Woonsocket. The 20 percent sample is not to be taken for the remainder of the state.

The sample is to be selected by pulling from the control file all cards with serial numbers ending in the digit "5" or "0". These cards are to be separately filed, and labeled "sample control file".

E. Completion of Study in Sample Areas. - In the areas in which the preliminary 20 percent sample is to be tabulated the sample schedules are to be filled, edited and tabulated as rapidly as is consistent with accurate procedure. In these areas work on the remaining schedules is to be begun only after interviewers, editors and tabulation clerks, respectively, have completed their work on the 20 percent sample. If the work is properly organized and staggered it will be possible to maintain a continuous flow of work from the beginning of the 20 percent sample through the completion of the remaining 80 percent of the schedules.

F. Time Schedule. - This study is to be begun as quickly as possible after

the receipt of these instructions. In the sample areas it is expected that the hand tabulation of the 20% sample will be completed by September 15th. The entire survey is to be finished well before October 1, 1936.

G. General Organization. - In the field this survey is to be under the direction of a State Supervisor in the states of Colorado, Georgia, and Rhode Island and a City Supervisor in Cleveland, Baltimore and San Francisco. These supervisors are to work through the Regional Research Supervisors of the Works Progress Administration.

In addition there is to be a District Supervisor for each district or sub-district office who is to be responsible to the State or City Supervisor.

H. Clearance of Questions. - All questions which arise in the district or sub-district offices relating to the establishment of the control card file, the selection of the 20 percent sample, the preparation of the daily reports, and the filling, editing and hand tabulation of the schedules are to be cleared by wire or telephone with the State or City Supervisor. The State or City Supervisor in turn is to clear all questions with the central office in Washington and shall immediately notify the Regional Research Supervisor of all such inquiries. All wires are to be addressed to Howard B. Myers, Works Progress Administration, 1734 New York Avenue, Washington, D. C., attention P. M. Hauser. Any telephone calls to the central office which may be necessary are to be directed to Mr. P. M. Hauser, Washington, D. C., District 0330, Extension 196. Do not hesitate to make an inquiry about any questionable matter.

I. Instructions to Personnel. - The value of this study depends almost entirely on the following factors:

1. The reliability and completeness of the schedule returns.
2. The thoroughness of the editing.
3. The accuracy of the hand tabulation.
4. The maintenance of an adequate control system.

It is essential that only persons with adequate training and experience be employed for this survey.

The supervisor is to become thoroughly familiar with all of the instructions issued relative to this survey. Moreover he is to instruct carefully all interviewers, editors and tabulation clerks and control clerks in their duties. Interviewers and editors are to be thoroughly familiar with the "Instructions for Filling Schedule DRS --" and "Instructions for Editing Schedule DRS --". Tabulation clerks are to be thoroughly familiar with "Instructions for Hand Tabulation of Schedule DRS --". Copies of these sets of instructions are appended as Exhibits 2, 3, and 4 respectively. Control clerks must be selected carefully and are to work under the immediate supervision of the District Supervisor who is to be responsible personally for the control system.

Although the length of the training period will necessarily vary for different individuals, it is recommended that a minimum of 3 days be set aside for the instruction of staff members in their duties. At the end of the training period it is recommended that District Supervisors administer tests to all personnel which are designed to insure a thorough knowledge of the required instructions.

J. Assignment of Schedules to Interviewers. - Before being assigned to interviewers, all schedules are to be sorted by county, city or town, and street address. So far as possible schedules are to be assigned to interviewers for households in contiguous territory. Moreover care should be exercised in making assignments so that so far as practicable interviewers are familiar with the area and type of people to be interviewed.

K. Duplicate Schedules. - All schedules, after they are filled, edited, approved and hand tabulated, are to be duplicated. The work of transcribing information from the original schedule to the duplicate copy is to be performed with care and thoroughly verified.

All schedules, originals and duplicates, are to be held in the district offices until receipt of instructions for their disposition.

L. Control System and Reports. - It has already been stated that all movements of the schedule are to be posted on the 5 x 8 control card so that the location of each schedule is known at all times. The only other mandatory control record is the "Tabulation Control Form" which is described in the "Instructions for Tabulating Schedule DRS --".

In addition to these office controls all District Supervisors are to prepare a "Daily Progress Report" and a "Weekly Tabulation Summary".

The "Daily Progress Report", a copy of which is attached as Exhibit 5, is to be prepared in quadruplicate. The first copy is to be forwarded to Mr. H. B. Myers, Attn. Mr. P. M. Hauser at the address indicated above; the second, to the Regional Research Supervisor, the third to the State or City Supervisor, and the fourth is to be retained in the district office. The items desired on the Daily Progress Report are self-explanatory.

The weekly "Tabulation Summary" is to be prepared as of the close of business of Thursday of each week. It also is to be prepared in quadruplicate and is to be routed in the same manner as described for the Daily Progress Report. Detailed instructions for filling this form are provided in the "Instructions for the Tabulation of DRS --".

M. General Procedure. - In general the procedural steps which are to be followed in the conduct of this survey are:

1. The selection of adequately trained and experienced personnel.
2. The proper instruction and testing of all personnel.
3. The establishment of the control card file and the maintenance of the control system.
4. The selection of the 20 percent sample in the sample areas.

(Note: Steps 5 to 10 inclusive, are to be completed for the 20 percent sample schedules in sample areas before step 5 is begun for the remainder of the schedules.)

5. The filling of the schedules.
6. The editing of the schedules and the rejection of inadequate schedules for verification or correction.
7. The hand tabulation of the desired information.
8. The submission of the Daily Progress Report.
9. The submission of the weekly Tabulation Summary.
10. The submission of the 20 percent sample Tabulation Summary.
11. The submission of the complete Tabulation Summary.
12. Duplication of all schedules.

INSTRUCTIONS FOR FILLING SCHEDULE DRS-----

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I. General

A. Purpose of Study. - It is the purpose of this survey to ascertain the amount of income of relief families employed on Works Progress Administration Projects which is derived from private employment and other non-relief sources, and to compare this income with the "Security Wage Standard" which is defined below. The study is based on Schedule DRS----- a copy of which is attached.

B. Approach and Technique of Interview. - The most important information supplied by this schedule is that obtained through personal interview. Since the value of the survey is almost entirely dependent on the reliability and the completeness of the returns, it is essential that all interviewers be extremely conscientious in the conduct of their work.

The success of the interview depends largely on the approach and technique of the interviewer. The favorable impression made by the interviewer on the worker or household member, in stating the purpose of the visit, is usually directly responsible for gaining his confidence and cooperation. Politeness, tact and consideration must be displayed. The average person is reluctant to discuss his financial affairs and may in some instances even flatly refuse to answer the inquirer. However it should be possible in all but exceptional instances to obtain the desired information through a business-like and sympathetic approach. The interviewer is to remember that he is officially authorized to collect the data requested, but he is under no circumstances to use this authority in an overbearing or objectionable manner. Rare resistant cases should be called to the attention of the

Supervisor for special follow-up work.

Normally the logical procedure in obtaining the required information will be that of following the questions in order, but if answers occur out of order in the course of the interview they should be noted as answered. Avoid making a pure formality of the procedure. It is advisable to ask questions in the briefest possible way, using a simple non-technical vocabulary.

In the last analysis there is no substitute for experience in successful interviewing. These general remarks are intended to call attention to some of the more important considerations, but it is expected that experienced interviewers will pursue the technique which they have found successful.

C. Source of Information. - All schedules are to be filled in part from the control card, in part from the assignment files of the Employment Division and in part through personal interview.

1. Items to be Filled from Control Card. - Preliminary to obtaining further information from the assignment files of the Employment Division and through personal interview, the following items are to be transcribed on the schedule from the control card.

Schedule Item

A. Schedule Number

1. Name of worker (or workers, if there is more than one worker in a household employed on Works Progress Administration or National Youth Administration projects on August 26th)
2. Address
4. Relief case number

The schedule number is to correspond in all instances with the serial number of the household control card. At the time that these items are filled, the name of State, county, city or town, and the district number are also to be entered.

2. Items to Be Filled from Employment Division Files. - As far as possible the following items are to be filled from the Employment Division files:

Schedule Item

- 3. Name of household head.
- 5. Number of persons in household.
- 6. Color or race.
- 7. Date of certification.
- 8. Certified as drought case.
- 9a Name (of other workers)
- 9b Sex
- 9c Age
- 9d Identification number
- 9e Employed Work Program August 26
- 9f Wage Class
- 9g Type of Work Symbol
- 9h Monthly wage rate
- 9i Monthly earnings

3. Items to be Filled Through Personal Interview. - All other items on the schedule, except item 12, are to be filled through personal interview. Moreover, the items described above which are transferred from the records are to be verified during the course of the interview. For further instructions for filling item 12, see specific instructions below.

4. Legibility and Completeness. - In order to facilitate rapid tabulation of results, all entries should be carefully made so that they are clearly legible. No spaces on the schedule are to be left blank. If the entry to be made is "None", an "O" should be entered in the proper space. If the data requested are not available, "N.A." (for not ascertainable) should be entered. However, this entry is to be used only after reasonable efforts to obtain the information have failed. If the question is not applicable, a dash (-) should be entered in the proper space.

II. SPECIFIC INSTRUCTIONS FOR FILLING SCHEDULES

- A. Schedule Number. - The schedule number is to be identical with the number on the control card for the households to be interviewed. (See above, "Selection of Households to be Studied - Control Cards.")
- B. State. -
- C. County. -
- D. City or Town. -
- E. District number. -

Enter in these spaces the appropriate designations called for.

1. Name of Worker. - Enter the name of the person whose name is listed on the control card for the household to be interviewed. If there is more than one worker for the same household, enter the name of the worker whose surname or given name comes first alphabetically.

2. Address. - Enter the most recent complete address available for the worker.

3. Name of Household Head. - Enter the relief case name as indicated on FERA Form 600 or equivalent form.

4. Relief Case Number. - Enter the relief case number as indicated on FERA Form 600 or equivalent form.

5. Number of Persons in Household. - Enter the number of persons included in the household on August 26 who contributed to or benefited from the household income. This is to be obtained from FERA Form 600 and is to be verified through personal interview. Members of the household away from home temporarily should be included if they ordinarily contribute to or benefit from the household income. A member of the household away from home in a CCC camp should be included. Exclude boarders or roomers unless they are partially dependent upon the household income.

6. Color or Race. - Enter the color or race of the head of the household. For example, White, Negro, Chinese, Japanese, Mexican, etc.

7. Date of Certification. - Enter the date on which the household was certified for Work Progress employment. Enter the most recent date if there is more than one certification. This date is available on FERA Form 600.

8. Certified as Drought Case. Yes ☐ No ☐

If the household has been certified as a drought case a check is to be placed in the box provided opposite "Yes"; if not the check is to be entered in the box opposite "No". Whether or not the household has been certified as a drought case is indicated on FERA Form 600.

9. Employable Persons in Family. - This block is to be filled for persons 18 or more years of age who are working or seeking work. In addition persons under 18 years of age who are employed on the Work Program or in private industry are also to be entered. Do not include housewives unless they are working or seeking work outside the home.

The names of employable persons are to be transcribed from FERA Form 600. It is important however that these entries are verified through personal interview and that a check be made to ascertain whether any employable persons are not listed on Form 600.

- a. Name. - Enter the names of all employable persons in the household as defined above.
- b. Sex. - Enter the sex of each worker listed.
- c. Age. - Enter the age of each worker on his or her last birthday preceding August 26. This is recorded on FERA Form 600 but it is to be verified through personal interview.
- d. Identification Number. - Enter the number by which the worker is identified on WPA records (Form 507) and which appears on the pay roll.
- e. Employed on Work Program August 26. - Enter for each worker in the household who was employed on the Works Program during the payroll period including August 26 one of the following abbreviations in accordance with the agency of employment:

<u>Abbreviation</u>	<u>Agency</u>
"W.P.A."	Works Progress Administration
"N.Y.A."	National Youth Administration including Student Aid
"C.C.C."	Civilian Conservation Corps
"Other"	Other Federal Agencies

The WPA District Employment Division can notify interviewers of the location of Federal agency projects operating in or near the district.

The following Federal agencies are operating projects in the cities and States covered by this survey:

Department of Agriculture

Soil Conservation Service
Forest Service
Bureau of Entomology and Plant Quarantine
Bureau of Plant Industry
Bureau of Public Roads
Weather Bureau

Department of Interior

Office of Indian Affairs
National Park Service
Bureau of Reclamation
Office of Education

Department of Labor

United States Employment Service

Public Works Administration

Resettlement Administration (work projects only)

Treasury Department

Coast Guard
Procurement Division
Bureau of Internal Revenue
U. S. Public Health Service

War Department

Corps of Engineers
Quartermasters' Corps

f. Type of Work Symbol. - Enter the type of work symbol of the project on which the worker was employed during the payroll period including August 26.

g. Wage Class. - Enter the wage class in which the worker was employed on the payroll for the period including August 26. The entry will be "U" for unskilled, "I" for intermediate, "S" for skilled, "P & T", for professional and technical, and "N.S.", for non-security. This information is to be obtained from Form 507 or the August pay roll.

h. Monthly Wage Rate. - Enter the scheduled maximum monthly earnings rate at which the worker was employed during the period covered by the pay roll including August 26, as shown on WPA Form 507 or the August payroll.

i. Monthly Earnings. - Enter here for each worker employed on the Work Program the amount of money he has actually earned on Work Program employment during the month of August. Enter the number of dollars earned to the nearest dollar. (Fifty cents or more should be considered as another dollar.) The information is available on Form 507 or the August pay roll. It is to be observed (see item 11b) that CCC earnings are also included as part of "Other Non-Relief Income".

j. Employed in Private Industry During August. - Enter "Yes" in this column for each worker who was employed in private industry for any length of time during the month of August. Employment by an established municipal, state or federal government agency not operating from relief funds is to be considered as private employment. All farm operators and persons employed on their own account (business, contracting, professional, newsboy, etc.) are to be regarded as employed. Persons who work on home farms without earnings should not be considered as employed. However, persons working on home or other farms for wages should be considered as employed. Persons on strike are to be considered employed.

Enter "No" for each worker listed who has had no private employment during the month of August.

k. Monthly Earnings. - Enter here for each worker the total amount of his earnings through private employment during the month of August. Cash earnings only are to be entered. This entry is to be made in dollars rounded to the nearest dollar. (Fifty cents or more should be considered as an additional dollar.) If the worker has not been employed during August (see "j") the proper entry is a dash "-". If the worker has been employed during the month of August but has no earnings the proper entry is a zero "0".

l. Employed August 26. - Enter "Yes" for each worker who was

engaged in private employment as defined above on August 26. This refers to job connection rather than whether person worked on that particular day. Enter "No" for each worker not so engaged.

m. Date Began Job. - Enter here the date on which the job to which reference is made in Column K began. Indicate month, day, and year.

n. Name and Address of Employer. - Enter the firm name and exact address of the employer for whom the person is working on August 26. If the person worked for other employers during the month of August, the names and addresses of such employers are to be listed on the reverse side of the schedule. In such instances the line number of the worker is to precede the name and address of the employer so that identification can readily be made. It is important to obtain the full and exact firm name so that the employers may be contacted readily at some later date if it is deemed necessary.

o. Code. - This column is to be left blank by the interviewer.

Relief Income. - Enter "Yes" or "No" as called for to indicate whether the household has received any assistance in cash or kind from public or private general relief funds, from pensions based on need, or from any other source of public or private assistance other than employment on the Work Program during the month of August. Surplus commodities should be excluded. Resettlement grants received during August are also to be excluded. Do not include bonus or adjusted service certificates as a form of assistance.

a. General Public Relief. - Enter the amounts of general relief received from public funds in August. Do not include the cost of hospitalization or other institutional care, transportation, burials, or surplus commodities.

b. Pensions Based on Need. - Enter the total amount received in August from pensions based on need whether from public or private funds (as for example to the aged or to the blind).

c. Private Funds. - Enter the amount of relief received in August from private funds (for example relief from private family relief agencies, Salvation Army, St. Vincent de Paul, Society of the Catholic Charities, Red Cross, etc.

d. Other Aid. - Enter the amount received in August from any other public or private source which cannot be clearly placed in any of the categories above.

e. Total Relief Income. - This item is to be obtained by addition of items 10a, b, c, and d. 136

11. Household Income Other Than Work Program and Relief. -

a. Total from private employment. - Enter here the total amount of income received by members of the household during the month of August from private employment. This is to be obtained by addition of items in Column 8k.

b. Other Non-relief income. - Enter here the total amount of income received during the month of August from the Civilian Conservation Corps, own business, sale of farm produce, rent income from roomers or boarders, gifts or inheritance, pensions not based on need, workmen's compensation, or any other non-relief sources. Work Program Earnings from any source other than CCC are not to be entered. Bonus or adjusted service certificates are not to be included as a source of income.

The source of income and the amount from each source is to be entered on the reverse side of the schedule.

c. Total. - This item is to be obtained by addition of items 11a and 11b.

12. Relation of Household Income Other Than Work Program and Relief to Security Wage Standard. - This study is primarily interested in the comparison of household income other than that derived from the Work Program (except CCC) and relief with the "Security Wage Standard".

a. "Security Wage Standard" for Persons. - The "Security Wage Standard" is the amount of income based on the Work Program monthly wage rate of the worker adjusted for family size. The family of four persons is to be regarded as an average size family for which the monthly earnings rate of the WPA worker is the "Security Wage Standard".

If the family consists of more than four persons, the "Security Wage Standard" is to be determined by adding 10 percent to the monthly wage rate for each additional member over four. On the other hand, if the household consists of fewer than four persons, the Security Wage Standard is determined by subtracting 10 percent from the monthly wage rate for each member under four. The following is a sample scale of the "Security Wage Standard" for unskilled labor at a monthly wage rate of \$55.00. It is to be noted that fractional dollars are to be disregarded.

<u>Size of Household</u>	<u>Amount Allowed</u>	<u>Derivation</u>
1 person	\$ 39.00	\$55.00 minus 30%
2 persons	44.00	55.00 " 20%
3 persons	50.00	55.00 " 10%
4 persons	55.00	Monthly Wage Rate - Basis of "Security Wage Standard"
5 persons	60.00	\$55.00 plus 10%
6 persons	66.00	55.00 " 20%
7 persons	71.00	55.00 " 30%
8 persons	77.00	55.00 " 40%
9 persons	82.00	55.00 " 50%
10 persons	88.00	55.00 " 60%
11 persons	93.00	55.00 " 70%

In filling item 11a the number of persons in the household, as listed in Item 5, is to be inserted in the blank provided in Item 12a, and the Security Wage Standard is to be computed on the basis of the highest monthly wage rate of the workers in the household.

b. Amount of Private Employment and Other Non-relief Income.

Enter the total amount of household income derived from other than Work Program (except CCC) and relief sources. This has been computed in Item 11c.

c. Below Standard - Equal to or Above Standard - Place a check mark in the appropriate space provided to indicate that Item 12b, Household Income Other Than Work Program and Relief, is below, ^{or} equal to or above Item 12a, the "Security Wage Standard" for ___ persons.

Signature of Interviewer, Editor and Supervisor. - The signature of interviewer, editor and supervisor and dates on which the schedule is filled, edited and approved, are to be entered in the space provided.

SUMMARY OF CASE LOAD STUDY - COST ESTIMATESCITIES

BALTIMORE	Case load	9,000	\$	28,300.00
CLEVELAND		35,550		70,620.00
SAN FRANCISCO		17,000		35,660.00

STATES

COLORADO		28,689		82,350.00
GEORGIA		36,000		80,250.00
RHODE ISLAND		10,875		<u>36,125.00</u>
				\$333,305.00

NOTE:

Contingent fund to take care of emergencies;
to be held in Washington office. This will
also cover small additional administrative
cost here - maximum of three supervisors for
two months, approximately \$2,500.00 - - - - - 50,000.00

TOTAL - - - - - \$383,305.00

August 20, 1936

Estimate of the cost of the proposed investigation for WPA workers for the following:

Cities of - Baltimore, Cleveland and San Francisco
States of - Colorado, Georgia and Rhode Island

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BALTIMORE

(Case load - 9,000)

<u>Staff</u>	<u>Per Month</u>	<u>Period</u>	<u>Total</u>
1 Director	\$ 300.00	2 mos.	\$ 600.00
8 Supervisors	150.00	2 mos.	2,400.00
80 Visitors	100.00	1½ mos.	12,000.00
2 Secretaries	125.00	2 mos.	500.00
16 Clerical workers	75.00	1½ mos.	1,800.00

Total Salaries - - - - - \$17,300.00
Travel - - - - - 4,000.00
Office space, equipment and incidentals 7,000.00

Total cost of study - - - - - \$28,300.00

CLEVELAND

(Case load - 35,550)

<u>Staff</u>	<u>Per Month</u>	<u>Period</u>	<u>Total</u>
1 Director	\$ 200.00	2 mos.	\$ 400.00
1 Ass't Director	175.00	2 mos.	350.00
18 Supervisors	160.00	1½ mos.	4,320.00
263 Visitors	100.00	1½ mos.	39,450.00
2 Secretaries	100.00	2 mos.	400.00
1 Office Manager	150.00	2 mos.	300.00
2 Clerical workers (Supervisory)	100.00	2 mos.	400.00
75 Clerical workers	80.00	1½ mos.	9,000.00

Total Salaries - - - - - \$54,620.00
Travel - - - - - 6,000.00
Office space, equipment and incidentals 10,000.00

Total cost of study - - - - - \$70,620.00

RHODE ISLAND

(Number persons employed August 1, 1936 - 10,845)

<u>Staff</u>	<u>Per Month</u>	<u>Period</u>	<u>Total</u>
1 Director	\$ 200.00	2 mos.	\$ 400.00
5 Supervisors	150.00	1½ mos.	1,125.00
120 Visitors	110.00	1½ mos.	19,800.00
2 Secretaries	100.00	2 mos.	400.00
40 Clerical workers	90.00	1½ mos.	5,400.00

Total Salaries - - - - - \$27,125.00
Travel - - - - - 6,000.00
Office space, equipment and incidentals 3,000.00

Total cost of study - - - - - \$36,125.00

2 - continued

SAN FRANCISCO

(Case load - 17,000)

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<u>Staff</u>	<u>Per Month</u>	<u>Period</u>	<u>Total</u>
1 Director	\$ 250.00	2 mos.	\$ 500.00
8 Supervisors	160.00	1½ mos.	1,920.00
125 Visitors	120.00	1½ mos.	22,500.00
2 Secretaries	110.00	2 mos.	440.00
22 Clerical workers	100.00	1½ mos.	3,300.00

Total Salaries - - - - - \$28,660.00
 Travel - - - - - 4,000.00
 Office space, equipment, incidentals - 3,000.00

Total cost of study - - - - - \$35,660.00

COLORADO

(Case load - 28,689)

<u>Staff</u>	<u>Per Month</u>	<u>Period</u>	<u>Total</u>
1 Director	\$ 250.00	2 mos.	\$ 500.00
12 Supervisors	200.00	1½ mos.	3,600.00
300 Visitors	100.00	1½ mos.	45,000.00
2 Secretaries	100.00	2 mos.	400.00
50 Clerical workers	80.00	1½ mos.	6,000.00

Total Salaries - - - - - \$55,500.00
 Travel - - - - - 22,000.00
 Office space, equipment and incidentals 4,850.00

Total cost of study - - - - - \$82,350.00

GEORGIA

(Case load - 36,000)

<u>Staff</u>	<u>Per Month</u>	<u>Period</u>	<u>Total</u>
1 Director	\$ 300.00	2 mos.	\$ 600.00
8 Supervisors	150.00	2 mos.	2,400.00
12 Supervisors	125.00	1½ mos.	2,250.00
250 Visitors	100.00	1½ mos.	37,500.00
2 Secretaries	100.00	2 mos.	400.00
190 Clerical workers	60.00	1½ mos.	17,100.00

Total Salaries - - - - - \$60,250.00
 Travel - - - - - 15,000.00
 Office space, equipment and incidentals 5,000.00

Total cost of study - - - - - \$80,250.00

August 22, 1936

This was written by the Secretary while he was at
Wianno, on Cape Cod, for his vacation.

all countries ^{plus} ¹⁴³
except Holland
which showed
small minus

—
Gt. Britain largest
buyer.

—
odd lots purchases
on balance

—
selling represents
stop orders under market

End of Landon Bull
market -

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above information
was given me by
W. C. Taylor over telephone
I called Pres. at 1.00
and gave him same
line. I asked if he
knew what Gallup poll
would show Sunday.
He said it gave him
an increase of $\frac{1}{2}\%$
popular vote - plus
state of Michigan -

which gave him 145
needed electoral votes
for election.

I asked him when
this information
could have leaked
out. He said Thurs-
night or Friday A.M.
I said that undoubtedly
accounted for the
selling Friday.
They were discounting
Landen's defeat - I
was quite excited
about it and told
him so. I think

he was pleased
although he pretended
he was not, & I
at least ~~convinc~~ convinced
him that the setting
was not from abroad.
He asked whether I
had from Cochran
again about England
moving its gold
out of France. I
said I had not
had time to
hear. I'm J.

MEMORANDUM FOR THE SECRETARY

At the President's Home, Hyde Park, Sunday, August 25, 1936.

We arrived at the house about 9:10 (Standard) and waited until about 9:30, until the President called for us and we went into his small study. There were present Henry Morgenthau, Jr., Dan Bell, George Haas and Herbert Gaston. The President said he had a few things to unload on the Secretary first of all.

The first thing was about the labor classification study. He wanted to announce only the $1\frac{1}{2}$ million for reclassification, with no particular story about it, just a routine announcement. Then on Labor Day he would shoot the works about the $2\frac{1}{2}$ million and the rest of it. He asked Bell to give McIntyre a memorandum Monday about the $1\frac{1}{2}$ million.

No. 2 was a matter of a man named John I. Lever, who was threatening to make a disturbance about his treatment by Iokes. He could be held off a few days longer only. The President had a letter from Iokes, which he turned over to Secretary Morgenthau, stating that he was perfectly willing to have an independent investigation made of the reasons for the dismissal of Lever, preferably by the Treasury Department. H.E.G. said that he had talked to Lever, who had come in ostensibly looking for a job in the Treasury Department and had unburdened himself about his troubles. The Secretary told Gaston to take it up with him Monday.

No. 3 brought up by the President was a matter of roads in the Hawaiian Islands. This should be held very confidential because it was a military matter and had been brought to him by the War Department. The matter was particularly for the attention of Dan Bell. Last year we spent a million

dollars in building roads on the Island of Oahu. The War Department was very anxious to have this system of roads perfected for military purposes and they have a new program calling for \$1,166,000. It is so much more important than other WPA projects in the Islands that the President would like to give them six hundred to seven hundred thousand dollars immediately and then see how much we can save for this road purpose by elimination of other WPA projects in the Islands.

No. 4 of the President's items. He had in his hand a letter from Mayor LaGuardia, who made several points about the FWA limitation, a couple of which the President thought were perfectly valid and he thought we would have to make some change in the decision to limit FWA grants exclusively to relief labor. LaGuardia pointed out that many cities had voted on projects and had got popular authorization for fifty-five per cent bond issues and this referendum approval was based on the prospect of forty-five per cent grants. Any deviation from this system would invalidate allocations. Consequently, the new rule would make it impossible for many of these cities to go ahead with the projects. The government seemed to be under a moral obligation since the city bond issues had been voted under a promise by FWA to provide the grants. The second point did not involve any moral obligation. It was that the debt limits of many localities forbade their operating on the new basis since they could not raise additional funds over night and if the old ratio of grants was not maintained, then there would be no FWA projects.

The President commented that that depended upon the particular case; some would be able to go ahead and some would not. The President thought we ought to approve those projects that conform reasonably fully to the

forty-five per cent labor provision, but he would not stick at thirty-five per cent. Dan Bell wanted to know where we would get the money. The President said we can go as far as we can with this fifty million that you (Bell) picked out of the air. Dan objected that there wasn't any fifty million, but the President said he had a memory like an elephant and he knew Dan Bell said there was fifty million. Anyway he wanted to go ahead for the next month or two on this basis with whatever funds Dan could find for the purpose. He said the first thing we ought to do was to find out the amount involved and how many projects had actually been voted on and how much labor could be furnished in those communities. He said we had to find twenty or thirty million dollars more for these projects. Bell mentioned that PWA had twenty-two million for administrative expenses and the President said we can cut that right away to fifteen. He remarked that the law limits the completion of the program to July 1 next and Bell said the money had to be all obligated by July 1 but not necessarily all spent.

Secretary Morgenthau then brought up the matters he had to lay before the President. The first was the financing, which he expected to announce about September 8. His idea was simply to issue new notes in exchange for the 510 million maturing on September 15. He said he was quite sure there would be contrary advice from the Federal Reserve people. They would want to take advantage of the perfect shape the market was in to raise new funds, but the Secretary did not think that was good tactics. He thought the new notes should be for five years at 1-3/8; the old notes are 10 years at 1 1/2. In that connection the Secretary said that while we do not need the publication of the Budget Summation for financing purposes, still we ought to get it out. He remarked that a woman acquaintance of the family had told them that

she heard the story about the letter that there would be no new taxes over the radio eighteen times that day, indicating that it aroused a whole lot of interest.

The second thing the Secretary had to suggest was that the President order Bell to order all the government departments and activities to set aside five per cent of the current year's appropriations. "Where did you get that from?" the President interjected. He said the Acting Postmaster General notices that postal receipts are up twelve per cent, which means more mail to handle, more work. "Now how in hell can you ask him to save five per cent of his appropriation. Come clean." He admitted that the rule of thumb was a pet of his, but he said here is a case where you can't apply it. Secretary Morgenthau said he realized that all departments could not save an even five per cent, but he thought we ought to aim to get a possible two hundred to three hundred million. He thought the President should give an indication of his purposes to do this in the Budget Summation.

Dan Bell thought the President ought to give instructions to the Budget Bureau to try and save some indicated amount. The Secretary remarked that we ought to be careful not to promise more than we can do. The President said it would be very hard to phrase it. "If you make it definite, they will say the same thing to me as has been said to Landon. Where will you save and why didn't you do it before? It seems to me about all you can do is to give instructions that the departments shall hold on to their unexpended balances and not spend them just because they have them. If I should start on a policy of not spending the billion four twenty-five it would be taken to mean that business has been taking up the load. But they have not. I think the figures are about 350,000 employables not employed." The Secretary said let Dan try his hand at working the thing out and then we can submit it to

the President. The Secretary said he thought we ought to have the Summation out before September 1. The President said: "Let me take it on the train. I will read it over on Wednesday, when I will have a good deal of free time, and will shoot it back. We should not make it a three-day release."

The Secretary asked if the President would like to hear the main figures that would appear in the Budget Summation and the President asked Dan Bell to read them. The estimates were for revenues of \$5,600,000,000 and for expenditures of \$7,700,000,000. Included in these expenditures were approximately \$600,000,000 to clean up the bonus payment and \$580,000,000 of debt retirement. If these are deducted the net expenditure figure is \$6,520,000,000, which would leave a deficit of only \$920,000,000, although the entire deficit, including bonus and debt retirement in the expenditures, is \$2,100,000,000. Including debt retirement, but without the bonus, the deficit is just a billion and a half. The President asked how this net deficit of \$920,000,000 less bonus and debt retirement compared with last year's and Bell told him that last year's on the same basis was \$2,700,000,000. The President said in substance: "Here you fellows were crying to me a few months ago that we had to save that three hundred on PWA or we were going to have a worse deficit than we had last year and now you come and tell me that we are going to have a deficit of less than a billion against two billion seven. How do you get that way?" The Secretary said laughingly that the President must have been mistaken about what they said, but the President said no, he had a memory like an elephant. Dan Bell pointed out that the expenditures had been kept down pretty rigorously in this estimate and also that no allowance had been made for extra expenditures on account of the

drought. He thought we couldn't include any exact figures for the drought, but we should make some allowance for it in the Budget Summation. In other words, he thought there ought to be a paragraph explaining that there might be need for additional appropriations on account of the drought and the Secretary said this could well be coupled up with the President's statement in his relief message that the amount of relief appropriation depended pretty largely on what progress business made in taking up the unemployed.

The Secretary then brought up the matter of the proposed speech by the President discussing the general outlook of government receipts and expenditures over a period of years. He told the President that there was some astonishing things in what the Treasury people had gotten together. He thought we had the material for a swell speech and he asked Gaston to read the draft he had prepared. Gaston said that it consisted of some general language which he had written and some paragraphs on estimates, for which Mr. Haas was responsible. After two or three pages had been read, the President remarked: "Why this is political!" He was very great interested in the statement that "Ever since the 1860's the volume of physical production in the United States has shown a most remarkably steady tendency to increase at a rate approximately double the rate of increase in our population." Mr. Haas showed him a chart on which population and volume of production were plotted, showing approximately a straight line on concurrent growth of the two on about a two to one ratio, with relatively minor variations for booms and depressions. The President was astonished at the estimate that the level of industrial activity of 1929 increased in proportion to population would bring a total tax yield of 11.8 billions of dollars, including social security taxes, and approximately 10.7 billions excluding social security taxes. The

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President said it might be true, but you can't get anybody to believe it. After the entire draft was read he said: "That's fine. That's great stuff, but I can't say it." He thought he would have to be much more conservative. People just simply couldn't believe statements of this kind no matter how well fortified they were from a statistical standpoint. The President thought the most he could say would be that our revenues will be adequate within the next year ^{or two} to meet expenditures on the same basis that we are making them now, thus proving that our tax structure is entirely adequate. The Secretary said that the suggestion was not for anything immediate and the President said a speech along this line should not be delivered until after the first of October.

Reference was again made to the proposed Labor Day speech on the employment problem and the President agreed that he would like to have the Treasury work out something on it.

This ended the talk at the house, but later on the train the President dictated to Dan Bell his idea of some statements he should make in the Labor Day speech.

--oOo--

Tonight I want to ask you to join with me in a look into the future. Let us turn our faces forward, not with the thought of creating fantastic dream castles, but with our feet on the ground and with full realization of where we are, of the road along which we have come and of the direction in which we are headed.

I remember quite vividly a saying that I saw printed on a placard a few years ago, a rather inspired saying I thought then and I still think. It went this way: "Wasn't the depression awful?" Unfortunately it was just a few years premature. We then had not by any means touched the depth of the depression and we had before us a rough road to travel.

But I call the expression inspired because it seems to me it was and is characteristic of the spirit of the American people. Our people have not conquered a continent and brought about huge advances in science and in industry by fretfully looking backward and complaining that things are not as they used to be; on the contrary they have always cast their eyes ahead. They have always been inspired with hope and with enthusiasm. They have made a jest of difficulty and they have strode boldly on with assured confidence and with assured hope. That is the one phase of history from which we can probably derive the greatest profit. We cannot advance by doing all things just as our ancestors did them, but we can advance by adopting the spirit of hope, of energy, of enthusiasm and of determination to achieve something better, which is responsible for

all that they have given us.

We have today reached the point where we can say with real meaning, "Wasn't the depression awful?" We have climbed a long way out of the depths. We are in a position where we can make sound plans for the future. We are in a position where we can use what we have learned; where we can capitalize adversity to build a sounder prosperity.

We have read much and we have talked much of recovery. We have watched the various indicators of business progress as they have been climbing steadily back from the depression lows, and many of us probably have had too firmly fixed in our minds a former normal, or a former peak of business progress, of employment conditions or of standards of living and have regarded these as the final goals to which we are struggling. These indicators have had some usefulness in measuring our progress, but we will make a mistake if we confine ourselves to them. There was never a time when our civilization was as well ordered as it could have been; there was never a time when we reached a peak of production in which the real wants and the real necessities of all our people were satisfied. I don't think the time will ever come when we will reach such a goal, because it is bound to be a moving goal and I am well content that it should be so.

I think I speak the spirit of the American people when I say that they will not be satisfied and for long rest content simply with restoring conditions, or with reaching marks of attainment that they have once reached. They will want to go further and higher and we would have real occasion to despair of the spirit and ambition of our people

if they did not. The time has come when we can cease to place so much emphasis on the word recovery, when we can speak instead of something better than recovery, of an enlarged prosperity, of a greater well being and above all greater measures of social justice than any we have experienced in the past.

Our national government in the last four years has accepted new and grave responsibilities that go beyond the mere operation of routine government functions. It has accepted responsibilities in connection with the social welfare and the social security of our citizens. It is not only a grave responsibility, it is also an inspiring responsibility and it is my belief that the American people will insist that that responsibility shall be retained and shall be well discharged by those whom they elect to office.

You will recall that in the early days of the depression there was an appeal to private philanthropy to come to the rescue. There were heavy demands upon local units of government, upon villages, counties, towns and municipalities. But although there was a powerful and heroic response all along the line, the burden was far too heavy for any or all of these agencies to carry. The taxing power and borrowing power of communities and local and state governments was strained. It was the will of the nation that the collective resources of all our people, represented in the credit and power of the Federal Government, should be brought into action in an effective way. It was so brought into action. The national credit was used to rescue the people, to feed the hungry, to give work to the unemployed, to revive the industrial life of the nation. We undertook - our people acting through

their national government undertook - the thrilling task, the thrilling experiment, of sustaining the lives and guarding the welfare of our people and of restoring the productive energies of the Nation.

The experiment has succeeded; we have restored productive activity; the national income has leaped upward from below forty billions of dollars in 1932, as estimated by the Department of Commerce, at a rate that will mean a sixty billion dollar national income produced in 1936, and the trend is still upward. It is reflected every day in the reports of business operations and it is reflected in the Federal revenues.

But I do not believe the American people will consider their task accomplished when income produced reaches the level of some past peak. The whole history of our country points the other way. It is not necessary to cite figures to prove this. We have evidences of it on every hand. Nevertheless, it is sometimes very useful to turn to the figures, not to assure ourselves of what we have accomplished, but to indicate more accurately where we are likely to be in the near future.

Not long ago, I examined with great interest a chart showing the growth of industrial production in the United States in relation to the increase in population. The figures went back year by year as far as 1866. The story told by this chart and the figures underlying it is a very simple but a very important one. It is, briefly, that ever since the 1860's, the volume of physical production in the United States has shown a most remarkably steady tendency to increase at a rate approximately double the rate of increase in our population. The most striking thing about

this chart to me is that whenever this long-term rate of growth has been interrupted by business depressions, the interruption has been only temporary and the previous peaks of production have been invariably exceeded in the subsequent recoveries.

Some people regard the level of industrial activity in 1929 as a far-off goal to which we may aspire but which we cannot reasonably expect to reach again in the foreseeable future. Such people would do well to examine an historical chart of the type I have described. Were they to do so, they might quickly come to feel, as I do, that it would be surprising if, during the next four years, the United States does not experience such a further measure of business recovery as would bring the industrial indexes well above the levels of 1929. The average level of industrial production in 1929, as measured by the index of the Federal Reserve Board, was expressed as 119 percent of the average of the years 1923-1925. In July 1936, the Federal Reserve Board index was 108. If, in the next four years, that index rose to 140 - or well above the level of 1929 -, it would only reach up to that remarkably regular line of growth that the United States has traced since the 1860's.

I was happy to receive only a short time ago from the Secretary of the Treasury the assurance that, in his belief and the belief of those associated with him in the Treasury Department, we shall not need to levy new taxes in the coming year or to increase existing taxes. That opinion coincided with my own judgment that I had expressed in Budget Messages to the Congress of the United States. There were some who professed to be skeptical as to the supporting reasons and supporting statements, but if they had looked the facts honestly in the face, there would have been no

reason for any such skepticism. One has only to look at figures of the growth of revenues over the last three years to see how rapidly and how steadily we are marching to our goal of a balanced budget and a reduction of the Federal debt.

In the fiscal year 1934, the first complete year of my Administration and the first fiscal year of the recovery program, the Treasury's receipts from all sources other than processing taxes and trust fund items amounted to 2763 millions of dollars. In the fiscal year 1935, these receipts, on the same basis, rose by 516 millions, or by about 19 percent. In the fiscal year 1936, they exceeded those of 1935 by 760 millions, or by 23 percent. The estimate, on the same basis for the fiscal year 1937, which began on the first of July, is approximately 5,590 ^{thous} millions of dollars, or about 1,550 millions greater than the comparable receipts of 1936, or a further increase of about 36 percent. With our revenues increasing at this striking rate, with the bulk of the bonus outlay behind us, and with the need for relief expenditures facing a substantial decline as private industry continues to expand, the Secretary of the Treasury is clearly justified in believing that no increase in taxation will be necessary.

There are some also who have expressed alarm at the size of the public debt. But I have not been surprised to note that some of the very institutions and individuals who have expressed such alarm have been among the largest purchasers of United States Government securities. The truth is that the hard-headed business men of America know, and cannot ignore the fact, that we have won our battle against the depression; that we are climbing steadily out of it toward levels of production that we never have reached before and that they have every good reason to believe in the strength of the credit of the American Government and the American people.

The increase that has taken place in the public debt may seem to some large. Yet it is about half the increase in the public debt that occurred during the World War and when we measure it, not against national wealth but merely against annual income produced in the present fiscal year, we find that the whole of the increase in that debt is wiped out with seven billion dollars to spare by the increase in the national income estimated to be produced in 1936 as compared to the national income produced in 1932.

I called attention a few minutes ago to the great probability that during the course of the next four years we shall reach levels of business activity substantially in excess of those of 1929, even if we only restore the average long-term rate of growth that has characterized American industry through periods of depression and prosperity since the Civil War. It is interesting to relate this probability to the problems of Federal taxation and debt reduction. The Treasury has estimated that with levels of industrial activity no higher than those of 1929 on a per capita basis, the present Federal tax structure would produce annual revenues approximating 11.8 billions of dollars, inclusive of social security taxes, and approximating 10.7 billions of dollars, exclusive of social security taxes. Now, I do not contemplate that we shall actually raise Federal revenues in these amounts. They will not be necessary. Revenues of this size would, of course, be far in excess of the total expenditures of the Government in any year of the present Administration, even including the past year when we prepaid the bulk of the soldiers' bonus. The figures make it clear, however, that our present tax schedules are such as will be more than ample in the years that are immediately ahead to cover all the expenditures

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Which we are currently making, both for the ordinary purposes of government and for what we have classed as recovery and relief, and leave a very large margin for the rapid reduction in the public debt. Our problem will not be how we shall obtain funds to promote recovery, but how fast we shall reduce the public debt, how fast and which taxes we shall reduce, and how much revenue we shall continue to employ in discharge of the new responsibilities for the social welfare which have been accepted by the Federal Government under the present Administration. We shall be able to reduce the public debt just as rapidly as, if not more so, than we did in the years immediately following the World War. We shall be able to eliminate most of the present excise taxes that are paid so largely by wage earners and salaried workers, and to reduce the rates of other Federal taxes. We shall be in a position to consider the advisability of sharing some of the Federal revenues with State and local governments, thereby permitting an enlargement of the services rendered by State and local governments and a reduction in State and local taxation. Most important of all, in my opinion, the Federal Government will be able to continue and to expand the program of social security that we have inaugurated during the past three years.

I would not attempt today to outline a budget of governmental expenditures for 1938, or 1939, or 1940, but I can indicate some of the items which would properly appear in such a budget. We are already well advanced with the program of guarding social security by provision for unemployment insurance, for the care of mothers and dependent children, for old-age benefits. We should enlarge and better our facilities for education, for

vocational training and for finding employment for those who are unemployed. We must pay more attention to the character of the housing of all our people, especially those whose incomes do not permit them to be decently and adequately housed. We must continue to maintain facilities for furnishing emergency employment on useful public works. There has never been a time in this history of the country, unless it was during the war years, when there was not a considerable number and a considerable proportion of employable persons willing to work and in need of it. We have always had an unemployment problem, although the national government has not always recognized it.

We must stop the waste of our national physical resources and we must never be discouraged by loose talk to the effect that national planning of physical resources has never been successful. It has succeeded and we must make it even more successful. We must do better than we have done in the protection of national health. It is not enough merely to combat pestilence. We have the scientific knowledge, if it were made available and effective, to educate and rear our people so that the common standards of health and of physical vigor, and of mental vigor, will be vastly improved.

These are some of the tasks that I see before us as a people. A nation that has fought its way out of a depression can fight its way to higher and better standards of government, of living and of national life than it has ever before attained. We look forward with hope and confidence and with reliance on American democracy, upon American courage and upon American initiative to create by common effort a better order and a more secure civilization.

*Confidential Shown to F.H.K.
Sunday night
H. J. [unclear]
Aug 23, 1936*

Estimate of Federal revenues and receipts in the fiscal year 1940, assuming a hypothetical pattern of business recovery during the period 1936 to 1940

Federal revenues and receipts are chiefly dependent upon the tax structure and the levels of production and business activity. The major indexes of economic activity which are used in the preparation of estimates of Federal revenues are the Federal Reserve Board index of industrial production, the Bureau of Labor Statistics index of wholesale commodity prices, the Bureau of Labor Statistics index of factory payrolls, the Standard Statistics average price of 419 stocks, the volume of bank debits outside New York City, and the population of continental United States. Actual data and estimates of these indexes are shown in Table 1.

In the preparation of the estimates of revenue for the fiscal year 1940, it is assumed that the Federal Reserve Board index of industrial production (Chart 2) will average 130 (1923-25=100) in the calendar year 1939. This index averaged 119 in the calendar year 1929 and declined to 64 in 1932. From the latter year to the estimated average for 1936, the index has risen to about 102, an average rate of increase of 12.4 percent per year. To attain an average level of 130 in the calendar year 1939, the average annual rate of increase from 1936 would approximate 8.4 percent, and the average rate of increase per year from 1932 to 1939 would amount to 10.7 percent. It will be noted that the assumed average annual rate of increase from 1936 to 1939 is about 4 percent less than the actual average annual rate of increase from 1932 to 1936.

Although the annual rate of increase from the low of the depression to 1939 may appear relatively great, it will be observed from Chart 1 that the index at 130 in 1939 will be 3.2 percent below the long-time relationship between the growth in population and the growth in industrial production, and the per capita production in 1939 would approximate that of 1929. In Chart 1 is shown the average relationship between population and industrial production for the years 1866 through 1930. During this period the growth in industrial production has been slightly more than twice the growth in population. From 1929 to 1932 production fell far below the line of average relationship, but the rapid recovery since the latter year is supporting evidence that the average relationship may again be attained during the next few years, especially in view of the fact that the recovery thus far has been attained with only a moderate increase in building activity and in purchases of railroad equipment.

In Table 1 and Charts 3 and 4 are shown total production of motor vehicles and building floor space for past years and the levels which they should reach in 1939 in order to attain a level of 130 in the Federal Reserve Board index of industrial production. Production in these

two industries are presented for the reason that they are large contributors to recovery in durable goods and are two of the major factors used in estimating the Federal Reserve Board index of industrial production. Building floor space, which averaged 65.4 million square feet in 1929, declined to a monthly average of 15 million square feet in 1932 and is estimated at an average of 35 million square feet for 1936. The projected level for 1939, 81 million square feet will represent more than twice the amount for 1936. Total motor vehicle production in 1929 amounted to 5,358,000 automobiles and trucks and is estimated at 4,550,000 for 1936. For 1939, total production is projected at 6,000,000, or an increase of 12 percent over 1929. Another component which may be expected to be a major factor contributing to further recovery from present levels is the purchase of railroad equipment.

The Bureau of Labor Statistics index of wholesale commodity prices for 1939 is placed at 90 (1926=100) which compares with 95 in 1929 and the present level of 81. The change in this index represents a moderate increase due to the cyclical recovery of general business rather than an inflationary development.

The Standard Statistics average price of 419 stocks is assumed to reach an average of 184 in 1939, which compares with 190 in 1929, and about 115 at the present time. The large amount of corporate profits which should result from the high level of industrial activity and low interest rates should result in the indicated level of stock prices.

The Bureau of Labor Statistics index of factory payrolls is assumed to reach an average of 109 in 1939, which compares with 109 in 1929 and the present level of about 79. A large increase in employment because of the high level of industrial activity and a moderate increase in average wages are the base for the increase in the payrolls' index.

Under the above assumed levels of production and business activity, it is estimated that total revenue, general and special accounts, will amount to \$11,918 million in the fiscal year 1940. Of this total, \$1,078 million are expected from social security taxes and taxes on carriers and their employees. Exclusive of the latter groups, total internal revenue and customs are estimated at \$10,840 million. For the fiscal year 1937, total receipts, general and special accounts, are estimated at about \$5,595 million. The increase in the estimated revenue for the fiscal year 1940 over that for the fiscal year 1937 amounts to \$6,323 million, of which income taxes account for about \$4,762 million. This large increase in income taxes reflects higher levels of income and the strong tax structure of present law.

Under present law, large individual incomes are taxed at surtax rates ranging from 58 percent on incomes from \$100,000 to \$150,000 to 75 percent on incomes in excess of \$5,000,000, and a normal tax rate of 4 percent as compared with the top surtax rate of 20 percent on incomes

above \$100,000 and rates of normal tax of $1\frac{1}{2}$ percent, 3 percent, and 5 percent under the Revenue Acts of 1926 and 1928. Moreover, the present law exempts single persons and married persons or heads of families in the amounts of \$1,000 and \$2,500, respectively, as compared with exemptions of \$1,500 and \$3,500 for such individuals under the Revenue Acts of 1926 and 1928. The present law also imposes the normal tax on dividends received by individuals, whereas under prior laws such form of income was exempt from normal tax.

The 1936 Revenue Act imposed in addition to graduated normal tax rates on corporate net income, graduated rates of surtax on undistributed profits of corporations, whereas under the Revenue Acts of 1926 and 1928, corporate incomes were subject to flat rates of 12 percent to $13\frac{1}{2}$ percent.

The estimates of revenue assume the continuance of the manufacturers' excise taxes and certain other miscellaneous internal revenue taxes which under present law would terminate in July and August 1937.

August 22, 1936

Estimate of revenues and receipts, general and special accounts,
fiscal year 1940 on basis of Federal Reserve Board index of
industrial production (130) and related series in calendar year 1939

(In millions of dollars)

General and special accounts

Internal revenue

Income taxes

Current corporation	2,793	
Current individual	4,022	
Back taxes	<u>250</u>	
Total income taxes		7,065

Miscellaneous internal revenue

Capital stock tax	128	
Excess profits tax	120	
Estate tax	685	
Gift tax	150	
Distilled spirits and wines (domestic and excise on imports, including related taxes)	395	
Fermented malt liquors (including special taxes)	335	
Tobacco	555	
Documentary stamps	126	
Manufacturers' excise taxes	478	
Miscellaneous taxes	<u>121</u>	
Total miscellaneous internal revenue		3,093

Other internal revenue taxes

Taxes on carriers and their employees	220	
Social security taxes		
Employment tax (Title VIII)	764	
Tax on employers of eight or more (Title IX)	<u>94</u>	
Total other internal revenue taxes		1,078

Customs

Distilled spirits and wines	32	
All other	<u>450</u>	
Total customs		<u>482</u>

Total internal revenue and customs

11,718

Miscellaneous revenues and receipts

200

Total receipts, general and special accounts

11,918

Trust accounts

Deposits by States under Social Security Act

940

Major basic economic factors affecting Federal revenues

Calendar year	FEB index of indus- trial pro- duction 1/	BLS index of whole- sale com- modity prices 1/	BLS index of factory payrolls 1/	Standard Statistics index of prices of 419 stocks 1/	Total bank debts out- side New York City (billion dollars)	Population United States mid- year esti- mate (millions)	Total floor space of building contracts awarded 1/ (million sq. feet)	Total automobile pro- duction in the United States (thousand cars)
1919	83	139	97	71	211.2	105.0	46.7	1,934
1920	87	154	117	64	241.6	106.5	33.5	2,227
1921	67	98	76	55	191.9	108.2	32.3	1,597
1922	85	97	81	68	199.5	109.9	47.8	2,544
1923	101	101	103	69	225.3	111.5	49.3	4,034
1924	95	98	96	73	228.2	113.2	50.1	3,603
1925	104	104	101	90	256.7	114.9	77.0	4,266
1926	108	100	104	100	268.9	116.5	73.1	4,301
1927	106	95	102	118	282.3	118.2	70.1	3,401
1928	111	97	102	150	306.2	119.9	79.9	4,359
1929	119	95	109	190	331.9	121.5	65.4	5,358
1930	96	86	89	150	277.3	123.1	42.5	3,356
1931	81	73	68	94	217.5	124.1	30.6	2,390
1932	64	65	46	48	154.4	125.0	13.0	1,371
1933	76	66	49	63	134.3	125.8	12.3	1,920
1934	79	75	62	72	166.0	126.6	12.7	2,753
1935	90	80	70	78	190.0	127.5	21.0	3,947
2/ 1936	102	80	79	104	213.0	128.4	35.0	4,550
2/ 1939	130	90	109	184	349.0	131.1	81.0	6,000

1/ Monthly averages.

2/ Estimated.

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August 24, 1936

Lochhead, Taylor, Oliphant, Haas and White met with the Secretary to discuss the informal telephone call from the Federal Reserve Bank of New York in which they had advised the Treasury Department of the receipt of a cable from the Norges Bank (the Central Bank of Norway) requesting that the Federal Reserve Bank of New York purchase and hold under earmark for them the sum of \$5,000,000 in gold, debiting this to their account on the books of the Federal Reserve Bank. No reason was contained in the cable for the request, and the Federal Reserve Bank was cabling back, in the usual course, asking for a reason in order that they might forward the application to the Secretary of the Treasury for action inasmuch as Norway is not on the gold standard.

Mr. Lochhead said, "One interesting thing is the price of gold in New York is about $\frac{1}{4}\%$ higher than in London. On the other hand, it is possible that Norway may have need for dollars; in other words, they will have to use dollars for forward purposes and therefore don't want to buy gold in London, but still they could always buy gold in London and ship it over here and get dollars."

The Secretary said to the group, "This is something that I hoped would happen. I thought it would come from Sweden, but this is just as good. If Norway does it, Sweden will want to do it and the next thing, England will want to do it, and we don't want to give England the right to buy gold here unless she gives something to us."

Mr. Lochhead said, "It is just a question of giving the right to buy gold. If they came in and just asked for \$5,000,000, after all you might give them the \$5,000,000. That would not say you were giving them the right to buy gold; it's just in this one instance." Mr. Taylor said, "It would be all right to put a string on it -- the same kind you would put on the British if the British came in." Oliphant's opinion was, "We are not ready to write our ticket."

The Secretary then said, "I want so far as to

-2-

tell the British we would consider selling them gold on two conditions -- just to use some figure, that we would sell them gold when sterling went to \$5.00, provided the British Government would guarantee to sell us gold when sterling went to \$4.90. That is just an arbitrary figure. They said, 'You can buy gold on the open market.' I said, 'Oh, yes; but we want a guarantee that we can buy and the British Government will sell through some agency -- we don't care what agency.' I think this is a stalking horse."

Mr. Lochhead explained, "Norway is in the sterling area. We have to look at it as an independent application, but it is something that ties in with any country in the sterling area. They use kronen, but it is tied to sterling. All Scandinavian countries are tied to sterling now -- Norway, Sweden and Denmark."

The Secretary then said, "We can say, 'All right. We will sell you gold. Of course, sterling is above \$5.00 and if sterling goes below \$5.00 we would like you to furnish us with an equal amount.'" Lochhead expressed his opinion as follows: "You could at least hold them for the amount they have here."

HM, Jr. then inquired, "Why isn't this a formula, to say, 'Yes, we will let you have \$5,000,000 because sterling is over \$5.00, but if and when any time that we want to buy \$5,000,000 worth of gold, at what price may we repurchase it?'"

Dr. White and Dr. Haas came in at this point and HM, Jr. said to them, "Here's the problem, extra, extra confidential. Norway has come in and wants to buy \$5,000,000 worth of gold. Our price today is ..." Interrupting him, Mr. Lochhead answered, "The price at which we sell gold is \$35.00 plus $\frac{1}{4}\%$. That's regulation. It works out \$35.08 minus $\frac{1}{4}\%$."

Continuing his remarks to Dr. White and Dr. Haas, the Secretary said, "Here's the way I am thinking. I think this is just a stalking horse for England and as far as we have got, I say that we will let them have this provided that they give us a call on \$5,000,000 worth of gold if and when sterling should go to \$4.90." Oliphant suggested, "You will want to express that in kronen." Lochhead added, "You will have to express it in kronen."

Adding to his remarks, the Secretary said, "We want it delivered here so it works out \$35.00 less $\frac{1}{2}$ % for handling charges. To give you fellows a little history, Mr. Bewley came to see me the day before he sailed for Europe. At that time I said, 'You never answered me on what I said about gold.' I said, 'Well, Bewley, this is the way I feel. Frankly, I would like to see this agreement between France, England and ourselves, but I will tell you in case of a great emergency I am not going to let things go smash. If the emergency did get serious I might be willing, I would be willing to let you have gold when sterling went above \$5.00 provided you let us have gold when sterling went below \$4.90, but the figures are purely theoretical.' He said, 'But what do you mean when you say get gold. You can get gold in the open market.' I said, 'Oh, yes; but I want the British Government to say they will guarantee to give us gold. I don't care whose gold it is or where they get it.' That seemed to take him back. He's over in England now. Now comes this inquiry from Norway and if we do it for Norway we can't keep it a secret. I wouldn't want to keep it secret. We would have to be prepared to treat any other country in the sterling area the same way and the formula we are talking about is this: Norway, you can have it when sterling is above \$5.00, but we want to call on you at any time for \$5,000,000 in gold if and when sterling goes to \$4.90 so it will work out, delivered here, \$35.00 less $\frac{1}{2}$ %."

Oliphant's comment was, "I wish it had come up a little later, because it brings up the whole discussion of the gold question. As it is, nobody is saying anything." Haas asked, "Couldn't you stall it for a while?"

To Mr. Oliphant and Dr. Haas the Secretary said, "I will tell you something, gentlemen. I have found that the best kind of politics is to do your job well and not think about the political effect on the election. I have done that ever since I have been with Roosevelt and I think I have met with my share of success and to stall this thing because election is coming I think is just wrong. I just would hate to do it. I don't think in the long run it's good politics -- politics in the sense of good Government." Taylor agreed, saying, "Check!"

The Secretary then said, "I think it's the most marvelous hedge if we could, for instance, all over the world have \$5,000,000 spotted here, \$50,000,000 in England and different places. And right now they need it. And so it develops we have a call on gold. I think it is marvelous. I think it's like an insurance policy. The way I see it now, it's all for us. Sterling is \$5.03, and some day it will go back to \$4.90 and let's say we will have \$100,000,000 spotted all over the world that we can call on."

Dr. Haas inquired, "You have already in substance told England that would be agreeable to you?" The Secretary's answer was, "I said 'in case of great emergency' but I have been holding out for a tri-partite agreement." Dr. Haas then asked, "What if England comes back and asks you the same question?" The Secretary replied, "The answer is 'Yes.'"

Mr. Lochhead asked, "Will you confine this to the sterling area? For instance, we have given gold to China without any string on it." The Secretary answered, "I would confine it to any governmental bank. I will only do it with the Governments." Mr. Lochhead then remarked, "Yes, but you want a call for gold whenever you sell gold. We have given up some gold to China." The Secretary's response to this was: "We converted gold into silver. That was Step A. This is Step B. We were doing that to strengthen China's hand. We went in and China didn't have a friend. I read on Saturday the last two reports. It's marvelous how they are coming along." Then he said, "Why don't we do this -- let it simmer?"

Dr. White remarked, "They certainly have to let us know why they want it." The Secretary then said, "When the answer comes back, let's have another meeting." Mr. Lochhead said, "There is plenty of time. The Federal had a request from another central bank and they asked for a reason. Then you will have a reasonable time to think it out."

Monday
August 24, 1936
10:48 a. m.

HMjr: - two things. I'm thinking
of appointing an advisory committee of twelve
people -

Jacob
Viner: Yes

HMjr: - on taxes for the Treasury.

V: Yes

HMjr: I want three lawyers that teach taxation, like
Magill - Columbia, Maguire - Harvard, and then
there is a man out in California - Traynor of
California, see?

V: Yes

HMjr: And I want three accountants -

V: Yes

HMjr: - three business men, and three economists. -
Hello?

V: Yes

HMjr: What do you think of it?

V: I think that could be easily --

HMjr: What's that?

V: The general idea is fine -

HMjr: Yes

V: But that's too big a board.

HMjr: Well - you'd divide it up into sections.

V: I see. And also when you say three business men -
you need - you see you want to have a farm repre-
senatative and a labor representative somewhere in
the group - for political and in general, really,
because taxation doesn't only affect the business --

HMjr: All right we'll have - we'll have one man from
the farm, one labor and one business man.

V: Yes - I suggest - well, I'll speak to you about suggestions, that's what you want I suppose?

HMjr: Yes

V: - of me.

HMjr: Yes

V: And - I'll try and make up a list of suggestions for you. I think it's a good idea.

HMjr: Yes - I - I want it fast.

V: Right

HMjr: I mean I want it air mail tonight.

V: Oh, you do?

HMjr: Yes

V: All right, well then I'll get at it at once.

HMjr: What?

V: All right, I'll - I'll send you what suggestions I can before tonight.

HMjr: Will you?

V: Yes

HMjr: Now, I'm going to take a chance on this on the phone.

V: Yes

HMjr: Norway has come in and asked us whether we'll sell them five million dollars worth of gold.

V: Yes

HMjr: The usual thing is we ask them what they want it for, see?

V: Yes

HMjr: Because I think they're just a 'stalking horse' for another country.

V: Yes

HMjr: Now this is what we're thinking of now.

V: Yes

HMjr: That we'll say to them, 'Yes, you can have it because Sterling is above five dollars, but we want a call on you - '

V: Yes

HMjr: ' - for five million dollars worth of gold if and when Sterling goes to four-ninety'.

V: At what price?

HMjr: Sterling at - well, it would work out thirty-five dollars less a quarter.

V: In other words you want a right of repurchase at the same price?

HMjr: Yes

V: Well, of course they'll say that's not a sale. And I'd say, - I'd say, 'No'. I'd say that - that we don't see what advantage --

HMjr: Hello?

V: Hello

HMjr: Yes

V: I'd say that we don't see what advantage there is to the World at large in allowing unstabilized currencies to operate on stabilized currencies. - And that - I would say that it was, for the time being at least, the policy of the United States to announce these sales only to countries of stabilized currency.

HMjr: Yes

V: And use the word 'stabilize', don't use 'gold standard'. That would be an awful - you see?

HMjr: Well --

V: Get me?

HMjr: Yes - I don't know whether I agree, but I'll -

V: Well, don't you see? - remember? - I don't know whether you remember the argument I had there, that - we want, after all we want stabilization of exchanges -

HMjr: Yes

V: - throughout the World.

HMjr: Yes

V: And there is no - there is no incentive to it to a country that, like Norway or like England, as long as they know that they can always stabilize without agreement if they want to by fixing the price of gold. And then they have free access to our gold.

HMjr: Yes, but supposing they'll give us a call on their gold?

V: Oh well, they won't do it. You see, after all, what do they want it for - that isn't a real purchase, you see? If you had a repurchase agreement you don't really - you've got to finish it - what you have and you don't know how long you can keep it.

HMjr: Yes

V: And that would be a physical refusal and they'll wonder - I mean it doesn't - I don't see that it means anything. I'd say that wasn't a genuine sale.

HMjr: Yes - Well now, I'll wait until they come back and you might - hello?

V: Yes

HMjr: You might be writing out in pencil some kind of an answer that we could give them.

V: All right, all right - I'll be down there, you know, Monday morning.

HMjr: I know, but these things have just broken now.

V: Yes - I would hold them off in any case. And
I'll - I'll --

HMjr: Well, I won't give them an answer until I've talked
to you again.

V: All right, I wish you wouldn't because you're
opening the door, you see?

HMjr: Yes

V: This is a small country and a practically unimportant
transaction.

HMjr: Yes

V: But you want to watch out for a general principle

HMjr: Yes

V: And, in a way, you know, it would - if they were
refused and if a good reason was given for their
refusal and that got to be known -

HMjr: Yes

V: - it would be an important factor in letting the
World know just where we stand.

HMjr: When you get those names you'd better call me back
because I'm going to see the President tomorrow
morning. Call me back collect this afternoon.

V: All right, I'll call you back collect this afternoon.

HMjr: O. K.

V: All right.

HMjr: Goodbye.

Monday
August 24, 1936
3:45 p. m.

HMjr: Hello
Jacob
Viner: Jake speaking
HMjr: How are you?
V: Viner speaking -
HMjr: Yes
V: I want to give you some names.
HMjr: All right.
V: Are you writing them down?
HMjr: Yes
V: Fagan - Professor Fagan of Stanford University -
HMjr: How do you spell that?
V: F-a-g-a-n
HMjr: Yes
V: But there are two Fagans, one of them is in the
field of Public Finance -
HMjr: And which one is this?
V: Well I don't know the initials now but Haas will
be able to tell you.
HMjr: Well, which one is this?
V: This is the one that's in the field of Public Finance.
HMjr: Public Finance?
V: Yes
HMjr: Yes
V: F-a-g-a-n - I took it for granted that you want
distribution over the country.
HMjr: Correct

-2-

V: - Stanford University -
HMjr: Yes
V: Haig at Columbia -
HMjr: Who?
V: Haig -
HMjr: Haig at Columbia?
V: Yes
HMjr: Yes
V: Beuhler - B-e-u-h-l-e-r
HMjr: Yes
V: - at Vermont
HMjr: Vermort?
V: Luther Gulick -
HMjr: Luther Gulick?
V: He's on the President's Reorganization Committee.
HMjr: Yes
V: Merriam of Chicago
HMjr: How do you spell that?
V: M-e-r-r-i-a-m
HMjr: Well he's on the President's -
V: He's on the National Resources Board.
HMjr: Yes - Merriam of Chicago, yes -
V: Leland of Chicago -
HMjr: Leland of Chicago?
V: Yes . But Leland is a State Tax Commissioner, I don't know whether that makes any difference.

HMjr: No

V: Then - those are the professors.

HMjr: Yes

V: Then accountants -

HMjr: Who?

V: Accountants

HMjr: Accountants, yes

V: I can name two or three here from Chicago.

HMjr: Go ahead.

V: Eric Kohler, he's - he's my best bet.

HMjr: How do you spell that?

V: K-o-h-l-e-r

HMjr: Is that the same man that makes the bath-tubs?

V: No

HMjr: Yes

V: Eric - E-r-i-c

HMjr: Yes

V: He's a partner of And - Arthur Andersen, whom you know.

HMjr: Yes - he's with Arthur Andersen?

V: Yes - or Arthur Andersen

HMjr: Or Arthur Andersen?

V: Yes

HMjr: Yes

V: Or Himmelblau -

HMjr: Or Himmelblau?

V: Three first class men, -

HMjr: Right

V: I wouldn't take more than one from Chicago.

HMjr: Right

V: But for Eastern accountants you'll have to ask other people.

HMjr: Right

V: Then, as a labor man -

HMjr: Yes

V: John P. Frey of the Federation of Labor -

HMjr: John P. Frey?

V: F-r-e-y

HMjr: F-r-e-y?

V: He's a first class man.

HMjr: Yes

V: And then as a farmer -

HMjr: Farmer, yes -

V: John Watson

HMjr: John who?

V: Watson - W-a-t-s-o-n

HMjr: Never heard of him.

V: Well, he's - I think he has been President of the Illinois Agricultural Association -

HMjr: Yes

V: And he's a life-long student of taxation.

HMjr: Where is he located?

V: Somewhere down-state in Illinois.

HMjr: Illinois -

V: And he's a very level headed fellow.

HMjr: Yes

V: And you want to get a farmer like that on it.

HMjr: Yes yes - that's right.

V: Then a business man - I have a few names.

HMjr: Yes

V: H. L. Moekle

HMjr: How do you spell it?

V: M-o-e-k-l-e

HMjr: Yes

V: He's the tax man of the Ford Motor Company.

HMjr: Oh -

V: But he's a - he's a very good man.

HMjr: Yes

V: He's a - I've checked up with two persons here in town -

HMjr: Yes

V: He's a fellow with ideas and in any case you wanted an Advisory Board you see?

HMjr: That's right.

V: So that he's worth considering.

HMjr: That's right.

V: Then there is R. C. Beckett -

HMjr: R. C. Beckett?

V: He's the tax attorney for the Illinois Central Railroad.

HMjr: How do you spell that?

V: Beckett? - B-e-c-k-e- double t
HMjr: Yes - Illinois Central Railroad?
V: Yes
HMjr: Yes
V: Then there is another professor -
HMjr: Yes
V: Samuel May
HMjr: Samuel May?
V: M-a-y
HMjr: Yes
V: University of California
HMjr: Yes
V: He's a Political Scientist.
HMjr: I see.
V: It'll help you to get distribution, you see?
HMjr: Yes
V: All of these are suggestions - I - then also
a practicing lawyer -
HMjr: Yes
V: - who knows a great deal about taxes -
HMjr: Yes
V: That's Randolph Paul
HMjr: How do you spell that?
V: P-a-u-l
HMjr: Yes
V: New York City

HMjr: Yes

V: He's written a big book on the income tax.

HMjr: Has he?

V: Yes

HMjr: Well, they sound awfully good.

V: I think those are pretty good names and you'll get others from other sources.

HMjr: Right - and - we haven't heard yet from Norway.

V: You haven't?

HMjr: No

V: All right.

HMjr: Thank you, Jake.

V: You're welcome.

HMjr: Goodbye

V: Will you tell them to charge that to you? There was some misunderstanding at the phone.

HMjr: I'll have that done.

V: All right.

HMjr: Thank you.