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JIL

PLAIN

STOCKHOLM

Dated July 6, 1940.

Rec'd 11:38 a.m., July 7

Secretary of State

Washington

708, sixth.

Swedish Norwegian trade agreement signed presumably clearing but details later. New companies registered second quarter 182 capitalized 8.416 million crowns compared 272 and 15.1 year ago. National debt June 30 this year 3,625 million compared 2,634 year ago and state loans now outstanding 2238. Reference our 691, funds due Belgium et cetera this temporary blocking awaiting clarification and envisaging later clearing agreements those areas. Two new German trucks on this market A 21 horsepower 1250 kilos capacity "titan" and 14 horsepower 750 kilos "atlet".

Inform Commerce.

STERLING

NPL

*st*

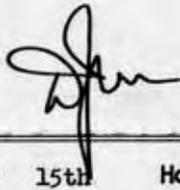
TRANSMITTAL SLIP

✓  
2

To: Room 280, Treasury Department

REMARKS:

Copy of cablegram forwarded in accordance  
with telephone communication of this date.



MONTH July DAY 15th HOUR

CAPTAIN D. J. MARTIN  
ART'Y. DIV., MFG. SERVICE  
MUN. 3708, EXT. 2110

COPIES

CABLEGRAM

3

JUL 10 1940  
OFFICE CHIEF OF STAFF  
MIL. INTEL. DIV.  
2706-20  
155  
WAR DEPARTMENT

BFS

July 6, 1940

WAW 14

12:40 P.M.

From London,

To MILID

Number 316. July 6th.

X

X

X

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Paragraph 2. Reference your 1046. Beaverbrook has informed Ambassador that he has finally arranged to send complete plans Mark two cannon consigned to the President. Ambassador requests that Secretary of Treasury Morgenthau be informed above facts and suggest you explain at the same time these plans are for the Army Ordnance Department. Beaverbrook's original plan was to send a gun as well but there are two in existence one here and one lost in France. If sample mark is desired it can be furnished otherwise he offers to make a third Mark two and send it when completed. Please advise.

Lee.

INTELLIGENCE DEPARTMENT

84 8 AM 21 JUL 1940

SECRETARY OF THE ARMY  
OFFICE

280



HEADQUARTERS

*Secret*

ADDRESS THE COMMANDANT, U. S. COAST GUARD  
AND REFER TO NO. SECRET

## TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

6 July 1940.

MEMORANDUM TO ASSISTANT SECRETARY GASTON:

Subject: Transfer of Field Trucks and certain associated  
Radio Equipment to the Navy Department.

1. The Navy Department has verbally requested that two Field Trucks (Special wooden bodied Intelligence Trucks), two general duty radio receivers, two small 20 watt transmitters and two special high frequency direction finders be transferred to the Navy with appropriate reimbursement to the Coast Guard.

2. On Friday, July 5th, the Navy Department requested that the above equipment be delivered to the Navy Department as soon as possible and in advance of an official written request. On this date a telephone request was received to withhold delivery until further notice as some difficulties have developed with their present plans.

3. It is understood, unofficially, that the Navy Department has been directed by the President to send men and equipment to South America for the purpose of locating unlawfully operated radio stations. As they do not have proper equipment available for this purpose they are requesting Coast Guard assistance.

4. As far as I know Secretary Morgenthau has not been advised of this matter.

R. R. WAESCHE.

MEMORANDUM

July 6, 1940

Re: Amortization for Income Tax  
Purposes of Emergency  
Facilities

## I

PROPRIETY OF RAPID AMORTIZATION OF EMERGENCY  
FACILITIES1. Sound Accounting

Price, so far as possible within the competitive framework, includes a charge for the constant decrease in value of productive facilities. Tax policy recognizes this fact by permitting as a deduction from gross income the loss in value occasioned by ordinary wear and tear and obsolescence: a portion of total receipts is thus regarded as a return of capital rather than as profit or taxable income. The large depletion deductions allowed in extractive industries emphasize the same principle. Although the useful life of new facilities presently required will be largely determined not by the operation of physical forces and obsolescence but by the period of emergency, it nevertheless seems wholly appropriate to make similar provision for amortizing the cost of such facilities during the emergency years. If emergency facilities are denied full amortization an absurdity will result -- taxes, intended to be levied on profits, will be imposed on costs.

2. Price Stabilization

Refusal to make provision for this extraordinary obsolescence may affect the price structure in at least three ways:

- (a) Unless amortization rates are fixed before contracts are let, uncertainty will lead the producer to inflate price in order to cover the risk which such uncertainty entails. Thus an element of instability is added to the price structure.

- (b) If rapid amortization is denied, the producer will seek to inflate price to cover the amount of the tax. Thus the tax will add little or nothing to net revenue.
- (c) By refusing to allow deductions for amortizing cost, the Government will be lending its sanction to what may well be gross overstatement of profits and the spiraling of prices. As World War experience has shown, this in turn generally leads to over-expansion of plant, excessive accumulation of inventories, excessive dividends and particularly speculative excesses in stock and commodity prices. Thus the difficulties of the corrective period which must inevitably follow the emergency will be gravely, perhaps dangerously, accentuated.

The effect of price instability on fiscal policy need not be emphasized.

### 3. World War Precedent

The need for emergency amortization was clearly recognized during the World War. Then the Treasury chose to operate through tax refunds after the War rather than through tax deductions during the War. Today Government and business are both eager to profit by our experience and, so far as possible, to avoid the costs, delays, and bitterness rooted in the uncertainties of our 1918 policy.

## II

### OPERATION OF PROPOSED STATUTE

#### 1. Basic Principle

If the precise period of the emergency could be determined, amortization of cost would offer no difficulty. It would be easy and fair to amortize over the known useful life of the property. But the length of the emergency cannot be determined at this time, so a choice must be made between postponing the day of settlement and dealing with the problem now. In our view the latter course is preferable. Four years is our best judgment as to the period of emergency; we propose, therefore, 25% per annum as the maximum rate of amortization.

2. Readjustments

If the emergency ends before the expiration of the four-year period, the bill recommends that the taxpayer be permitted to reallocate the amortization of cost over the period between the date of construction and the end of the emergency. This is important because until capital is recovered there can be no profits or taxable income. If the emergency ends in less than four years, therefore, some readjustments may be required.

3. Flexibility

Within the four-year period the taxpayer is not forced to deduct 25% each year, but is permitted to allocate his deductions over the four-year period so that no more than 50% is taken during the first two years, and no more than 75% during the first three years. This measure of flexibility is accorded in order to permit the taxpayer to relate his deductions to his profits. The exigencies of production may prevent profits until the second or even the third year. A more rigid rule might penalize the producer for circumstances beyond his control.

4. Certificate of Advisory Commission

No taxpayer can avail himself of the benefits of the Act unless prior to the date of construction he has obtained a certificate from the Advisory Commission stating that the proposed facilities are necessary or desirable in the interests of national defense during the emergency. Discretion is lodged with the Commission to issue certificates with reference to facilities already constructed or in process.

III

ADVANTAGES

1. It will get the emergency facilities built. On this point there can be no dispute.
2. It will enlist private capital, thereby conserving public credit.
3. It is logically related to the period of emergency. The only question can be as to our judgment regarding the

length of this period. The difference in unit cost of the ultimate product as between four years on the one hand, and three or five years on the other, will be slight. Where turn-over of capital takes place five times a year, the difference between 6 $\frac{1}{2}$ % depreciation and 25% depreciation and amortization will increase the cost of the product by about 4%. Therefore, if three years or five years should be used rather than four, there would be a variation in the selling price of only about 1%.

4. It will operate swiftly. By this criterion any proposal which would permit amortization rates to be negotiated in each case as an element of the procurement contract is dangerously vulnerable.
5. It is definite and certain, and will be so recognized by business. It will avoid the costly and protracted litigation which resulted from the post-emergency settlement policy during the World War. With amortization rates clearly determined, prices and price policies can be fixed and contracts closed.
6. It will not encroach on Treasury revenues. Assuming a privately financed three billion dollar program over a four year period, annual income tax receipts during the emergency will be lessened by not more than \$125,000,000. But even this relatively small amount will not necessarily be lost to the Government:
  - (a) Because the expenditure of three billion dollars will currently generate taxable income in other hands;
  - (b) Because after these deductions are consumed, larger profits will be available for excess profits and other income taxation;
  - (c) Because many will assume -- with good reason -- that tax rates are likely to be increased during and after the emergency, and for this reason will choose to amortize over a longer period than four years;
  - (d) Because the impulse to pay larger dividends during the emergency may well be sufficiently strong to induce management to take smaller deductions, thus freeing larger sums for distribution to stockholders.

*Final Draft*

c-E

Sec. \_\_\_\_\_ AMORTIZATION OF COST OF DEFENSE FACILITIES, etc.

Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following:

(t) Amortization of Cost of Defense Facilities, etc.

(1) When used in this section, unless the context otherwise requires --

(A) "Emergency facilities" means buildings, machinery, equipment, or any other capital improvements.

(B) "Constructed" means constructed, erected, converted, installed, or acquired.

(C) "Advisory Commission" means the Advisory Commission to the Council of National Defense.

(2) In the case of emergency facilities constructed on or after the emergency declared by the President on September 8, 1939, and during the continuance of such emergency, the taxpayer may deduct for amortization of the cost of such emergency facilities an amount equal to the cost thereof, or of the cost of construction, as the Advisory Commission may determine, which amount the taxpayer may allocate over the first four year taxable period, or over any longer period which does not exceed the estimated normal useful life of such emergency facilities, commencing from the date of construction, at a rate not exceeding 25% of such cost for the first taxable year, 50% for the first and second taxable years, and 75% for the first, second and third taxable years; provided that any deduction so made shall not thereafter be revised by the taxpayer, except as provided in paragraph (4). Deductions made pursuant to this section shall be reflected in the taxpayer's books of account, in his reports to shareholders and in his reports to any governmental agency.

(3) This section shall not apply unless prior to the construction of such emergency facilities the taxpayer has obtained a certificate from the Advisory Commission that such emergency facilities are necessary or desirable in the interest of national defense during the emergency. If such emergency facilities have been constructed prior to the issuance of such certificate, the Advisory Commission, in its discretion, may certify that such emergency facilities shall be within the scope of this provision.

(4) If the emergency declared by the President on September 8, 1939, shall be ended before the expiration of four taxable years, the taxpayer, at his option, shall be entitled to re-allocate the amortization of the cost of such emergency facilities over the period between the date of construction and the end of the emergency.

(5) The amortization allowance herein provided shall be inclusive of depreciation but exclusive of any other allowable deductions provided for under the various Chapters and Sub-chapters of the Internal Revenue Code, and shall be allowed as a deduction in determining net income subject to income, excess-profits, and other taxes thereunder.

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2<sup>nd</sup> suggestion

MEMORANDUM

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- 2 -

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5. It is definite and certain, and will be so recognized by business. It will avoid the costly and protracted litigation which resulted from the post-emergency settlement policy during the World War. With amortization rates clearly determined, prices and price policies can be fixed and contracts closed.
6. It will not encroach on Treasury revenues. Assuming a privately financed three billion dollar program over a four year period, annual income tax receipts during the emergency will be lessened by not more than \$125,000,000. But even this relatively small amount will not necessarily be lost to the Government:
  - (a) Because the expenditure of three billion dollars will currently generate taxable income in other hands;
  - (b) Because after these deductions are consumed, larger profits will be available for excess profits and other income taxation;
  - (c) Because many will assume -- with good reason -- that tax rates are likely to be increased during and after the emergency, and for this reason will choose to amortize over a longer period than four years;
  - (d) Because the impulse to pay larger dividends during the emergency may well be sufficiently strong to induce management to take smaller deductions, thus freeing larger sums for distribution to stockholders.

9

Sec. \_\_\_\_\_ AMORTIZATION OF COST OF DEFENSE FACILITIES, etc.

Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following:

(t) Amortization of Cost of Defense Facilities, etc.

(1) When used in this section, unless the context otherwise requires --

(A) "Emergency facilities" means buildings, machinery, equipment, or any other capital improvements.

(B) "Constructed" means constructed, erected, converted, installed, or acquired.

(C) "Advisory Commission" means the Advisory Commission to the Council of National Defense.

(2) In the case of emergency facilities constructed on or after the emergency declared by the President on September 8, 1939, and during the continuance of such emergency, the taxpayer may deduct for amortization of the cost of such emergency facilities an amount equal to the cost thereof, or of the cost of construction, as the Advisory Commission may determine, which amount the taxpayer may allocate over the first four year taxable period, or over any longer period which does not exceed the estimated normal useful life of such emergency facilities, commencing from the date of construction, at a rate not exceeding 25% of such cost for the first taxable year, 50% for the first and second taxable years, and 75% for the first, second and third taxable years; provided that any deduction so made shall not thereafter be revised by the taxpayer, except as provided in paragraph (4). Deductions made pursuant to this section shall be reflected in the taxpayer's books of account, in his reports to shareholders and in his reports to any governmental agency.

(3) This section shall not apply unless prior to the construction of such emergency facilities the taxpayer has obtained a certificate from the Advisory Commission that such emergency facilities are necessary or desirable in the interest of national defense during the emergency. If such emergency facilities have been constructed prior to the issuance of such certificate, the Advisory Commission, in its discretion, may certify that such emergency facilities shall be within the scope of this provision.

(4) If the emergency declared by the President on September 8, 1939, shall be ended before the expiration of four taxable years, the taxpayer, at his option, shall be entitled to re-allocate the amortization of the cost of such emergency facilities over the period between the date of construction and the end of the emergency.

(5) The amortization allowance herein provided shall be inclusive of depreciation but exclusive of any other allowable deductions provided for under the various Chapters and Sub-chapters of the Internal Revenue Code, and shall be allowed as a deduction in determining net income subject to income, excess-profits, and other taxes thereunder.

July 6, 1940

**MEMORANDUM**

**Re: Amortization for Income Tax  
Purposes of Emergency  
Facilities**

## I

**PROBABILITY OF RAPID AMORTIZATION OF EMERGENCY  
FACILITIES**

**1. Sound Accounting**

Price, so far as possible within the competitive framework, includes a charge for the constant decrease in value of productive facilities. Tax policy recognizes this fact by permitting as a deduction from gross income the loss in value occasioned by ordinary wear and tear and obsolescence: a portion of total receipts is thus regarded as a return of capital rather than as profit or taxable income. The large depletion deductions allowed in extractive industries emphasize the same principle. Although the useful life of new facilities presently required will be largely determined not by the operation of physical forces and obsolescence but by the period of emergency, it nevertheless seems wholly appropriate to make similar provision for amortizing the cost of such facilities during the emergency years. If emergency facilities are denied full amortization an absurdity will result -- taxes, intended to be levied on profits, will be imposed on costs.

**2. Price Stabilization**

Refusal to make provision for this extraordinary obsolescence may affect the price structure in at least three ways:

- (a) Unless amortization rates are fixed before contracts are let, uncertainty will lead the producer to inflate prices in order to cover the risk which such uncertainty entails. Thus an element of instability is added to the price structure.

- 2 -

- (b) If rapid amortization is denied, the producer will seek to inflate prices to cover the amount of the tax. Thus the tax will add little or nothing to net revenues.
- (c) By refusing to allow deductions for amortizing cost, the Government will be lending its sanction to what may well be gross overstatement of profits and the spiraling of prices. As World War experience has shown, this in turn generally leads to over-expansion of plant, excessive accumulation of inventories, excessive dividends and particularly speculative excesses in stock and commodity prices. Thus the difficulties of the corrective period which must inevitably follow the emergency will be gravely, perhaps dangerously, accentuated.

The effect of price instability on fiscal policy need not be emphasized.

### 3. World War Precedent

The need for emergency amortization was clearly recognized during the World War. Then the Treasury chose to operate through tax refunds after the War rather than through tax deductions during the War. Today Government and business are both eager to profit by our experience and, so far as possible, to avoid the costs, delays, and bitterness rooted in the uncertainties of our 1918 policy.

## II

### OPERATION OF PROPOSED STATUTE

#### 1. Basis Principia

If the precise period of the emergency could be determined, amortization of cost would offer no difficulty. It would be easy and fair to amortize over the known useful life of the property. But the length of the emergency cannot be determined at this time, so a choice must be made between postponing the day of settlement and dealing with the problem now. In our view the latter course is preferable. Four years is our best judgment as to the period of emergency; we propose, therefore, 25% per annum as the maximum rate of amortization.

- 3 -

**2. Readjustments**

If the emergency ends before the expiration of the four-year period, the bill recommends that the taxpayer be permitted to reallocate the amortization of cost over the period between the date of construction and the end of the emergency. This is important because until capital is recovered there can be no profits or taxable income. If the emergency ends in less than four years, therefore, some readjustments may be required.

**3. Flexibility**

Within the four-year period the taxpayer is not forced to deduct 25% each year, but is permitted to allocate his deductions over the four-year period so that no more than 50% is taken during the first two years, and no more than 75% during the first three years. This measure of flexibility is accorded in order to permit the taxpayer to relate his deductions to his profits. The exigencies of production may prevent profits until the second or even the third year. A more rigid rule might penalize the producer for circumstances beyond his control.

**4. Certificate of Advisory Commission**

No taxpayer can avail himself of the benefits of the Act unless prior to the date of construction he has obtained a certificate from the Advisory Commission stating that the proposed facilities are necessary or desirable in the interests of national defense during the emergency. Discretion is lodged with the Commission to issue certificates with reference to facilities already constructed or in process.

**III****ADVANTAGES**

1. It will get the emergency facilities built. On this point there can be no dispute.
2. It will enlist private capital, thereby conserving public credit.
3. It is logically related to the period of emergency. The only question can be as to our judgment regarding the

- 4 -

length of this period. The difference in unit cost of the ultimate product as between four years on the one hand, and three or five years on the other, will be slight. Where turn-over of capital takes place five times a year, the difference between 6 2/3% depreciation and 29% depreciation and amortization will increase the cost of the product by about 4%. Therefore, if three years or five years should be used rather than four, there would be a variation in the selling price of only about 1%.

4. It will operate swiftly. By this criterion any proposal which would permit amortization rates to be negotiated in each case as an element of the procurement contract is dangerously vulnerable.
5. It is definite and certain, and will be so recognized by business. It will avoid the costly and protracted litigation which resulted from the post-emergency settlement policy during the World War. With amortization rates clearly determined, prices and price policies can be fixed and contracts closed.
6. It will not encroach on Treasury revenues. Assuming a privately financed three billion dollar program over a four year period, annual income tax receipts during the emergency will be lessened by not more than \$125,000,000. But even this relatively small amount will not necessarily be lost to the Government:
  - (a) Because the expenditure of three billion dollars will currently generate taxable income in other hands;
  - (b) Because after these deductions are consumed, larger profits will be available for excess profits and other income taxation;
  - (c) Because many will assume -- with good reason -- that tax rates are likely to be increased during and after the emergency, and for this reason will choose to amortize over a longer period than four years;
  - (d) Because the impulse to pay larger dividends during the emergency may well be sufficiently strong to induce management to take smaller deductions, thus freeing larger sums for distribution to stockholders.

Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following:

(1) Amortization of Cost of Defense Facilities, etc.

(1) When used in this section, unless the context otherwise requires --

(A) "Emergency facilities" means buildings, machinery, equipment, or any other capital improvements,

(B) "Completed" means constructed, erected, converted, installed, or acquired,

(C) "Advisory Commission" means the Advisory Commission to the Council of National Defense.

(2) In the case of emergency facilities constructed on or after the emergency declared by the President on September 8, 1939, and during the continuance of such emergency, the taxpayer may deduct for amortization of the cost of such emergency facilities an amount equal to the cost thereof, or of the cost of construction, as the Advisory Commission may determine, which amount the taxpayer may allocate over the first four year taxable periods or over any longer period which does not exceed the estimated normal useful life of such emergency facilities, commencing from the date of construction, at a rate not exceeding 2 1/2% of such cost for the first taxable year, 50% for the first and second taxable years, and 7 1/2% for the first, second and third taxable years; provided that any deduction so made shall not thereafter be revised by the taxpayer, except as provided in paragraph (4). Deductions made pursuant to this section shall be reflected in the taxpayer's books of account, in his reports to shareholders and in his reports to any governmental agency.

(3) This section shall not apply unless prior to the construction of such emergency facilities the taxpayer has obtained a certificate from the Advisory Commission that such emergency facilities are necessary or desirable in the interest of national defense during the emergency. If such emergency facilities have been constructed prior to the issuance of such certificate, the Advisory Commission, in its discretion, may certify that such emergency facilities shall be within the scope of this provision.

(4) If the emergency declared by the President on September 8, 1939, shall be ended before the expiration of four taxable years, the taxpayer, at his option, shall be entitled to re-allocate the amortization of the cost of such emergency facilities over the period between the date of construction and the end of the emergency.

(5) The amortization allowance herein provided shall be inclusive of depreciation but exclusive of any other allowable deductions provided for under the various Chapters and Subchapters of the Internal Revenue Code, and shall be allowed as a deduction in determining net income subject to income, excess-profits, and other taxes thereunder.

See. \_\_\_\_\_ AMORTIZATION OF COST OF DEFENSE FACILITIES, etc.

Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following:

(b) Amortization of Cost of Defense Facilities, etc.

(1) That used in this section, unless the context otherwise requires —

(A) "Emergency facilities" means buildings, machinery, equipment, or any other capital improvements.

(B) "Constructed" means constructed, erected, converted, installed, or acquired.

(C) "Advisory Commission" means the Advisory Commission to the Council of National Defense.

(2) In the case of emergency facilities constructed on or after September 8, 1939, necessary or desirable in the interest of national defense, and during the continuance of the emergency declared by the President on September 8, 1939, the taxpayer may deduct for amortization of the cost of such emergency facilities an amount equal to the cost thereof, or of the cost of construction, as the Advisory Commission may determine, which amount the taxpayer may allocate over any period, commencing any date, which amount the taxpayer does not exceed the estimated normal useful life of such emergency facilities, at a rate not exceeding 25% of such cost for the first taxable year, 50% for the first and second taxable years, and 75% for the first, second and third taxable years; provided that any deduction so made shall not thereafter be reduced by the taxpayer, except as provided in paragraph (4). Deductions made pursuant to this section shall be reflected in the taxpayer's books of account, in his reports to shareholders and in his reports to any governmental agency.

(3) This section shall not apply unless prior to the construction of such emergency facilities the taxpayer has obtained a certificate from the Advisory Commission that such emergency facilities are necessary or desirable in the interest of national defense during the emergency. If such emergency facilities have been constructed prior to the issuance of such certificate, the Advisory Commission, in its discretion, may certify that such emergency facilities shall be within the scope of this provision.

(4) If the emergency declared by the President on September 8, 1939, shall be ended before the expiration of four taxable years, the taxpayer, at his option, shall be entitled to re-allocate the amortization of the cost of such emergency facilities over the period between the date of construction and the end of the emergency.

(5) The amortization allowance herein provided shall be in depreciation but exclusive of any other allowable deductions provided the various Chapters and Subchapters of the Internal Revenue Code, and be allowed as a deduction in computing taxable income subject to taxes profits, and other taxes thereunder.



DEPARTMENT OF STATE  
WASHINGTON

July 6, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram no. 1592 of July 5, 1940 to the American Embassy at London.

Enclosure:

To London, no. 1592,  
July 5, 1940.

TO THE SECRETARY OF STATE  
RECEIVED JULY 11 1940  
OFFICE OF THE  
SECRETARY OF STATE  
JUL 11 1940  
RECEIVED  
OFFICE OF THE SECRETARY OF STATE

MA

TELEGRAM SENT

GRAY

July 5, 1940

2 p.m.

AMELBASSY

LONDON.

1592.

FROM THE SECRETARY OF THE TREASURY.

Reference your number 1969, July 4. Working  
on Beaverbrook's request. Hope to have answer in  
day or two.

HULL

(HF)

EA:HF:EB



DEPARTMENT OF STATE  
WASHINGTON

July 6, 1940.

The Secretary of State presents his compliments  
to the Honorable the Secretary of the Treasury,  
and encloses one copy of paraphrase of telegram  
No. 2028 of July 6 from London.

**PARAPHRASE OF TELEGRAM RECEIVED****FROM: American Embassy, London, England****DATE: July 6, 1940, 3 p.m.****NO.: 2028****FOR SECRETARY HULL AND SECRETARY MORGENTHAU.  
FROM AMBASSADOR KENNEDY.**

I just had a telephone call from Montagu Norman. He asked whether I had received a reply to my telegram to the Department of July 1, 7 p.m., No. 1914. He asked particularly about the question in numbered paragraph two.

Mr. Norman said that today 19 million dollars had been called by the National City Bank. Accordingly, it was urgent that the Bank of England should know where matters stood.

An early reply would be appreciated.

KENNEDY.

EA:LW

THE ASSISTANT SECRETARY OF THE NAVY  
WASHINGTON

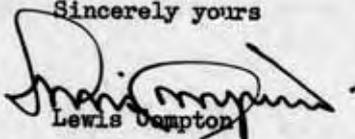
6 July 1940

My dear Mr. Secretary:

Thank you so much for your letter of 27 June 1940 in which you commend Rear Admiral Furlong, Chief of the Bureau of Ordnance, for his efficient cooperation with the Treasury Department. Your thoughtfulness in writing is sincerely appreciated and I am pleased to learn that the Admiral was of assistance to you.

With kind personal regards, I remain

Sincerely yours



Lewis Dampson

Honorable Henry Morgenthau, Jr.  
The Secretary of the Treasury

In reply refer to Initials  
and No.

NAVY DEPARTMENT  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
WASHINGTON

6 July 1940

My dear Mr. Morgenthau:

This will acknowledge receipt by  
Admiral Stark of confidential reports, Part I -  
Airplanes, and Part II - Airplane Engines, which  
information carries through June 29.

Yours sincerely,

  
W.R. Smedberg, III,  
Lieutenant, U.S. Navy,  
Aide to Admiral Stark.

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

RECEIVED  
JUL 11 1940  
NAVY DEPARTMENT  
WASHINGTON, D.C.



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
Co 711.00111 N.M.C.B./136

July 6, 1940

My dear Mr. Secretary:

I acknowledge the receipt of your letter of July 2, 1940, in which you informed me of the designation of Mr. Philip Young, Assistant to the Secretary, to represent you in connection with your duties as a member of the National Munitions Control Board.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

RECEIVED  
JUL 10 1940  
U.S. DEPARTMENT OF STATE

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON

July 6, 1940.

Dear Mr. Morgenthau:

Thank you for sending the reports on airplanes and airplane engines as follows:

Part I - Airplanes

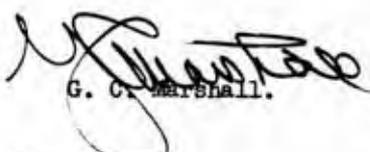
Deliveries of and New Orders for Airplanes, May 1 - June 29, 1940; Unfilled Orders and Estimated Deliveries on June 29, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane Engines, May 1 - June 29, 1940; Unfilled Orders and Estimated Deliveries on June 29, 1940.

These tables have been transmitted to the proper agencies for their use.

Faithfully yours,



G. C. Marshall.

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

15 BROAD STREET, NEW YORK



TELEPHONE HANOVER 2-2460

24

**BRITISH PURCHASING COMMISSION**

July 6, 1940.

Dear Mr. Secretary:

Arrangements have been made with the U. S. Naval Attache in London for the embarkation of U. S. Naval observers to certain of His Majesty's ships including fleet flotillas.

The object of this letter is merely to record that we have official cable advice that everything is being attended to.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Arthur B. Brown".

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

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) La Bourboule, France

DATE: July 6, 1940, 9 p.m.

Rec'd 10:55 a.m. 8th.

NO.: 27

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

This morning I drove over to see Cariguel at Clermont Ferrand. Cariguel told me that Fournier, the Bank of France Governor, was deeply appreciative of the message from the New York Federal Reserve Bank which you conveyed in telegram No. 13 of July 2, 7 p.m., from the Department, and of our interest in the Bank of France's behalf. Cable exchanges with the Federal Reserve he said are now proceeding satisfactorily, though in transit there is a delay of 24 hours.

A Bank of France official who had come from Paris said that Cariguel told him that in the occupied territory feeling against the Bank of France was rising at a dangerous rate. This was due to the Bank's failure and that of the large French banks to maintain anything like an adequate supply of bank notes in that territory. There might be "danger of bank looting" unless immediate steps were taken for remedying this situation. As a result of this, tomorrow morning the Governor of the Bank of France, Fournier, was to head a convoy of several hundred Bank employees, and of other large French banks, with five billion francs of currency to take back to Paris.

END SECTION ONE.

BULLITT.

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 27 OF JULY 6,  
1940 FROM (PARIS) LA BOURBOULE, FRANCE.

Note: Arrangements had been made for the departure of this convoy several days ago, but they had not actually set out owing to the incredible confusion which exists today in all governmental departments in France, since ministries are scattered all over this area and often they do not have any means of communication with each other.

For the time being, Cariguel said, he would remain in the unoccupied territory at Clermont. All foreign exchange dealings are to be cleared from this point. The Office des Changes is to remain at Chatel Guyon. The Federal Reserve has been sent cables revoking several signatures, among them that of the Secretary General, who is going back to Paris.

Cariguel said that foreign exchange transactions, of course, are at a minimum now and have been confined to dollars for the most part. However, he made mention that authorization was given yesterday for certain commercial payments in dollars for a total amount somewhat in excess of a half-million in dollars. Dealings in sterling are no longer made by the Bank. The Bank of France "has no relations" with the Bank of England, under present circumstances.

Cariguel

- 2 -

Cariguel said that for the present the Bank of France would maintain the 43.70 to 43.90 official franc-dollar rate.

BULLITT.

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

20 JUN 50 11 32

RECEIVED  
TECHNICAL ASSISTANT

EA:LWW

PARAPHRASE OF SECTION THREE, TELEGRAM NO. 27 OF JULY 6,  
1940 FROM (PARIS) LA BOURBOULE

Cariguel did not have any knowledge of rates on the free market other than in Switzerland; he had heard that transactions of francs in French(?) at the equivalent of 80 to the dollar were being made.

Cariguel was of course much upset - as are all officials of the French Government with whom I have had conversations - by the "attack on the French Fleet" by the British. However, he was unwilling to forecast future developments at the present time. He said that there is rapidly growing use by Germans of "kreditkassenschein" good only in occupied zones. Conversion of these at the 20 francs per mark rate must be made by the Bank of France.

Couve de Murville had stayed on at Saumuris, as I reported previously. Today he is returning to Paris to take up currency and occupation payment problems with the German officials.

Boisanger is also returning to Paris; he had been in Wiesbaden.

I drove on to Chatel Guyon and saw Rueff after lunch. I could not see Governor Fournier, as he has gone on to Vichy from Clermont.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION FOUR, TELEGRAM NO. 27  
OF JULY 6, 1940, 9 p.m., FROM LA BOURBOULE.

Rueff gave indication that it was possible he, rather than Governor Fournier, might be in charge of the convoy back to Paris tomorrow. However, in view of the German attitude towards Rueff, I doubt this. Whoever goes will not stay more than a few days. They of course keenly desire to begin banking operations in Paris so that ordinary commercial needs and the requirements of the public in that area can be handled.

While I was with Rueff, he received word that at Moulins a small convoy of the personnel of the Bank of France and other banks was turned back by the German authorities. The latter stated that instructions to let the convoy through had not been given to them. Rueff said he did not know whether this was merely due to failure to make the necessary arrangements with the German authorities beforehand, or whether it was deliberate policy by the Germans so as to increase public antagonism to the Bank of France and other French banks, and to facilitate German currency circulation. However, previously he had had the impression that the Germans were eager to have the banks come back to Paris and begin operating.

Because of the aforementioned development, the plans for the convoy which was to leave tomorrow are left in the

air,

- 2 -

air, and some further slight delay may be experienced. This is a good example of the unbelievable confusion which today reigns in the unoccupied part of France. There are almost daily treks of Ministries on wheels from one small town to another, and after a few days lapse of time sometimes back to the first locality.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION FIVE, TELEGRAM NO. 27  
OF JULY 6, 1940, 9 p.m., FROM (PARIS) LA BOURBOULE.

There seemed to be doubt on the part of Rueff as to what the future relations of the Bank of France would be with us; he was eager to have news of our reaction to what has taken place recently. I was unfortunately unable to give him very much information, since we are so isolated here. Rueff was not even certain of what measures may have been taken by the United States to block French accounts. I explained a little how the United States had blocked accounts for other countries. It was "premature" now to take up questions of general licenses, he remarked. He assumed that there would be blocking of French gold in Great Britain and Canada. As for the exact amount involved he was not sure, but he said that it was "less than twenty billion francs".

Rueff was extremely depressed about the situation, and he seems to be one of the few officials of the French Government who realizes what has happened to France, and who does not indulge in wishful thinking about the future situation. Marshal Petain is a personal friend of Rueff's, and with the exception of Petain, Rueff, to put it mildly, has little regard for those who direct the destinies of France at the moment.

The Guaranty, Chase and National City Bank have their securities in territory which is not occupied, but the

holdings

- 2 -

holdings of Morgan are at Niort, in the occupied area. For the moment these four banks plan to maintain in effect their head offices in territory which is not occupied until the situation is somewhat clarified, although they will open business for local needs at Paris.

I was assured by both Gariguel and Rueff that as yet the Germans have made positively no demands with regard to French foreign exchange or gold, nor has the question been raised in any manner.

END OF MESSAGE.

BULLITT.

EA:LWW

## TREASURY DEPARTMENT

Washington

July 6, 1940 *see reply 7-17.*

My dear Mr. Secretary:

In connection with the administration of Executive Order No. 8389 of April 10, 1940, as amended, this Department is currently receiving a substantial number of applications for licenses which would permit the transfer to Norway, and in a few cases to the other countries covered by such Executive Order, of funds belonging to persons residing in this country, which funds are to be used for the support of relatives and friends in the countries covered by such Executive Order. In most of the cases the amount to be sent to any one person is not in excess of \$100 per month.

This Department would appreciate receiving the views of the Department of State with respect to the licensing of such transactions.

Very truly yours,

(Signed) D. W. Bell

Acting Secretary of the Treasury.

The Honorable,

The Secretary of State.

(COPY)

## COPY OF TELEGRAM SENT

TO: American Legation, The Hague, Netherlands  
NO.: 377  
DATE: July 6, 1940, 4 p.m.

The Department is receiving numerous inquiries from American citizens in regard to the status and protection of their interests in the Netherlands. These interests consist of bank deposits, real and personal property including merchandise on consignment and inheritances, insurance policies, accounts receivable, et cetera. Please telegraph any information now available which would be helpful to the Department in replying to these communications and keep the Department currently informed by telegram of important developments in this connection. In particular are there any conditions under which bank deposits or other funds such as cash values of insurance policies and securities, proceeds of estates, accounts receivable, et cetera, may be realized and (a) expended locally, or (b) transferred to the United States? If so please specify conditions and procedure.

The Department proposes to inform the appropriate consular officer from time to time of specific cases brought to its attention in which American citizens have interests in the Netherlands, and to request him to  
investigate

-2-

investigate and report the status thereof, and should occasion arise to extend such protection to the American interests involved as may be appropriate and feasible. Have you any suggestions or comment to make?

HULL (BL)

COPY: EA: EB

CONFIDENTIAL

G-2/2657-235

M.I.D., W.D.  
Tentative Lessons  
Bulletin No. 10  
July 6, 1940.

RECOMMENDATIONS OF A BRITISH OFFICER  
BASED ON EXPERIENCE IN THE BELGIAN  
CAMPAIGN

The information contained in this series of Bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

NOTE: The officer who submitted this memorandum is a major of Artillery in the British Army. He served as a regular officer of Field Artillery throughout the last war, resigned some years later, and was called back recently to active duty on the staff of the B.E.F. During the campaign in Belgium he was second in command of a regiment of light artillery.

1. Introduction.

The following recommendations summarizing our discussions are confined to those aspects of the recent warfare in Flanders of which I have had personal experience. They are amplified by our further discussions with Major General ----- Other aspects should be supplemented by the experience of other sections of the Army which have been omitted. The conclusions are largely limited to suggestions on equipment, because the most pressing problem in developing a larger United States Army is to ensure that it is provided with the right weapons. New tactics in the handling of mechanized units are only lightly touched upon. They cover a wider field and must be dealt with separately.

German successes were almost entirely due to the use of new armoured equipment and preponderance of aircraft. This must be countered by more aircraft, more armour and more tanks. All past wars have shown that surprise in new equipment has a considerable initial advantage, until it is countered with corresponding corrective.

CONFIDENTIAL

CONFIDENTIAL

Man for man, our infantry and gunners remained confident of their moral and fighting superiority on all occasions when the tactical situation enabled us to take the initiative. That is why, though forced to retire, the spirit of the B.E.F. remained undaunted. The proper equipment in the quantities needed alone are required to turn the scales.

The American Army, backed by the largest industrial plant in the world, should have a super-mechanized equipment, and never have to sacrifice its manhood for want of the proper weapons of warfare.

Incidentally, the Belgian campaign has killed one nonsensical, though popular, military theory of the moment, advocated so strongly by so-called military experts, like Captain Liddell Hart. This theory was that victory in the future would go to the Defence, owing to the preponderance of defensive weapons over those of the attack. This idea was widely accepted, and can be paralleled with the theories existing at the time of the erection of the Vauban fortifications - theories so easily shattered by Marlborough's campaigns in those same fields of Flanders and Picardy.

## 2. Artillery.

a. Field and Medium Artillery. A good field gun, combined with a 4.5 How. and a 6" How. should be the "bread and butter" artillery equipment of any modern army.

Field guns should have a range of between 13,000 and 14,000 yards, and the 6" between 16,000 and 20,000 yards.

The American Army appears to have excellent\* 4.5 Hows. with a range of about 12,000 yards, and lighter field guns, being old 75's reinforced with double trail and able to fire up to 10,000 yards.

It is only sensible, in view of the general shortage of equipment, to use up all the converted 75's, but it is strongly urged that the new British 25-pounder be adopted, as it certainly is the finest field gun in existence, with an accurate range up to 14,000 yards.

The 25-pounder was a great success, and the general blast was far more effective than that of the German field guns, and seemed more devastating than any field guns used in the

\* Reference is evidently made to the 105 mm Howitzer.

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last war. On one occasion, when ranging on a bridge and working the first shot out on the map, the first shell fell within 50 yards of the target - an example both of the accuracy of the gun and of the new methods of artillery surveying.

As the American 4.5 How. is well into production, it is suggested that an artillery regiment of 24 guns should be composed half of light field guns and half of 4.5 Hows. The How. has an advantage over the gun in that it involves no crest-clearing problem, so that it can be hidden away behind buildings, woods, etc.

There may be great advantage in the British taking over the American 4.5 How. design, which has a range of 12,500 yards. Our present 4.5 How. is a last-war design and has much too short a range (about 7,000 yards).

b. Range. The question of range is all-important.

(1) German medium guns have a range up to nearly 20,000 yards, and their field guns about 13,000 yards. Unless one has a long enough range, no counter battery activity is possible, and this is half the function of modern artillery.

(2) Long range is essential to give continuous artillery support in attack or retreat. A field gun firing 5 rounds per gun per minute, can fire off its whole supply of 160 rounds per gun (which it normally carries) in half-an-hour. Therefore, the solution is to dump ammunition at the gun position. This, however, is not possible if the guns have to be moved backwards or forwards during the course of the battle.

(3) The American Army has 155 mm. Hows., an adaptation of the last war's model. Its range appears, however, not to exceed 12,000 yards. This is insufficient, and it is suggested that it should adopt the new 5.5 British How., which has a range of around 17,000 yards and carries 100 lbs. shell. This gun has just gone into production and is supposed to be A.1.

c. Heavy Artillery.

In addition, there is great need of real heavy artillery, such as 8" and 12" Hows. There was no chance of using heavy guns in Flanders owing to the rapidity of movement. But concrete and strong fortified positions cannot be overcome except by real heavy artillery. The success of the tank must not blind one to the need of an overwhelming artillery superiority when frontal

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attacks, or attacks on fortified lines, are required. Therefore enormous production of artillery equipment should be put in hand. If double the quantity is ordered than seems likely to be needed, it will still be found to be short of requirements if needed in actual warfare.

d. Arms for Local Defense.

A large part of the artillery, though much superior in the power to the forward artillery of the enemy, retired without having an opportunity of much firing, though remaining extremely vulnerable owing to their lack of sufficient close defensive and anti-tank weapons. They thus suffered casualties out of proportion to their effective fire influence.

The artillery regiment and the regiments of other arms that are generally protected by a screen of forward troops, should be armed so as to be able, in case of necessity, to provide for their own defense.

During the retreat, we used to concentrate the (artillery) regiment in a small area instead of spreading out in width and depth, and chose a position rather because it offered good local protection against tanks or infantry infiltration, than because it was a good artillery position as such.

There should be far more Bren guns and anti-tank rifles for local defense. Each truck should carry a Bren gun or a tommy gun and anti-tank rifle.

Most of the O.P. tanks, advocated later, could be withdrawn at night for local anti-tank defense of battery positions, etc.

e. Need of Armoured O.P.'s.

More important than their own defense and survival, is the artillery capacity to bring effective fire on the enemy to assist infantry action.

Owing to the inability of obtaining observed fire, it often happened that, in large sections of the front, little artillery fire was brought to bear, even at moments when there was an overwhelming superiority of guns in the defense. In fairly stabilized warfare with a continuous front, each regiment has a zone allotted to it, and fires counter preparation or defensive fire tasks on certain agreed targets when called upon by the infantry

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or by S.O.S. flares. This was not practicable in the fast-moving warfare experienced recently.

Certain field regiments, therefore, evolved new tactics of their own. Out of touch with all higher formation, they fought the battle closely linked with local infantry battalions. Single troops (4 guns) would be sent forward by day ahead of the main positions. Ahead of them would be sent the Observation Party (O.P. party) who maintained themselves with leading infantry companies, and remained in touch with the forward troop and the main battery position by wireless. These tactics proved of great encouragement to the infantry. Tanks were taken on and forced to retire. Every forward move of the enemy was met by immediate fire. On the 25th May, my two battery commanders, on their own initiative, one south of the Foret de Nieppe, one to the northwest, kept in continuous contact with the enemy in this way for a whole day on the frontage of two divisions.

It is absolutely necessary that Observation Posts should be carried in strong armoured tanks. If these, equipped with wireless, can keep up with leading infantry advance or rear guards, they can bring the fire of guns many miles in the rear into immediate action.

Our regiments are allowed 2 Bren carriers per regiment (24 guns) for carrying O.P. or Forward Observation party. In the case of my regiment, these were shot up by tanks the first day. Henceforth we had to carry the wireless and O.F. party in a truck. Time after time these trucks had to be abandoned, as they could not get away under close machine gun fire, though sometimes their occupants were able to get away on foot.

Had we had armoured tank O.P.'s, our fire effectiveness would have been doubled and our casualties enormously lessened.

It is suggested that each troop of 4 guns have an armoured tank, armed with machine gun and light anti-tank gun, so that it could go forward and defend itself in the most forward localities. These are the eyes of a regiment. If one eye is able to be forward with the infantry at the right moment, it can bring the fire of the many thousands of rounds of the regiment to bear on a threatened part of the line. When Morbecque, north of the Foret de Nieppe, was evacuated by the infantry, two of our artillery officers who were in the village, were able to keep off the Germans for more than an hour, and break up their attacks through their continuous observed fire. Here, again, the wireless trucks

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had to be abandoned.

f. Aircraft for Local Artillery Cooperation.

Small aircraft able to observe from inside our lines over our own battery positions are strongly recommended. They can be produced cheaply in quantity and require no weapons of offence. They would alight immediately if attacked, protected by our own anti-aircraft arrangements. They would be attached to local units and be extra eyes for the army, quite apart from the general air-arm.

3. Anti-Tank Defense.

a. Anti-Tank Tactics.

General ----- emphasized that before the war, the generally accepted anti-tank tactics were to have your defense in anti-tank guns in great depth on the principle that tanks would gradually be mopped up as they penetrated more deeply. This, however, left out of account the strong psychological factor. Forward troops, even if highly disciplined, are apt to retire if large bodies of tanks are operating behind them. One should, therefore, place anti-tank guns behind certain definite obstacles, such as canals, rivers, railway embankments, but have a reserve of tanks to counter attack immediately any hostile tanks that break through. These tanks can be supported by anti-tank guns brought into action by carriers.

One must bear naval tactics in mind in dealing with enemy tanks, really heavy armour, superior armour penetrating guns and vigorous attack.

The moral of the Belgian campaign is that the way to deal with tanks that break through is to attack them immediately.

Tanks present no fear if one has the means of overcoming them. Some light German tanks had broken through north of Hasebrouk. Somebody fired an anti-tank rifle at the leading one, and it went through the armour "like butter". One man was wounded, and the other three men in the tank surrendered, and its nearby tanks ran away. The men of that battalion henceforth were looking out for tanks because they felt quite certain they could do them in easily.

That same day some French medium tanks came up

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and shot up the remainder of them, and were then sent down 10 miles farther south to deal with some tanks that had broken through at Vieux Berquin. Though they had had a tiring time they were full of dash, because they knew that they could give as well as they could receive. The only things they feared were the heavy German tanks with their penetrating 77 mm. guns.

No tanks are protected around their caterpillar section, and if fire is directed low and this is put out of action, the most formidably armoured tank is paralysed. Nor can this caterpillar section be armoured adequately without destroying its manoeuvring capacity.

b. Protection for Anti-Tank Guns.

Our present equipment for Anti-Tank Guns is unsuitable for moving warfare. The anti-tank guns are dragged behind trucks, which pre-supposes that they can get into action and out of action free from machine gun fire. All anti-tank guns should be dragged by armoured vehicles. This would protect the guns coming in and out of action.

There should also be some armoured vehicles for bringing ammunition backwards and forwards to the most advanced areas.

Anti-tank regiments should work in the closest touch with tank units. The idea would be for a tank regiment of, say, 48 guns to have attached to it a tank unit of one-third of its size. This would enable vigorous counter-attack whenever tanks broke through. (German tanks in quite small numbers often out-flanked well-defended anti-tank localities, which were later mopped up by infantry). Had we had a portion of our anti-tank guns in tanks, we could have chased after the enemy, or ensured the safe evacuation of anti-tank guns to new positions. We were often greatly superior in anti-tank fire, but owing to the lack of mobility (under fire) of our anti-tank guns, their action was often ineffective.

c. Anti-Tank Rifles.

The anti-tank rifle fully justified itself and was able to pierce light and medium tanks, and might even stop a heavy armoured tank if the bullet were fired at close range and hit the caterpillar mounting at the right place.

Before hostilities started, few regiments had

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any actual practice on the range with anti-tank rifles. It should be a part of normal training to train special anti-tank rifle sharpshooters, giving extra proficiency pay for good marksmanship, as one did in ages past with rifle battalions. The gun is an extremely handy weapon, and once troops have seen it pierce armour plate, they have real confidence in it. It certainly fully justified itself in Belgium, only there were far too few of them.

d. Bofors Gun.

The Bofors anti-tank\* gun was a great success, especially with a predictor. I know of one battery of 4 guns which had 25 German aeroplanes to its credit in the fortnight they were in action.

e. Armour.

General ----- strongly holds the view that one should either have armour that is able to keep off bullets, or armour that can withstand a 37 mm. gun. The carrier that was able to withstand machine gun bullets was a great success. It gave protection against small arms fire. Those inside had no feeling of claustrophobia. Carriers able to bring machine guns, anti-tank rifles, trench mortars and ammunition quickly into action are excellent. Above this, really heavily armoured tanks are required, able to sustain the average German anti-tank 37 mm gun. The motto for a new army must be: "More armour, more automatic weapons and more machines to save the men."

f. Anti-Tank Shell.

The Germans use an incendiary, armour-piercing shell, and this, I think, should be adopted. Any hit will set the opposing tank on fire.

4. Miscellaneous.a. Additional Infantry Transport.

The French Army moves on the principle that only about 15% of its divisions are likely to be moved at a time, so that its pool of transport (which is very well organised) under normal fighting conditions (such as existed in the last war) would have been able to carry all the infantry during the period of manoeuvre up to their embussing and debussing points.

In Flanders, Allied divisions had mostly both to

\*It is assumed that reference is made to the CONFIDENTIAL Bofors 44 mm. anti-air-  
-craft gun.

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walk enormous distances and fight. And it is strongly urged that U.S. with its enormous motor car capacity, should organize its divisions so that they have sufficient transport to move all its infantry by lorry. This must be the conclusion of everyone who saw the strain on our infantry battalions, obliged to fight rear guard actions, then walk back for miles to the next position, and repeat this day after day.

b. Trench Mortars.

German trench mortars were very effective. And ours were excellent when they were used, but, unfortunately, they and the ammunition had to be brought forward by hand. It is suggested that all infantry mortars and their ammunition be brought forward in armoured carriers. Good mortar fire is most important, as it has a very strong psychological effect in addition to the actual damage done. It also enables infantry to deal quickly with a threatened point before the position is consolidated.

c. Anti-Aircraft Machine Gun Fire.

Single machine guns were ineffective as anti-aircraft weapons, even if the aeroplanes were flying low. The answer is to have multiple mountings, 2 or 3 machine guns firing together. General ----- instanced the occasion when one battalion brought down 8 enemy low-flying aircraft by Bren guns, showing the effectiveness of this weapon if skilfully handled.

d. Communications.

In moving warfare such as was experienced in Flanders, formations higher than Infantry Brigades (and only if right up with leading battalions) are generally powerless to direct operations. The information they receive reaches them so late after the event, and the means of communication forward are so slow, that effective action is rendered impossible. Several orders for necessary counter attacks on divisional fronts, which would have been most effective if ordered in time, reached units too late to be carried out.

This is inevitable in a situation where movements are too rapid for proper telephone lines to be laid. The only reliable up-to-date news from the Front Line came back from the gunners from their forward Observation Posts. This is because they were in constant touch with their batteries and regiment by wireless. (Locations of units, the vital information, were given over the wireless, not by map reference, which would have been

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helpful if intercepted by the enemy, but by distance and the bearing from grid North, taken from an agreed locality easily seen on the map. This agreed locality differed with each regiment, and changed daily.) The artillery regiment sent the information by despatch rider to the division. And this was for days the only reliable information received by Higher Formations.

The experience convinced me of the need of a much larger number of wireless sets for all formations. Battalions and companies, brigades, regiments and divisions, should all be linked by wireless, even if the information allowed by this channel is very restricted. Wireless silence was enforced too strictly. The danger of the location of H.Q. mattered less than the danger of being out of touch with the battle. We were constantly hearing German on our sets, which shows that they had discarded wireless silence.

General ----- stated that once wireless silence is broken, the more traffic there is on the air, the more hopeless is the task of enemy interception,

5. Conclusion.

The above headings deal somewhat at random with some of the salient points which have been considerably amplified by discussion.

A parting recommendation must, however, be given. All Allied designs that are reasonably satisfactory should be put into production as soon as possible. Further research and experiment may lead to improvements. Let this preliminary work go forward at full speed. But in the meantime production should be accelerated of what can be made immediately available, for men are trained far more quickly than they can be equipped. The wastage of war, and the need of weapons for training at home are so enormous, that all serviceable weapons will play a useful part. Precious time must not be wasted to achieve slight improvements in developing your own models if a fairly serviceable weapon of foreign design can be put into immediate production.

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JR

GRAY

Kaunas

Dated July 6, 1940

Rec'd 11 a.m.

Secretary of State,  
Washington.

140, July 6, 10 a.m.

Henceforth by a decree of the Minister of Finance effective June 22 it shall be prohibited for exporters and importers to conclude sales or purchase agreements with foreign firms or to make offers in connection therewith without the prior approval or permission of the Ministry of Finance in each individual transaction. Heavy penalties are imposed for infractions.

Heretofore licenses had only to be obtained by law upon actual importation or exportation. Administrative punishment was inflicted for attempted evasion.

Exports continue to be made but imports have been curtailed except in cases necessitating reduction in manufacture which is now prohibited. The embargo on grain exports was lifted June 27.

GUFLEP

DLE

47 *Tr.*

EG

GRAY

Tientsin via N. R.

Dated July 6, 1940

Rec'd 9:07 p.m.

Secretary of State,  
Washington.

118, July 6, 7 p.m.

Reference by 104, June 28, 6 p.m., North China  
import restrictions.

Following sent at the request of the Tientsin Fur  
Exporters and Imports Association:

"A subcommittee of this Association recently called  
upon the Federal Reserve Bank of China here for explana-  
tions as to the future of the import and export trade in  
North China and we find that the new system instituted  
is a complete denial of the rights of American merchants  
and, unless some retaliatory measures are taken by the  
Government in Washington, it can be safely stated that  
American trade in North China will be stifled.

In carefully considering the explanations made to us  
by the Federal Reserve Bank we find that (one) since  
import permits are not required for merchandise imported  
from Japan and 'Manchukuo', this is definite discrimination  
against the entry of American goods; (two) since import  
permits

-2- #118, July 6, 7 p.m. from Tientsin

permits are required for all merchandise brought into North China, with the exception of Japan and Manchukuo, Japanese interests are bound to be favored and Japanese firms will receive these import permits to the eventual exclusion of American importers in North China; (three) while <sup>free link</sup> 'free link transactions' will be permitted, the American exporter will find himself in a hopeless position, <sup>by reason of</sup> the fact that no willing link exchange <sup>will be</sup> available until the importer has obtained an import permit. For the exporter to make purchases or make firm offers to the home market without knowing what the link rate will be or whether or not the link exchange will be available for him, is highly risky and any merchant who would dare to operate this way will undoubtedly be faced with heavy financial losses. Furthermore, it is reasonable to presume, as we have already stated, that most of the import permits will go to Japanese firms and it is highly questionable as to whether they will make their link exchange available for American exporters; (four) it is the desire of the powers that be in North China to severely restrict imports in order to create a favorable trade balance. No merchandise will be permitted entry through the "open market". Luxuries and nonessentials

-3- #118, July 6, 7 p.m. from Tientsin

nonessentials will be prohibited and a situation will be brought about identical to that now in Manchukuo.

American importers who have established markets in North China after many years of effort will be frozen out in a short time and the economic life of Americans and all foreigners will become impossible; (five) to severely restrict imports into North China will of necessity cut down the volume of exports because there will not be sufficient link exchange to finance it, since it is well known that imports into North China for many years past greatly exceeded the value of exports. This in itself will tend to prove that the system now instituted is unworkable, but American merchants fear that before this becomes evident to the Japanese authorities, American merchants will suffer severe losses and eventual ruin."

Sent to the Department. Repeated to Chungking,  
Beiping. Air mail Tokyo.

FLETCHER

NPL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: July 6, 1940, 4 p.m.

NO.: 2397

Reference is made to telegram of July 6, 11 a.m., No. 2374, from the Embassy.

Wohlthat's roseate picture (see telegram referred to above) of continental Europe paying its debts, relaxing and eventually abolishing exchange and trade control and expanding its export and import trade with countries overseas is similar to predictions and statements of other officials and economic writers in Germany - reference, telegram of June 26, 4 p.m., No. 2115 from the Embassy. Obviously it is to the advantage of Germany to have such statements communicated abroad in order to create an impression that German political and economic intentions in Europe are being moderated.

I want to add that some impression of sincerity is given by Wohlthat, Puhl of the (?), and officials in the Ministry of Economics. Goering is the man responsible to Hitler for the Reich's economic sector, and the aforementioned officials are among Goering's main advisers. These individuals and other important members on the economic staff of Goering are essentially conservative and moderate in their economic viewpoints. It appears that they feel confident the war will come to an end soon with the military defeat of

Great

- 2 -

Great Britain or a request for peace on the part of Great Britain, and that after that, these individuals will be able to prevail with their ideas regarding the future economic and monetary policy of Germany. Certain observers here, however, do not share this confidence; the latter apprehend that in the future, as so frequently in the past, the military, political and social projects of the extreme elements of the Party leadership will defeat the efforts of the moderate elements in the Government.

The telegram referred to in the first paragraph was marked for transmittal to the Treasury. It may be that the Department will wish to communicate the sense of the preceding paragraphs to the Treasury.

END OF MESSAGE.

HEATH.

EA:LWW

British Embassy,  
Washington, D.C.

6th July 1940.

Dear Merle,

I enclose as promised "a titre personnel" the two messages from London which I mentioned to you about the question of pre-June 8th contracts for the purchase of goods from the United Kingdom. These messages were intended apparently just for our information in the Embassy, but you are at liberty to use them for elucidating anything which you have received from your Embassy in London.

I also enclose a copy of a letter from Gifford about some dollar bonds which have been presented to our Treasury. Gifford does not give the date of the sale of the first three items, but as the amount is small it might as well be added into this week's sales. I will let you know when the last item is sold.

Yours ever,

/sgd./ Jerry Pinsent

Mr. H. Merle Cochran,  
United States Treasury,  
Washington, D. C.

From London, June 29th, 1940.

On instructions from Washington, United States Embassy have urged:-

- (1) That, in respect of contracts made before March 8th for goods covered by regulation of that date, we should continue indefinitely to allow payment in sterling and not impose new condition that exchange must have been covered;
- (2) That as regards contracts placed before June 8th we should allow "similar period of grace".

Exact meaning is not clear since decision as regards contracts made before March 8th was not limited for any period. But perhaps general intention was that payments in sterling should be allowed in respect of contracts made before June 8th for a considerable period.

2. We have pointed out that we hope to make arrangements with American banks which will place all future sterling business in United States on basis of official rate. It would seem misleading to tell American traders that they will be able to pay in free sterling for contracts made before dates named, and the best advice in their interests seems to be that they should cover contracts made before March 8th or June 8th as quickly as possible while there is still free sterling available. The Ambassador has suggested that we should sell sterling at the rate current on free market on June 8th to American importers to provide sterling to pay for imports of 5 (b) products under contracts prior to March 8th. This seems to us open to considerable objection. We are considering what to reply.

From London, July 4th, 1940.

We have explained to Butterworth that we cannot accept proposal to provide sterling to pay for imports of clause 5 (b) products under pre-March 8th contracts at a rate different from official rate since this would give impression that official rate of 4.03 is likely to be altered. We have offered to announce publicly the concession by which we allow pre-March 8th contracts for goods covered by old 5 (b) regulation to be paid in sterling from whatever source obtained, but have explained that we must couple it with a warning that soon free sterling will in fact not be available on any large scale as result of our arrangements to set up official sterling accounts and to restrict payments to other American-owned accounts. Butterworth said that some satisfaction should be given to those who had applied to pay in sterling but had been refused. We agreed that this would be fair in principle but thought that it would be administratively very difficult. Butterworth subsequently said that Ambassador would "make content with fortune fit".

Butterworth did not press for concessions on pre-June 8th contracts since he recognized that supply of free sterling would not be sufficient to enable such contracts to be paid in sterling without free rate being pushed up to level of official rate.

C O P Y

COPY

15, Broad Street,  
New York.

5th July 1940.

My dear Pinsent,

I heard recently from the Bank of England that a Mr. John A. Fielden had presented to the Treasury the following securities -

\$45,000 Pennsylvania R.R. Gen. 5's 1968  
\$87,000 U.S. Treasury 2 7/8's 1955/60  
\$87,000 U.S. Treasury 2 3/4's 1951/54  
\$82,000 Union Pacific 4's 1947

Of these the first three have been sold, producing \$235,677.82, and I will intimate to you separately when the Union Pacific 4's are sold. As these do not arise out of our Vesting Orders I am mentioning them to you separately. You will probably know what line to take with Cochran.

I was sorry to learn to-day that there had been some interruption in the daily reporting to you, possibly due to the very small amounts involved, but it will be kept right in future.

Yours sincerely,

(Sgd.) T. J. CARLYLE GIFFORD.

G.H.S. Pinsent, Esq., C.M.G.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE July 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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In a very quiet market sterling opened at 3.70-1/4, moved up to 3.77-1/4 and closed at 3.76. It was reported that Japanese banks were buyers of sterling.

Sales of spot sterling by the six reporting banks totaled £155,000 from the following sources:

|   |          |
|---|----------|
| By commercial concerns.....                 | £ 32,000 |
| By foreign banks (Europe and Far East)..... | £123,000 |
| Total.....                                  | £155,000 |

Purchases of spot sterling amounted to £177,000, as indicated below:

|   |          |
|---|----------|
| By commercial concerns.....                               | £ 52,000 |
| By foreign banks (Far East, South America and Europe).... | £125,000 |
| Total.....  | £177,000 |

There were no reported sales or purchases of sterling on the basis of the official rates of 4.02-1/2 - 4.03-1/2.

The other currencies closed as follows:

|                       |                         |
|-----------------------|-------------------------|
| Swiss franc .....     | .2267                   |
| Canadian dollar ..... | 12 % discount           |
| Lira .....            | .0505                   |
| Reichsmark .....      | .4004                   |
| Mexican peso .....    | .2004 Bid .2024 offered |
| Cuban peso .....      | 9-7/8 % discount        |

The rate for the Chinese yuan improved to 6-11/32¢ up 7/32¢ from yesterday's quotation.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported the shipment to it of \$266,000 in gold by the Bank of Mexico for sale to the U. S. Assay Office.

The Bombay gold price was equivalent to \$33.73 off 13¢.

Spot silver in Bombay was off the equivalent of about 3/16¢ to 4.06¢.

*B. M. S.*

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE July 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Yesterday afternoon Mr. Cameron, Manager of the Foreign Department of the Federal Reserve Bank at New York, telephoned down to me the text of two cablegrams which the Federal had received from the Netherlands Bank, one dated June 26 and the second dated July 4. Copies of these messages are attached.

Mr. Cameron recalled that a few days prior to the departure of the Netherlands government from The Hague, a cablegram had been received from the Netherlands Bank containing the code word which was interpreted to mean that no further instructions should be accepted by the Federal from the Netherlands Bank emanating from the Netherlands. The message of June 26 is the first cablegram received subsequently thereto. Following strictly the letter of the earlier instructions and upon the advice of the Netherlands Legation in Washington, the Federal had not replied to the cablegram of June 26. Mr. Cameron now solicits our advice as to whether a reply should be made to the inquiry of July 4. This message is signed by de Jong, who has been an officer of the Netherlands Bank for many years, most recently acting as Secretary General, and a thoroughly responsible officer.

*B. M. S.*

CABLE

From: De Nederlandsche Bank

Sent: July 4, 1940

Recd: July 5, 1940

#174

From incomplete reports from U. S. we gather that on May 10 U. S. President issued a decree with regard to transactions in your country in which property of the Netherlands is involved. We should be very grateful if you would kindly furnish us with some information as regards the following points:

- ONE. are transfers from one Netherlands dollar account to another allowed under said decree
- TWO. are transfers from a Netherlands account to a U. S. account permitted
- THREE. are U. S. banks henceforth allowed to credit Netherlands account with amounts received from accounts other than Netherlands accounts and if so are the amounts thus credited to Netherlands accounts at the free disposal of the holders.

Thanks all well here.

Signed. de Jong  
de Nederlandsche Bank

Received by phone from Mr. Cameron's Secretary - July 5/40 - ka

CABLE

59

From: De Nederlandsche Bank

Date: June 26, 1940

#172

Please cable whether you have received for the credit of our account with you on May 13 or later \$400,000 from Bank de Paris et des Pays Bas Paris for account of their office in Amsterdam.

sgd. De Nederlandsche Bank

Received by phone from Mr. Cameron's Secretary - July 5/40 - ka

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

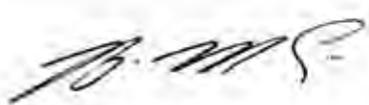
DATE July 6, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Yesterday I talked with Mr. Pinsent in regard to the memorandum which he left me on June 28, indicating the interest of his Government in obtaining information in regard to Mr. Charles MacDaniels, who is seeking to interest the British Government in a financial transaction. I told Mr. Pinsent that Mr. MacDaniels was an American citizen; that he had a good war record; that he is married to a French woman and has resided in Europe since the war; that his first post-war activities were in tying together electrical interests in Yugoslavia, from which operation he made considerable money; that he has acquired oil properties in Poland, which are now in the hands of the Germans; that he owns property occupied by diplomatic missions in Belgrade and possibly Warsaw; that he was connected with the arrangements whereby American exporters were assisted in supplying equipment to Portugal through a credit extended by the Export-Import Bank; that he is said to now have a forestry concession in Angola; that he has a concern in Paris which manufactures some sort of a fuel saving device for railway locomotives; that he is a promoter with fairly wide range of activities, without any definite tie up with any one financial concern; that he is understood to be well known to Mr. Warren Pierson, Mr. Jesse Jones, and Mr. Elijah Walker. I could give Mr. Pinsent no direct information, since I had not known Mr. MacDaniels during my several years in Europe, although this gentleman has a home outside of Paris where some of my Embassy colleagues visited.

Mr. Pinsent will cable his people in regard to Mr. MacDaniels' business record, but would still like an indication from the Secretary as to whether the latter would look with favor upon the British Government accepting the proposal which Mr. MacDaniels is advancing, provided the British themselves find it worthwhile.



**TREASURY DEPARTMENT**  
**INTER OFFICE COMMUNICATION**

DATE July 6, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

Mr. Lochhead telephoned me from New York this morning. He stated that the Secretary had spoken with him by telephone in regard to the visit of Mr. Ren of the Universal Trading Corporation to the Treasury a few days ago, when the question of selling Chinese tin arose. Mr. Lochhead stated that the Secretary had suggested that he come directly to Washington to discuss with Mr. Jesse Jones the possibility of disposing of this tin to the new R. F. C. setup. At Mr. Lochhead's request, I telephoned Mr. Jones' office at 10:00 o'clock this morning and made an appointment for Mr. Jones to receive Mr. Lochhead at 10:00 o'clock on Monday morning. I gave this information to Mr. Lochhead by telephone at 10:15. He will drop by the Treasury before keeping the appointment on Monday morning.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

At 5:10 yesterday evening Vice President Allan Sproul telephoned me from the Federal Reserve Bank of New York. He referred to the question of transforming the Bank of England accounts into British government accounts. He was of the opinion that the cabled instructions through the State Department and our Embassy at London, emanating from the British government, failed to give specific advice as to the handling of Special Account "A". Consequently the Federal has prepared a draft of a paragraph which it is hoped the British Embassy may see fit to incorporate in the letter wherein the Embassy accepts from the State Department a copy of the cablegram from the Embassy at London, and confirms that the message contained therein represents the instructions of the British government.

I telephoned Mr. Pinsent to the effect that a copy of this draft was being sent directly from the Federal Reserve Bank last night, and that I likewise was receiving a copy. It was understood that he would communicate with me upon the receipt of this document. He was not at all certain that his Embassy would have the authority to incorporate such a paragraph, without specific instructions from London.

I telephoned Mr. Cumming at the Department of State, giving the above information. He stated that his letter to Pinsent was going out to the Embassy last night. I explained to him that Mr. Sproul's suggestion would not involve any change in the draft letter which the Treasury submitted to the Department of State for use in transmitting the cablegram from London.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

Yesterday morning I received from Mr. Butterworth in London a personal cablegram in regard to the payment of his allowance for the fiscal year beginning July 1, 1940. Shortly after receiving this message, Dr. Feis telephoned me from the Department of State. He asked whether the Treasury had considered the desirability of ordering Butterworth to Washington for the visit of the British officials. I told him this had not been considered, and that I understood the British had already left, on July 2 or 3. Feis replied that Butterworth could get a plane in the immediate future and could come over and return by air, remaining here only during the British visit. Dr. Feis asked me to make this suggestion to the Secretary, without mentioning his own interest. He said he could tell me personally that Butterworth would welcome the opportunity to come.

At 3:00 p.m. I mentioned the above matter to the Secretary by telephone. He told me that he did not desire to order Butterworth back on this occasion. I endeavored to reach Feis yesterday evening and again this morning, but have not yet been able to get in touch with him to give this information.

While speaking with the Secretary, I raised the question as to allowances for the fiscal year beginning July 1, 1940, for Butterworth, Heath and Matthews. The Secretary instructed me to continue Butterworth's allowance at \$3,000 per annum and to increase Heath from \$1,000 to \$1,200, and Matthews from \$600 to \$1,200. I shall make these arrangements the first of the week.

At 10:00 o'clock this morning I reached Dr. Feis and gave him the negative answer with respect to Butterworth. On behalf of the Department of State, Feis approved the allowance schedule.



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE July 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

There is attached a copy of a message to the British Embassy which Pinsent handed me yesterday and concerns the desire of his government that the United States should not facilitate the release of blocked Danish funds in New York for transfer to Sweden.

Mr. Pinsent desires to know our reaction to this request. He explained that he had not taken the matter up previously with the Minister of Denmark in Washington, but will now let him know that he has submitted to the Treasury the request from London.

While talking with me on the above subject, Pinsent stated that a message from his government indicated that there was information available concerning firms which are being used as cloaks for German and Italian interests which are operating on our market. If we desire, Mr. Pinsent could obtain this information for us, but will not offer it unless we may indicate our interest in receiving it.

*B.M.P.*

From Ministry of Economic Warfare to British Embassy Washington.  
3rd July, 1940.

65

It is understood that Denmark owes Sweden considerable sums for interest on loans including some payable in dollars and sterling and that Denmark hopes to obtain the release of some blocked Danish funds in London and New York for this purpose.

Stockholm informs me that the Governor of the Central Bank of Sweden has already taken the matter up in New York.

I understand that the continuation of Danish-Swedish trade depends largely on some such arrangement as there had been proposed. H.M. Government having no wish to facilitate any trade with enemy-occupied territory will certainly not allow such utilisation of assets which would in effect be a subsidy to Germany.

Please use every endeavour to prevent any such arrangement being made in respect of dollar balances.

COPY

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

Mr. Pinsent called on me at 3:35 yesterday afternoon by appointment. He stated that the Embassy had received a cablegram from London approving the text of the communique which the Treasury contemplates issuing in regard to the visit of Sir Frederick Phillips. The British request, however, that this communique should not be released before 6:00 p.m. British summer time, or 12:00 noon eastern standard time, July 11. Our suggestion had been for the release on July 9. The British prefer that the announcement be made only one day preceding the arrival of the ship, lest the safety of the vessel be in danger. Does the Secretary agree to July 11? Does he prefer that the communique be given out at 12:00 noon, or would it be preferable to make it at the regular press conference at 10:30 a.m.? I am to inform Pinsent on these points.

Mr. Pinsent understands that one of the questions which the visiting officials from London will raise is that as to whether, under the new R. F. C. arrangement, the British may be able to obtain advance payments on sales of rubber and tin to our official setup.

Furthermore, the British Embassy plans to approach our Government very shortly, most likely through the State Department, to point out that it will be impossible to continue purchases at the present scale on the American market unless some credit facilities can be arranged. In addition the Embassy will open once more, and very vigorously I understand, the question as to whether the United States will block German assets in this country.

After talking with the Secretary by telephone I told Mr. Pinsent at 12:00 noon that the Secretary was agreeable to releasing his communique at 12:00 noon July 11.





THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

67

July 6, 1940

MEMORANDUM FOR THE SECRETARY:

I attended a conference this morning in the office of Under Secretary Welles, with Jesse Jones, Dr. Turbay, and Mr. Traphagen also present. Mr. Welles said that as he understood the situation, the principal of the outstanding debt of the Colombian Government in the United States on December 31<sup>1940</sup> would amount to approximately \$44,000,000, and that the accrued and unpaid interest would amount to \$12,200,000, making a total debt of \$56,200,000. He understood that there had been a suggestion that an agreement be reached which would add to the \$44,000,000 principal amount of the debt outstanding, 50 per cent of the interest in arrears, amounting to \$6,100,000, which would make a total of \$50,100,000; that new bonds be issued to American holders in this aggregate amount with a coupon rate of 3 per cent which would require approximately \$1,500,000 interest in the first year, and that provision be made for amortization in the first year of \$300,000, or a total of \$1,800,000.

Mr. Welles also stated that he understood there was some difficulty between the Council and the Colombian Government regarding the acceptance of the \$1,800,000 and the 50 per cent of the interest in arrears, and also the Council did not want to have the annual payments based upon any minimum amount of customs revenues as was suggested in a previous

memorandum from the Colombian Government. Mr. Welles said that he had some suggestions which he would like to put forward, realizing that the customs revenues were a proper basis for determination of the ability of the Colombian Government to meet the annual debt payments. I raised the question as to the connection between the customs revenues and the debt payments to the United States. It seemed to me that the customs revenues were based on imports, whereas, their ability to transfer funds across the exchange was a matter of exports and I thought a deficiency in customs revenues to meet the budget requirements of the Colombian Government was an internal matter and should not be in any way tied up with their payments to the United States. Anyway, Mr. Welles suggested that if the customs revenues should fall below 25 million pesos<sup>annually</sup>, no payment would be made on the debt to the United States holders of Colombian bonds. If the customs revenues should fall between 25 to 30 million pesos, the Colombian Government would pay 50 per cent of the \$1,800,000 annual payment previously referred to. If the customs revenues should fall between 30 to 38 million pesos, the Colombian Government would pay \$1,800,000 annually, and if the revenues were greater than 38 million pesos, then the Colombian Government would pay \$2,000,000 on its debt to the American holders.

After some discussion back and forth between the Minister and Mr. Traphagen, Mr. Welles acting as interpreter of the Minister's remarks, which were made in Spanish, from which it was clearly apparent that they did not come to an agreement, Mr. Jones suggested that Mr. Welles, he, and I go into the next room for a minute's discussion of the matter.

After conferring for a few minutes, we decided to suggest to the Minister and Mr. Traphagen that they consider this proposition, that they agree upon the new principal of the debt at approximately \$50,100,000 (\$44,000,000 outstanding principal and 50 per cent of the interest in arrears) and that the Colombian Government agree to pay \$1,800,000 annually as service charges on this debt for a period of five years and \$2,000,000 annually thereafter. We went back into the conference and made this suggestion to these two gentlemen and after some further discussion, the Minister agreed to send a cable strongly urging his Government to accept this offer, and Mr. Traphagen agreed to get in touch with members of his Council tomorrow and call a meeting for Monday to consider this matter. He said he would also recommend its acceptance in order that the matter might be concluded.

Mr. Welles suggested that in view of the Colombian Government's insistence upon a sliding scale of customs revenues, possibly the Minister and the Council could have an exchange of letters outside of any agreement, in which it could be clearly understood that if the customs revenues should fall below some fixed figure they would again get together for the purpose of deciding whether or not the annual payments should be made. Mr. Traphagen said that he would have to oppose any such suggestion as the exchange of correspondence would have to be made public and would, therefore, be in effect part of the agreement and that because of these letters there would always be an uncertainty in the market as to whether annual payments were going to be made. Mr. Jones readily agreed to this and said it would not be any agreement at all except from year to year, and he did not think it was in the

- 4 -

interest of the Colombian Government or in the interest of the American holders to have any such exchange of correspondence.

It was understood that Mr. Traphagen would telephone Mr. Welles as early as possible next week to advise him as to whether or not the Council had accepted the suggestions made at this meeting.

swB

JT

GRAY

RIO DE JANEIRO

Dated July 8, 1940

Rec'd 2:25 p.m.

Secretary of State,  
Washington.

338, July 8, 2 p.m.

My 147, April 11, 11 a.m.

The Bank of Brazil will make a second payment on July 9 on the arrears of profits and dividends of American companies. This disbursement will amount to approximately \$903,000. Please inform the Department of Commerce.

CAFFERY

CSB

TO THE  
DEPARTMENT OF COMMERCE  
WASHINGTON, D. C.JUL 11 1940  
JUL 11 1940RECEIVED  
DEPARTMENT OF COMMERCE  
JUL 11 1940

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 335

DATE: July 6, 1940, 2 p.m.

The Federal Reserve Bank of New York was informed on June 27 by the Bank of Brazil that dollar bonds would be purchased with a part of its gold reserve in New York. It was the intention of the Government of Brazil to use for this purpose about \$2,000,000 but the operation was suspended by the Government today in view of leaks here. There will be forwarded details by air mail.

CAFFERY

EA:FB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome

NO.: 690

DATE: July 6, 1940

Reference is made to the Department's telegram no. ~~284~~<sup>78</sup>, dated July 3, 1940, 7 p.m.

The Embassy took up informally on July 5, with Mr. Masi, Director General of Foreign Exchange, the matter of the non-remittance of dollars for the instalment due July 1 for service on City of Rome bonds. It was urged that the obligations be met in dollars, and emphasis was placed upon the probable injurious effect on future credit relationships and the injury to American holders should the remittances not be made. Mr. Masi replied that the authorities had taken the decision with regret, but that it was necessary because the inflow of foreign exchange necessary for making foreign remittances had been cut off with the blockade of foreign trade consequent on Italy's being at war. Under these conditions, Mr. Masi said, the remittances were physically impossible, but the requirement that payments be made regularly into a blocked lira fund from which dollar remittances would eventually be made would protect the interests of the foreign holders. He said that the same situation applied

to

-2-

to total July maturities of over \$2,300,000 on five issues, viz., City of Milan \$572,000, City of Rome \$707,000, Istituto di Credito (pubblica utilita) \$363,000, Consorzio di Credito (opere pubbliche) \$217,000, Cisalpine \$257,000, Terni \$209,000.

Transfers are continuing, Masi added, on payments to Americans for American goods imported into Italy.

This matter will be discussed further with the Foreign Office.

EA:EB

## TELEGRAM SENT

MP

PLAIN

July 6, 1940

AMERICAN LEGATION,

OSLO, via Stockholm

504, Sixth.

Your 645, June 24.

Treasury states license issued July 3.

HULL

(FL)

840.50 Frozen Credits/215

EA:FL:FB

RAW

PLAIN

Riga

Dated July 6, 1940

Rec'd. 9:07 a.m.

Secretary of State,  
Washington.

182, sixth.

My 142, June 20.

Education Minister Paul Lejins;

Agriculture, Janis Vanags;

Finance, Karlis Karlsons.

WILEY

KLP

Cabinet members

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: July 6, 1940, 11 p.m.

NO.: 2374

FOR TREASURY FROM HEATH AND FOR INFORMATION OF THE DEPARTMENT.

This week Wohlthat, who is now in charge with reorganizing the Dutch monetary and banking system, was in Berlin and asked that I come to see him.

Wohlthat asserted that the banking, industrial and commercial structure in the Netherlands is functioning smoothly now, and in that country the German Government is giving capacity orders to key industries. The unemployment which had resulted from the demobilization of the Army in the Netherlands he said was unimportant, and was rapidly being solved partly through sending Dutch workers to factories in Germany.

He asserted that the only class in the Netherlands which was really suffering just now consisted of those who were dependent upon funds and interest from securities and bank accounts which are blocked in the United States to a total of 1,400,000 guilders, he estimated. Requests for loans and advances on the security of their blocked assets had been made of banks by the holders of such blocked securities and accounts, but up to the present he had taken the position that it was "illogical" for the banks in the Netherlands to  
grant

- 2 -

grant loans on assets which for the owners' protection had been blocked.

I did not make any comment as I listened to the above statements.

Wohlthat then went on to sketch Europe's future economic organization. He asserted that as the strongest industrial power, Germany would exercise decisive economic influence but that they would not seek to destroy the economic autonomy of the states of Europe which fall within its sphere of influence. He said that Berlin would not have a centralized economic organization of the continent with tariff and other restrictions directed against England, the United States or other trading nations overseas. However, they would have to take some preferential protection measures for the agricultural producer of Europe, who could not exist on a basis of free competition with producers in Australia and America. This did not mean that by granting special protection for European agricultural producers the market for overseas agricultural products would be closed. Imports of produce into Europe, on the contrary, would probably increase. He mentioned that at least 20 million tons of grain now had to be imported into Europe annually. In Germany and in the countries falling within the German influence, there would be a great and steadily increasing market for overseas products other than agricultural.

- 3 -

They did not intend to set up a single currency for Europe. The leading European currency would of course be the mark, because of the force of the economic position of Germany. Germany intended, as rapidly as possible, to do away with exchange control on everything except capital transfers. Even there the restrictions would not be too onerous, and perhaps indirect control measures could be used to achieve it. Germany wanted to make a currency of international acceptance of the mark. He asserted that Germany would arrange satisfactory terms with overseas investors and creditors, and would see that for France and other European countries similar satisfactory arrangements were made. Germany did not propose to destroy the economic autonomy of other States of Europe, but there would be a steady movement toward abolishing barriers to trade and business and monetary transactions between the countries. However, before the customs walls would finally disappear many years would pass.

Wohlthat told me that he was presenting his own personal views and not those of the German Government in this picture of the future economic situation of Europe. However, he thought that he was correct in his analysis and predictions, and gave me authority to use his name in connection with this presentation.

END OF MESSAGE.

HEATH.

JR

PLAIN

Berlin

Dated July 6, 1940

Rec'd 2:35 p.m.

Secretary of State,  
Washington.

2359, July 6, 10 a.m.

My No. 1685, June 5, 5 p.m.

FOR TREASURY FROM HEATH AND ALSO FOR THE INFORMATION  
OF THE DEPARTMENT.

The position of the Reichsbank during the first three weeks of June was marked by substantial easement more than offsetting the end of the month increase in May. The Reichbank's investment portfolio on June 22 amounted to 12,430 million marks as compared to 12,125 million marks on May 23 but the miscellaneous assets item was only 1,398 million marks as compared with 1,813 million marks a month earlier so that the total of both taken together was 110 million marks less than on May 23.

During the last week of June, however, the increase in the Reichsbank holdings was very large, approximately twice as great as in the last week of May. On June 29 the Reichsbank's investment holdings were 13,234 million marks as compared to 13,105 million marks a month earlier but miscellaneous assets (in which the Reich's operating

credit

-2- #2359, July 6, 10 a.m., from Berlin.

credit is included) were 1,863 million marks as compared to 1,434 million marks the end of May so that the total of both together was 558 million marks greater than on May 31 and 1,269 million marks greater than on June 22. The individual items (in million marks) stood as follows on June 29 compared with May 31, the latter in parenthesis: commercial and treasury bills 12611 (12569); eligible securities 143 (192); collateral loans 25 (31); miscellaneous securities 454 (363).

There was again a record circulation of Reichsbank notes on June 29 amounting to 12,785 million marks as compared with 12,594 million marks on May 31 also a record figure. There was a sharp increase in call deposits the last week of June in contrast to May the total being 1,854 million marks on June 29 as compared with 1,470 million marks on May 31. On June 29 the Reichsbank's holdings of coin were 356 million marks and of Rentenbank notes 376 million marks, decreases of 43 and 10 million marks respectively having occurred during the last week of the month.

There has been no important change in the general trend of the Reichsbank's position that is a steady expansion of investments and note circulation undoubtedly due chiefly to the Reich's continued heavy demands on  
the

-3- #2359, July 6, 10 a.m., from Berlin.

the money and capital markets. The fact that there was a relatively moderate increase in the Reichsbank's holdings the end of May and an unusually substantial easement in the following weeks was probably due to the temporary cessation of the issuance of 4 per cent Reich Treasury Certificates from the middle of May to June 16 and the relatively heavy expansion the end of June was probably due to its coincidence with the end of a half year period.

Since midyear 1939 there has been an increase of approximately 40 per cent in the Reichsbank's investments plus miscellaneous assets and of 46 per cent in note circulation plus call deposits compared with increases of 29 per cent and 32 per cent respectively from midyear 1938 to midyear 1939. The rate of expansion has thus accelerated during the past twelve months. The expansion is, however, not as great as many observers anticipated in view of the enormous war expenditures during most of the past year and the requirements for additional currency resulting from territorial acquisitions.

HEATH

DDM

BRITISH EMBASSY,  
WASHINGTON, D. C.

July 7th, 1940.

Personal and Secret

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the latest reports received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*L. S. Sullivan*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

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Telegram despatched from London  
on evening of July 5th, 1940.

Commander-in-Chief Mediterranean  
reports following agreement with French warships  
at Alexandria.

(a) fuel oil to be discharged; (b) ships to be  
made incapable of fighting; (c) disposal of  
ships companies to be matter for further negotia-  
tion. Italian aircraft attacked fleet at  
Alexandria on July 4th, but no damage reported.  
One French ship opened fire in this attack.

Enemy aircraft attacked Portland  
yesterday morning. Naval anti-aircraft ship  
sunk, 50 - 60 of crew seriously wounded and a  
number slightly wounded. British merchant vessel  
beached and two small craft sunk. Twelve  
casualties amongst dockyard workers. Aeroplane  
works near Bristol attacked yesterday, but no  
damage to works. One enemy aircraft shot down.  
Two convoys off the south coast attacked by enemy  
aircraft. Four British and one neutral ships  
were damaged. One Messerschmidt shot down and  
another probably destroyed. Fighter aircraft also  
shot down one of several enemy aircraft attacking  
shipping off South East Coast. Minor enemy air  
activity/

activity last night and raids recorded in South West England, South East England and Humber. <sup>85-</sup>  
No damage and few casualties reported. No casualties reported from enemy raids on night of July 3rd - 4th.

Blenheims attacked oil targets and marshalling yards in Western Germany yesterday. Last night, heavy bombers attacked "Scharnhorst" at Kiel, also air frame factories, railway targets, ship building yards at Hamburg and naval base at Wilhelmshaven. One aircraft missing.

British warship successfully attacked submarine off Dakar yesterday. Two British ships torpedoed by enemy M.T.B.'s in home waters yesterday.

British flying boat attacked by three fighters in Western Mediterranean yesterday. One fighter shot down and another is probable casualty. Enemy fighters attacked aerodrome at Malta yesterday, causing no casualties, but slight damage to aircraft on the ground.

Sudan area. Enemy armoured cars and motorised infantry, supported by bomber aircraft, captured Kassala yesterday. British garrison of Gallabat attacked in similar manner and forced to withdraw after inflicting heavy casualties. British losses one killed and six wounded. Wellesleys successfully attacked military camp in Western Abyssinia.

Italian/

Italian forces attacked Sollum on July 3rd but retired on intervention of British tanks.

Germans reported to be sending considerable troop reinforcements to Northern Norwegian ports.

On July 2nd one battalion of the K.A.R., supported by bombers of S.A.A.F. who engaged enemy's guns and strong points, drove back enemy forces which had penetrated Northern frontier district of Kenya near Moyale.

Telegram despatched from London  
on evening of July 6th, 1940.

87

French fleet. Situation reported to be in hand at Alexandria. French have instituted submarine patrol at Casablanca. French auxiliary vessel "Cabaibe", which left Mombasa on July 4th, has returned of her own accord.

Main enemy air activity yesterday over British Isles was in the southwest area. Twelve slight casualties and minor damage caused. Slight activity last night, mainly seaward on northeast coast. Bombs also dropped in Yorkshire and Kent causing one minor casualty and no important damage. Two Heinkel 111's reported shot down, but not yet confirmed. Enemy fighter aircraft reported over Straits of Dover and Kent. British fighter shot down one Heinkel 111 in this area yesterday.

..... Blenheims missing. Last night, heavy bombers attacked railway targets and dockyards in north western Germany. One aircraft missing. Further reports on attack on "Scharnhorst" referred to in my immediately preceding telegram / are that two direct hits with two thousand pound bombs were seen on the deck in which "Scharnhorst" is located and ship has listed to port.

British/

88

British destroyer torpedoed by submarine and subsequently sunk in western approaches. Fiftyseven officers and ratings killed. Further details regarding enemy air attack on convoys off South Coast referred to in my immediately preceeding telegram are that five additional British ships were damaged. Two additional British ships were damaged in enemy air attack on Portland. Attacks were made on one enemy submarine in western Mediterranean and one enemy submarine in home waters by destroyers and auxilliary vessels yesterday, but results not known.

Mediterranean On July 4th, three Gladiators shot down two enemy fighters near Sollum, and later six Gladiators shot down seven enemy fighters and badly damaged two more. One Gladiator shot down, but pilot saved. On same day, Blenheims attacked enemy military camp at Bir-el-Gobbi, and enemy raided Aboukir and Alexandria. Little damage caused by enemy's raids. One enemy aircraft believed shot down. Enemy camp at Metemma successfully attacked by aircraft from Soudan on July 4th. German-French aircraft attacked Gibraltar yesterday, no damage caused.

Following figures show proportion of population in United Kingdom serving with armed forces :

Total male population of United  
Kingdom

Kingdom(20 - 41 years) seven million three hundred and fifty thousand.

Reserved occupations (including mercantile marine) three million six hundred and sixty-six thousand.

Less 20% unfit. Numbers available two million nine hundred and forty-seven thousand.

Numbers serving in Army - one million four hundred and thirty thousand.

Numbers serving in Navy - one hundred and seventy-three thousand.

Numbers serving in Royal Air Force - two hundred and forty-three thousand.

A.R.P. and A.P.S. - one hundred thousand.

Deferments - two hundred thousand.

Total - two million one hundred and forty-six thousand.

Balance 20 - 41 year olds - eight hundred and one thousand.

BRITISH EMBASSY,  
WASHINGTON, D. C.

July 8th, 1940.

Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your  
personal and secret information a copy  
of the latest report received from  
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*L. Skirvin*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London  
on the evening of July 7th.

91

1. As result of further operations against French naval units at Oren, it is considered that "Dunkerque" will be unfit for service for twelve months. In this action, one Fleet Air Arm aircraft shot down, but crew saved. One French flying-boat has arrived at Malta. French naval guards have been placed on British merchant vessels at Dakar and French flag hoisted.

2. Considerable enemy air activity yesterday in southwest area, Aldershot area and east coast of Scotland. Seven killed and twenty-three injured Aldershot area. One killed and five injured in Plymouth area. No damage reported to war factories. Relatively little bombing last night. Three killed, one injured.

3. Blenheims attacked aerodromes and inland water communications in Low Countries yesterday. Ship-building and storage yards in Germany were attacked last night, and mine-laying carried out. One enemy aircraft shot down yesterday, and two ME 111's on July 5th.

4. No enemy attacks on shipping reported. One British destroyer damaged by air bombing yesterday and another by collision. Two enemy U-Boats attacked in western approaches and one

in/

-3

in Mediterranean by destroyers yesterday. Successful submarine attacks have been made on enemy merchant vessels off Norwegian coast.

5. Mediterranean. Fleet Air Arm and Royal Air Force attacked Tobruk yesterday evening. Hits registered on enemy submarine, two destroyers, and five or six merchant vessels. Twenty enemy bombers attacked Malta yesterday. Four persons reported wounded, and some material damage done. One enemy aircraft shot down (unconfirmed).

6. In Gallabat area, Italian forces are initiating turning movement to threaten British position on road Gallabat-Ghedaref. Further dispersal of petrol and munitions is reported throughout Italian East Africa.

July 7, 1940 10.30 A.M.  
 Called Steve Early  
 PK, suggested that  
 he tell Pres. to invite  
 Harrison Houghton + Cooper  
 to Monday 12 o'clock meeting  
 I felt it would sweeten them  
 up.

July 8, 1940

HM, Jr got word today that the President did  
 not want them.

JUL 8 1940

My dear Mr. Knudsen:

In accordance with your request I am enclosing a copy of the draft of agreement of lease and license to be entered into between His Majesty's Government in the United Kingdom and the Wright Aeronautical Corporation.

This draft differs from the draft heretofore submitted to you by the Wright Aeronautical Corporation in that it runs for a different term.

The sixth paragraph of this draft beginning on page 3 provides that the lease shall terminate six months after the Wright Aeronautical Corporation ceases to be under obligation to deliver engines to the British Government, or six months after the cessation of the national emergency declared by the President on September 8, 1939 to exist, whichever date is later.

The rent under the lease consists of payment by the Wright Aeronautical Corporation of annual local direct property taxes assessed against the land, buildings, machinery, equipment and other facilities leased. Provision is also made for a relocation fee of \$1,855,000; this is \$300,000 more than in the draft previously submitted.

The Wright Aeronautical Corporation has requested the Commissioner of Internal Revenue to rule upon its liability for income taxes under the lease, and the Commissioner of Internal Revenue shortly will issue a ruling on this point. Meanwhile, I thought you would like to have the copy of the lease in order to determine whether as now revised it adequately safeguards the interest of the United States in the leased facilities.

Very truly yours,

Signed: H. MORGENTHAU, Jr.

Secretary of the Treasury.

Hon. William S. Knudsen  
Advisor on Industrial Production  
Advisory Commission of the Council  
of National Defense  
Washington, D. C.

W.S.K.  
W.C.  
CLK:t

7-2-40

cc to Philip Young

10:42

AGREEMENT AND LEASE AND LICENSE, made this day of June, 1940, by and between His Majesty's Government in the United Kingdom (hereinafter referred to as the "Government"), represented by \_\_\_\_\_, having an office at 15 Broad Street, New York, N. Y., and TRIGENT AERONAUTICAL CORPORATION, a corporation organized and existing under the laws of the State of New York, having the principal place of business at Paterson, New Jersey, United States of America (hereinafter referred to as "Trigents"),

#### T E R M S :

**LEASE:** The Government agrees to let and demise to Wright and License Wright to use, and does hereby let and demise to Wright and License Wright to use, and Wright agrees to take and have and does hereby take and have from the Government all of the land, buildings, machinery, equipment and other facilities referred to in Schedule A hereto annexed (hereinafter sometimes referred to as "Schedule A facilities") for the term specified in Article Sixth hereof, at the rental set forth in Article Second hereof, upon all the terms and conditions set forth in this agreement,

**TAXES:** Wright agrees to pay as rent for the Schedule A facilities at the times when due the following parts of the annual local direct property taxes assessed against the Schedule A facilities in each calendar year during the term of this lease, namely 365ths of such taxes for the year 1940, all of such annual taxes for each

succeeding entire calendar year except the calendar year in which this lease terminates as to the Schedule A facilities, for which year of termination Wright shall pay an amount proportionate to that part of the year for which the term of this lease shall extend. The Government will forward to Wright any and all tax bills covering such taxes and Wright will make payment hereunder directly to the tax collecting authority and exhibit receipted bills therefor to the Government. In the event that Wright in good faith contests the validity or amount of any such tax or assessment, its obligation to pay hereunder shall be postponed until the final determination of such contest.

**THIRD:** With respect to any of the Schedule A facilities which may be not yet acquired by the Government at the date hereof, this lease shall become effective immediately upon their acquisition by the Government and the Government will from time to time, if requested by Wright, execute further leases upon the same terms as this lease with respect to such Schedule A facilities acquired after the date hereof.

**FOURTH:** Wright will, at its expense, insure the Schedule A facilities against fire and such other hazards as it normally carries with respect to its own property of a similar nature, such insurance to be for the benefit of the Government and Wright, as their respective interests may appear. In the event that any insurance money is paid to the Government upon loss of or injury to any of the Schedule A facilities during the term of this lease,

the Government will pay such sum to Wright to be expended by Wright as its agent in acquiring new facilities to replace as nearly as may be such lost or injured facilities; such new facilities shall be the property of the Government and shall be subject to this lease in the same manner as the lost or injured facilities so replaced.

FIFTH: During the term of this lease of the Schedule A facilities Wright will have complete charge and control of all the said facilities and the right to use the same for the manufacture of airplane motors and related devices, electrical and mechanical products, devices relating to aircraft and similar uses, and for any purpose in connection with the conduct of Wright's business, it being understood that Wright will devote the Schedule A facilities hereby leased or facilities owned by it of substantially equivalent productive capacity in performing the engine purchase contract between the Government and Curtiss-Wright Corporation dated June , 1940 which provides for expedited deliveries beyond the capacity of the facilities now owned by Wright. Wright will exercise the same degree of care and prudence in the handling of the Schedule A facilities as in the case of its own facilities but shall not be liable for any loss or damage affecting any of the Schedule A facilities not caused by its own wilful act or gross negligence.

SIXTH: This lease of the Schedule A facilities shall begin on the date hereof and terminate upon the 180th day after Wright shall cease to be under obligation to

deliver any engines to the Government under the contract between Curtiss-Wright Corporation and the Government dated June , 1940, or any contract in exercise of the prior rights granted in Article XXIV thereof, or upon the 180th day after the cessation of the National Emergency declared by the President of the United States on September 8, 1939 to exist, whichever date is later.

**SEVENTH:** Upon the termination of this lease of the Schedule A facilities Wright will surrender to the Government all of the said facilities in their then condition and the Government will take the same, remove from premises owned by Wright all of such leased facilities as may be located thereon or therein and, in view of the expense to which it is contemplated that Wright will be put to rearrange and relocate its own facilities upon the surrender of the Schedule A facilities hereby leased, the Government will pay Wright a relocation fee of \$1,855,000. Such relocation fee shall be payable in full upon the termination of the lease of the Schedule A facilities and shall constitute a lien against all the said facilities from the date of termination of the lease until paid. Wright shall be entitled to instal any machinery, equipment and other facilities owned by it on or in any of the land and buildings listed in Schedule A and to remove the same upon the termination of this lease of the Schedule A facilities, or at any time prior thereto.

**EIGHTH:** It is contemplated that the building listed as Item No. on Schedule A hereto will be erected on premises owned by Wright and described in Schedule B hereto. Wright agrees to let and demise and hereby does let and demise to the Government and the Government agrees

to take and hire and hereby does take and hire from Wright the premises described in Schedule B hereto for a period beginning on the date hereof and ending at the expiration of two years after termination of the lease herein of the Schedule A facilities. At the expiration of this lease as to said land described in Schedule B, the Government shall have a right of renewal with respect to said land for a further period of two years at a rental to be fixed by appraisal, the Government and Wright each to name an appraiser, and in the event of disagreement between them such two appraisers to name a third appraiser, the rental fixed by any two appraisers to govern.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be signed and sealed in quadruplicate by their respective officers or representatives thereunto duly authorized on the day and year first above written.

HIS MAJESTY'S GOVERNMENT IN THE  
UNITED KINGDOM

By \_\_\_\_\_

Attest:

\_\_\_\_\_

WRIGHT AERONAUTICAL CORPORATION

Attest:

By \_\_\_\_\_

Vice-President

\_\_\_\_\_

## THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

July 8, 1940

Dear Secretary Morgenthau:

Many thanks for your letter of July 8 with which was enclosed a copy of the draft of agreement of lease and license to be entered into between Wright Aeronautical Corporation and His Majesty's Government in the United Kingdom.

We have today written the Wright Corporation withdrawing objection to the lease.

Very truly yours,



W. S. Knudsen

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

(Photostatic copy to Arthur Purvis 7/10/40 per McKay)

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

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

MEMORANDUM FOR THE SECRETARY:

JULY 3, 1940.

Re Shipping Situation.

The Association of American Railroads reports the volume of export business handled through the Port of New York in June exceeded that for any month since the beginning of the war. Some of the railroads show an increase in June of over 200% compared with the previous month.

The average number of export cars of freight lightered per day continues to run in excess of 900.

The number of cars on hand awaiting lighterage continues to average about 5000.

There are 5400 cars in railroad owned storage facilities, with room for another 10,000 cars.

Lighters on demurrage numbered 73 on July 3d.

The grain situation at New York is unchanged, with stocks of about one and a quarter million bushels. The railroad elevators at Boston are full, with a large number of cars containing grain on track under load. This is believed to be grain sent to Boston for shipment to France and it is expected that it will ultimately be moved to the United Kingdom. Railroad grain elevators in Philadelphia and Baltimore are finding employment in receiving grain from Australia which is to be transhipped to the United Kingdom.

The usual weekly report of carloadings will not be available until tomorrow on account of the July 4th holiday.

The railroads, to keep themselves in a liquid position to meet defense demands, are banning the use of open-top cars for storage purposes. This will have particular bearing on the movement of the large tonnages of export steel. The railroads have cut the

July 5, 1940.

trans-continental freight schedule by twenty-four hours. If there should be a resumption of movement of Pacific coast fruits into export this shortened overland running time will be beneficial to New York versus the direct sailings from Pacific coast ports.

The steamship and export trades are frantically endeavoring to obtain an extension of the dead line for clearance of strategic commodities on which export licenses will be required. It appears inevitable that ships scheduled to sail in the immediate future will either have to be delayed or else sail short of cargo unless some relief is obtained.

There has been an adverse turn to the Far East cargo situation, due to British-Japanese tension, which has been reflected in cancellation of cargo bookings, particularly to Hong Kong.

The growing tension in the Far East is likewise reflected in increases by underwriters of war risk insurance rates. The rate on vessels other than American-flag is 2% and on American ships 1%, compared with a maximum of 1% which was in effect several months ago.

Chartered trading continues extremely dull; the only fixture of interest being the Swedish steamer "SILJAN", Atlantic range to United Kingdom July, net form 32½¢ per cubic foot. This ship has been placed on berth from New York, Baltimore and Norfolk to Dublin and Liverpool ( and to Cork if sufficient cargo offers) by the General Atlantic Steamship Corporation, until recently affiliated with the Bernstein interests. Considerable interest is manifested in the trade as to how the operators can hope to break even.

Basil Harris

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Although sterling receded this morning from 3.75 at the opening to a noontime level of 3.73-1/2, it recovered during the afternoon, reaching a high of 3.77-1/4 late in the day. The final rate was 3.76-1/2, a gain of 1/2¢ over Saturday's close.

Sales of spot sterling by the six reporting banks and by the Federal Reserve Bank of New York totaled £283,000 from the following sources:

|   |          |
|---|----------|
| By commercial concerns.....                                   | £ 41,000 |
| By foreign banks (Europe, South America and Far East).....    | £194,000 |
| By the Federal Reserve Bank of New York (for Yugoslavia)..... | £ 48,000 |
| Total.....  | £283,000 |

Purchases of spot sterling amounted to £210,000, as indicated below:

|  |          |
|--|----------|
| By commercial concerns.....                                | £ 88,000 |
| By foreign banks (South America, Far East and Europe)..... | £122,000 |
| Total.....   | £210,000 |

The following reporting banks sold cotton bills totaling £25,000 to the British Control on the basis of the official rate of 4.02-1/2:

|                                     |
|-------------------------------------|
| £15,000 by the Chase National Bank  |
| 7,000 by the Irving Trust Company   |
| 3,000 by the Guaranty Trust Company |
| <u>£25,000 Total</u>                |

Sterling in the amount of £13,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

|   |
|---|
| £ 9,000 by the Guaranty Trust Company (for whisky and wool) |
| 4,000 by the Chase National Bank (for jute)                 |
| <u>£13,000 Total</u>  |

The Canadian dollar, which improved considerably toward the end of last week, had a weak tone today. It closed at a discount of 13-3/4%, as compared with Saturday's final quotation of 12%.

The other currencies closed as follows:

|              |                          |
|--------------|--------------------------|
| Swiss franc  | .2267                    |
| Lira         | .0505                    |
| Reichsmark   | .4004                    |
| Cuban peso   | 9-15/16% discount        |
| Mexican peso | .1993 bid, .2025 offered |

We purchased \$12,500,000 in gold from the earmarked account of the Bank of England.

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

\$18,506,000 from England, shipped by the Bank of England, to be earmarked for its own account.  
 3,648,000 from England, shipped by the Bank of England, to be earmarked for account of the National Bank of the Kingdom of Yugoslavia.  
 1,370,000 from Portugal, shipped by the Bank of Portugal, to be earmarked for its own account.  
 1,027,000 from England, shipped by the Bank of England, to be earmarked for account of the Swiss National Bank.  
 1,021,000 from England, shipped by the Bank of England for account of the Royal Norwegian Government, disposition unknown.  
25,572,000 Total

The State Department forwarded to us cables stating that the following shipments of gold were being made from England, all of which are for sale to the U.S. Assay Office at New York.

\$218,000 shipped by Sharps and Wilkins, London, to Dominick and Dominick, New York.  
 156,000 shipped by Lloyds and National Provincial Foreign Bank, London, to the Bank of London and South America, New York.  
 71,000 shipped by the National City Bank, London, to its head office at New York.  
 68,000 shipped by the Guaranty Trust Company, London, to its head office at New York.  
 43,000 shipped by Sharps and Wilkins, London, to the Chase National Bank, New York.  
 30,000 shipped by S. Japhet, London, to the Guaranty Trust Company, New York.  
 28,000 shipped by Erlangers Ltd., London, to J. & W. Seligman, New York.  
 14,000 shipped by Cohen de Smittbierer, London, to the National City Bank, New York.  
\$628,000 Total

The Bombay gold price advanced the equivalent of 9¢ to \$33.82.

Spot silver in Bombay was equivalent to 44.16¢, up 1/8¢.

In London, spot silver was unchanged at 21-11/16d, and the forward quotation was 21-5/8d, up 1/16d. The U. S. equivalents were 39.43¢ and 39.32¢ respectively.

**CONFIDENTIAL**

- 3 -

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made six purchases of silver totaling 525,000 ounces under the Silver Purchase Act. Of this amount, 225,000 ounces represented sales from inventory, and the remaining 300,000 ounces consisted of new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be 'B. M. P.', is centered on the page.**CONFIDENTIAL**

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me at my home at 6:30 p.m. on Saturday afternoon. He stated that he had just received a cablegram from his Government in regard to the report that the Treasury Department was allowing the branches in Spain of the Credit Lyonnais to draw up to 25 percent of their balances as of June 28, plus 25 percent of new deposits received thereafter. Pinsent said London was much concerned over this and desired to find out whether this represents any loosening of American control or change in policy. Pinsent was instructed to protest to us if this represented any loosening in control.

I told Pinsent that I was not directly familiar with the case under reference, but that I would take the matter up with my colleagues on Monday and let him know the facts.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau

FROM W. H. Hadley

TREASURY BONDS

| <u>Coupon</u> | <u>Term</u>                          | <u>Yield</u> | <u>Offering Price</u> | <u>Estimated Market Price</u> | <u>Premium</u> |
|---------------|--------------------------------------|--------------|-----------------------|-------------------------------|----------------|
| 2%            | 10-1/2- 12-1/2 yrs.<br>(12/15/50-52) | 1.84         | 100                   | 101.16                        | 1 pt. 16/32    |
|               |                                      | 1.88         | 100                   | 101.4                         | 1 pt. 4/32     |
| 2-1/8%        | 11-3/4- 13-3/4 yrs.<br>(3/15/52-54)  | 1.96         | 100                   | 101.18                        | 1 pt. 18/32    |
|               |                                      | 1.98         | 100                   | 101.12                        | 1 pt. 12/32    |
| 2-1/8%        | 12 - 14 yrs.<br>(6/15/52-54)         | 1.98         | 100                   | 101.12                        | 1 pt. 12/32    |
|               |                                      | 2.00         | 100                   | 101.6                         | 1 pt. 6/32     |
| 2-1/4%        | 13-1/2- 15-1/2 yrs.<br>(12/15/53-55) | 2.12         | 100                   | 101.16                        | 1 pt. 16/32    |
|               |                                      | 2.14         | 100                   | 101.8                         | 1 pt. 8/32     |
| 2-1/4%        | 13-1/2- 16-1/2 yrs.<br>(12/15/53-56) | 2.13         | 100                   | 101.12                        | 1 pt. 12/32    |
|               |                                      | 2.15         | 100                   | 101.4                         | 1 pt. 4/32     |
| 2-1/4%        | 13-3/4- 15-3/4 yrs.<br>(3/15/54-56)  | 2.14         | 100                   | 101.10                        | 1 pt. 10/32    |
|               |                                      | 2.16         | 100                   | 101.2                         | 1 pt. 2/32     |
| 2-1/4%        | 13-3/4- 16-3/4 yrs.<br>(3/15/54-57)  | 2.15         | 100                   | 101.6                         | 1 pt. 6/32     |
|               |                                      | 2.17         | 100                   | 100.30                        | 30/32nds       |

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau  
FROM Mr. Haas

The Work Projects Administration reports that 1,666,000 persons were employed during the week ended June 26, 1940, a decline of 48,000 from the number employed during the preceding week. This indicates a decrease of 259,000 persons since the end of May.

Attachments

**WORK PROJECTS ADMINISTRATION**  
**Number of Workers Employed - Monthly**  
**United States**

|           | Number of Workers<br>(In thousands) |
|-----------|-------------------------------------|
| 1938      |                                     |
| January   | 1,901                               |
| February  | 2,075                               |
| March     | 2,445                               |
| April     | 2,582                               |
| May       | 2,678                               |
| June      | 2,807                               |
| July      | 3,053                               |
| August    | 3,171                               |
| September | 3,228                               |
| October   | 3,346                               |
| November  | 3,287                               |
| December  | 3,094                               |
| 1939      |                                     |
| January   | 2,986                               |
| February  | 3,043                               |
| March     | 2,980                               |
| April     | 2,751                               |
| May       | 2,600                               |
| June      | 2,551                               |
| July      | 2,200                               |
| August    | 1,842                               |
| September | 1,790                               |
| October   | 1,902                               |
| November  | 2,024                               |
| December  | 2,152                               |
| 1940      |                                     |
| January   | 2,266                               |
| February  | 2,324                               |
| March     | 2,288                               |
| April     | 2,092                               |
| May       | 1,925                               |
| June      | 1,666                               |

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

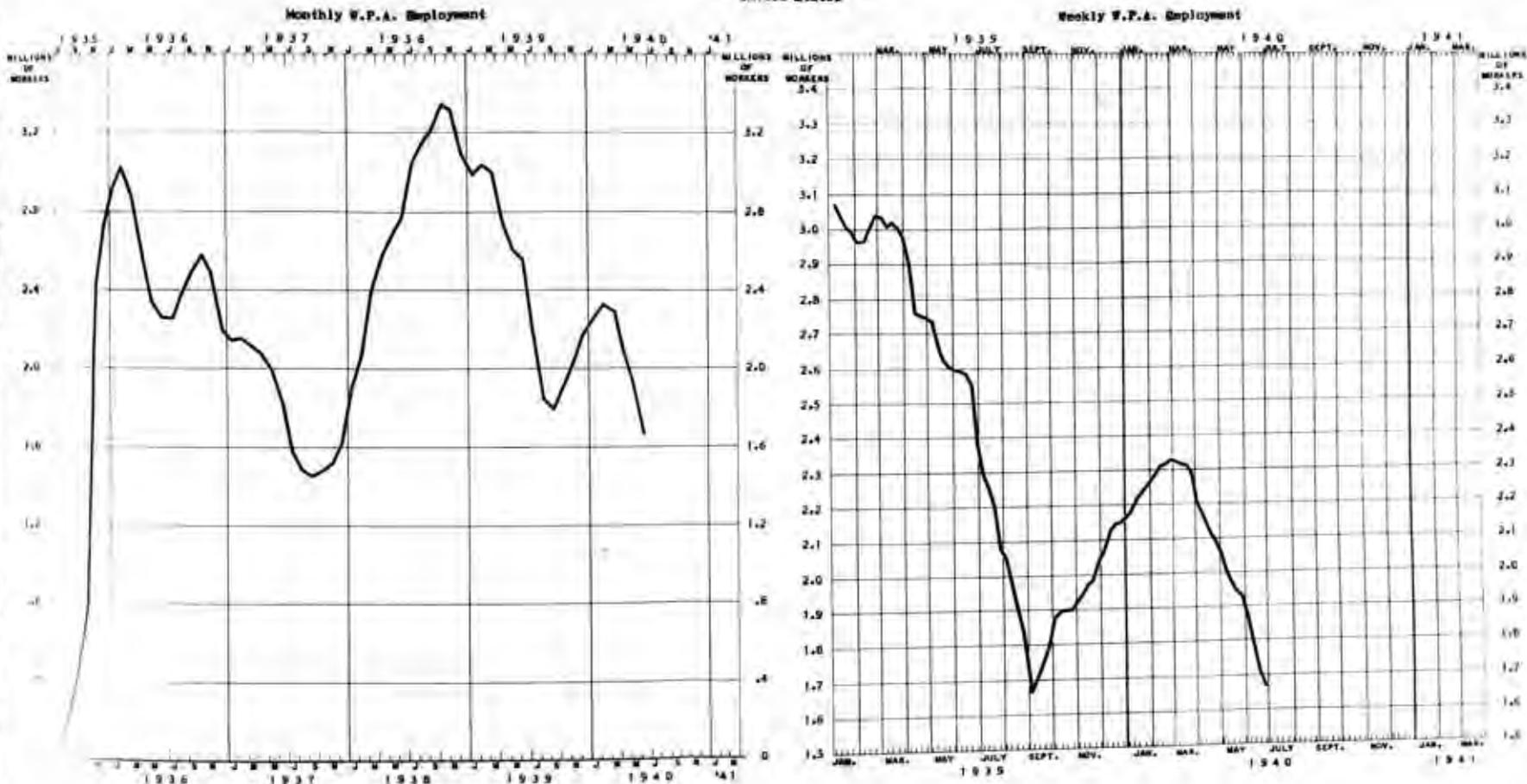
WORK PROJECTS ADMINISTRATION  
Number of Workers Employed - Weekly  
United States

| Week Ending<br>1939-40 | Number of Workers<br>(In thousands) |
|------------------------|-------------------------------------|
| December 6             | 2,075                               |
| December 13            | 2,123                               |
| December 20            | 2,144                               |
| December 27            | 2,152                               |
| January 3              | 2,160                               |
| January 10             | 2,190                               |
| January 17             | 2,222                               |
| January 24             | 2,244                               |
| January 31             | 2,266                               |
| February 7             | 2,288                               |
| February 14            | 2,306                               |
| February 21            | 2,319                               |
| February 28            | 2,324                               |
| March 6                | 2,324                               |
| March 13               | 2,319                               |
| March 20               | 2,312                               |
| March 27               | 2,288                               |
| April 3                | 2,204                               |
| April 10               | 2,162                               |
| April 17               | 2,118                               |
| April 24               | 2,092                               |
| May 1                  | 2,059                               |
| May 8                  | 2,008                               |
| May 15                 | 1,970                               |
| May 22                 | 1,945                               |
| May 29                 | 1,925                               |
| June 5                 | 1,859                               |
| June 12                | 1,785                               |
| June 19                | 1,714                               |
| June 26                | 1,666                               |

$$\begin{array}{r} 2324 \\ 1666 \\ \hline 658 \end{array}$$

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed  
United States



SOURCE: WORK PROJECTS ADMINISTRATION

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

On July 6 Mr. Livesey telephoned me from the State Department to the effect that the F. B. I. had made available to his Department confidentially a report upon the Banca de la Nacion of Buenos Aires, which institution has extended a credit through the Central Hanover Trust of \$200,000 to the Italian Lines. It was stated that the Italian Lines had in turn approached the Central Hanover for a special arrangement in regard to paying out this sum, the purpose whereof is said to be to pay for oil and foodstuffs obtained in this country.

I told Mr. Livesey that we were interested in receiving information of this kind. He hesitated to send a copy of the report to us, since it was received as strictly confidential for the Department of State. He thought we might desire in the Treasury Department to arrange for such reports to be received by us directly from F. B. I. With the Secretary's approval, I should like to ask Assistant Secretary Gaston to make this arrangement.



July 11, 1940

After consultation with the Secretary I informed Mr. Livesey and Mr. Gaston's office that we are already receiving pertinent information from the F. B. I.



## TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 8, 1940.

TO Secretary Morgenthau  
 FROM Mr. Haas *HA*  
 Subject: The Business Situation,  
 Week ending July 6, 1940.

Conclusions

(1) While the significance of current business statistics is obscured by Fourth of July holiday influences, business activity appears to be making further gradual gains. The percentage decline in steel output during the holiday week was less than in either of the two previous years, and this week a rise to 86.4 per cent of capacity carries the steel rate to within .1 point of the pre-holiday rate. The FRB index for June is now estimated tentatively by the Board at 115, an increase over earlier estimates. During the last week of June the New York Times index reached an FRB equivalent of 118.

(2) Recent developments of a favorable nature include:

(a) A three weeks' rise in our "index of confidence", which suggests that investors are taking a more optimistic view of the outlook for corporate profits.

(b) A tendency toward improvement in prices of farm products.

(c) A further expansion in automobile sales during the last period of June, which may raise the June total to an increase over May for the first time in recent years.

(3) Unless the actual production of materials for the defense program contributes materially to business activity within a few months, industrial output may level off for a time not far from present levels. This might result in some decline in the seasonally-adjusted business indexes during the fall. In any case, to make most effective utilization of our industrial capacity and labor force the next few months might well be used for increased production of civilian goods, in order to avoid later competition with defense needs. A considerable movement toward anticipating later requirements of such goods is already under way in industry.

Secretary Morgenthau - 2

Business gains continue at slower pace

The disruption of business activity by the Fourth of July holiday, for which adequate seasonal correction is not possible, obscures the significance of current weekly business indices. The general trend, however, appears to be gradually upward, contrasting somewhat with the sharp gains made during May and early June. Some evidence of a continued rising trend appears in the relatively moderate percentage decline in steel output over the holiday, and the prompt recovery this week. The decline of 14 per cent compares with 29 per cent last year and 22 per cent in 1938. In the three previous years, however, the holiday decline was less than this year.

For the week ended June 29, another fractional gain in the New York Times index carried the index to an FRB equivalent of 118. (See Chart 1.) This compares with an FRB index of 106 (revised) in May, and a tentative estimate recently made by the Federal Reserve Board of about 115 for the month of June. (Lower section of chart.) Our weekly estimates for June average 116.

The trend of business activity over the next several months will depend to an important degree, of course, upon the rapidity with which the defense program is translated into actual production. Much of the rise so far has been due to anticipation of this program, particularly with respect to steel production, and inventories of steel products have been built up to rather high levels. The fact that the increased activity has occurred during a period of normal seasonal slackening has exaggerated the rise as measured by seasonally-adjusted indexes.

For adjusted production indexes to maintain their present levels, there must be superimposed on present industrial activity the seasonal increase in activity that normally occurs during the fall months. The present backlog of unfilled orders for steel and certain other products, and the rising trend of consumer buying, will help in that direction, but it is not yet clear whether these will be sufficient to maintain production until the defense program becomes a more active strengthening factor.

During the period before the defense program begins to put heavy demands on industrial capacity and skilled labor in various industries, it would seem advantageous to anticipate civilian needs as far as practicable. A considerable volume of anticipatory production is already being done on the initiative of industry. Similarly, a movement to induce consumers to stock up with coal now, to alleviate railroad congestion next winter, is under way.

#### The steel situation

Steel orders recently have shown irregular fluctuations, instead of climbing steadily as they did during May. (See Chart 2.) Orders reported by the U. S. Steel Corporation for the week ended June 27 fell back to 86 per cent of capacity, from 108 per cent in the previous week. While new orders in June for the entire industry are reported to have been the highest for the month of June since 1929, the total has been considerably below the volume booked last October, as the U. S. Steel figures indicate.

This raises the question whether steel output is likely to reach the peak levels of last November unless new orders show further improvement, particularly since steel inventories have been accumulating at the mills for several months. The fact that the U. S. Steel Corporation has been operating at a higher rate than the independent companies during the past month (lower section of chart) is some indication that the independent companies have received a relatively smaller volume of orders.

There were further declines in prices of scrap steel last week, the Iron Age composite price being 66 cents lower, at \$18.92 a ton. The weakness is ascribed in part to scrap originally destined for Japan coming back on the domestic market, the offering by the Italian government of 60,000 tons which had already been loaded for shipment, and a general tendency for domestic sellers to offer more freely and for buyers to reduce their bids. Another steel cost component, however, has advanced in Pittsburgh: beehive coke (used in making pig iron) was marked up 50 cents a ton to \$4.50. Production of beehive coke has been relatively heavy over the past several months, owing to some tightness in supplies of by-product coke.

Secretary Morgenthau - 4

Estimated carloadings of coke for June were higher than at the peaks in 1936 and 1937.

Domestic confidence improving

An indication that confidence in the outlook for industrial profits is increasing is provided by a three weeks' upturn in our calculated "index of confidence" derived from relative yields on high grade and second grade bonds. (See Chart 3.) The upturn, which has carried the index nearly back to the level prevailing before the invasion of Holland and Belgium, suggests that investors have again turned toward second grade bonds (for speculative profits) rather than putting their money into high grade bonds for safety.

Increased consumer confidence is indicated by a further contra-seasonal gain in automobile sales during the last period of June, and by increased retail store sales. Retail deliveries of Chevrolets during the final 10 days of the month were 15 per cent ahead of the previous 10 days, and 37 per cent higher than in the same period of 1939. Sales of the Chrysler Corporation for the week ending June 29 were the highest in the corporation's 15-year history. Total sales for the industry in June are estimated in the trade at 5 per cent above May, the first June increase in recent years. Sales have been stimulated to some extent by the threat of probable price increases.

The increase in retail buying of other products during June has carried the Federal Reserve adjusted index of department store sales to 93, which is 6 points above the May figure and the highest since last December.

Chemical industry more active

Available data indicate that domestic consumption of chemicals for the first 5 months of the current year ran about 17 per cent ahead of the corresponding period of 1939. The figures for May were only about 9 per cent below the peak figure of last October, and in some quarters it is expected that the industry will reach new record highs before the end of the year.

Most of the domestic peace time industries which are heavy consumers of chemicals have been operating at high levels. A possible exception is the fertilizer industry, since available data indicate that fertilizer sales have been only moderately above 1939 levels. The rate of production in the paper industry, exclusive of paper board, was 94.5 per cent during the last week of June, as compared with 81.2 per cent a year ago. Likewise, such important consumers of chemicals as the petroleum, rayon and glass industries have been very active, although some nearby recession may occur in petroleum production as a result of measures to cut overproduction, and in rayon as a result of seasonal influences.

However, in addition to the good volume of business which has been accruing to the industry from peace time requirements, prospects are further improved by the stimulus to be received from the national defense program. This will not only expand the demand for chemicals to be used in explosives and for other military requirements, but will also indirectly increase demand as a result of the activity in such industries as iron and steel. Exports of chemical products have expanded sharply and have shown even greater relative improvement than has domestic consumption. In the first 5 months of the current year, exports of chemicals and related products increased more than 55 per cent over the corresponding period of 1939.

#### Agricultural prices higher

The movement of commodity prices during the past week has been featured by an improving trend in prices of agricultural products, a continuation of which would tend to strengthen agricultural purchasing power. In the futures markets (see Chart 4) cotton, wheat, lard, and cottonseed oil have all improved somewhat during the week, and cash prices for hogs and beef have extended the rising trends of the past several weeks. Wheat prices have improved slightly on reports of drought conditions in the spring wheat territory and a moderate reduction in private crop estimates.

Prices of industrial materials, on the other hand, have levelled out or weakened somewhat. (See Chart 5.) Copper and lead prices are now at the lowest levels since the beginning of the war.

Secretary Morgenthau - 6

New orders index lower

Influenced perhaps by the approaching Fourth of July holiday, our new orders index for the last week of June dropped to 130 from 172 in the previous week. (See Chart 6.) New orders in all three major groups, as the chart shows, were somewhat lower than in the previous week.

Gains shown by weekly business indexes

A moderate gain of .4 in the New York Times index for the week ending June 29 marked the ninth consecutive advance, carrying the index to 103.2.

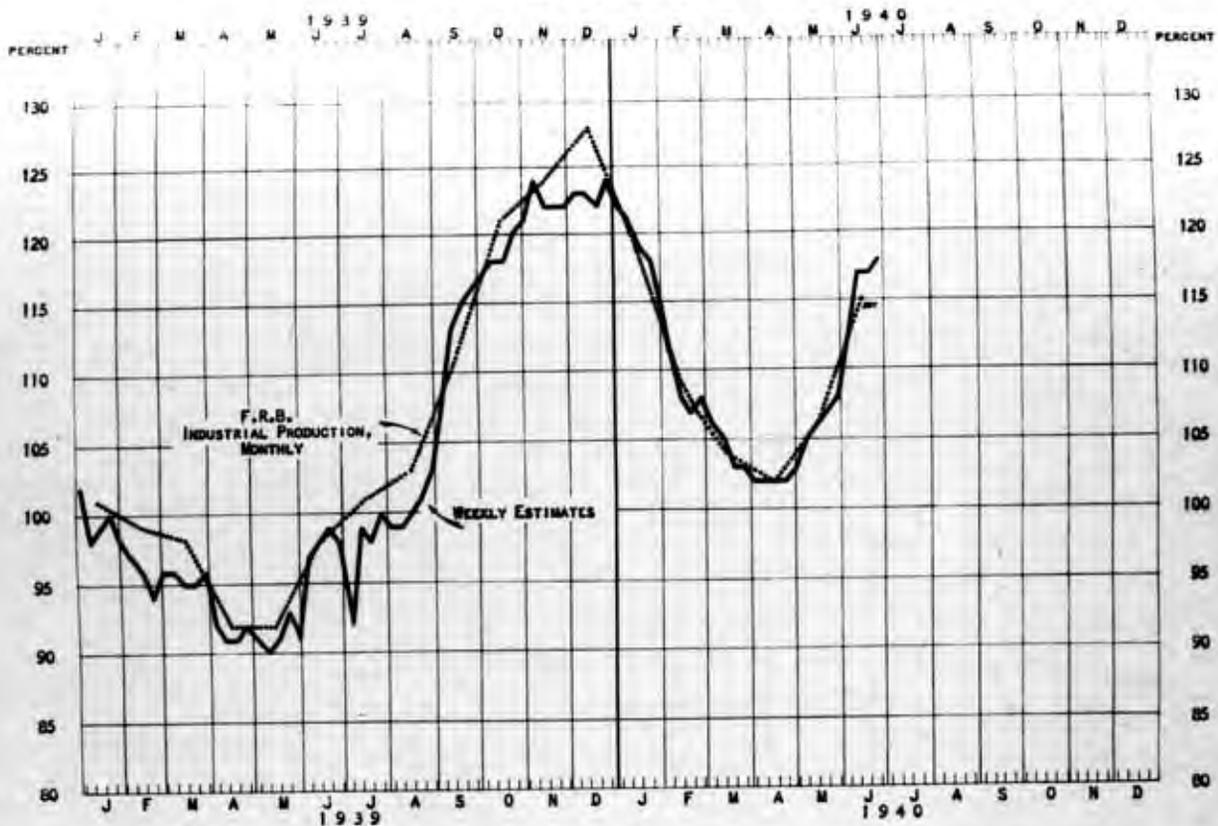
The principal factors in the rise were a greater than seasonal gain in miscellaneous freight car loadings and a contra-seasonal rise in cotton mill activity, although the index of steel ingot production also again contributed noticeably to the upturn. Although total freight car loadings reached the highest level since the week ending November 18, 1939, the index of "all other" carloadings actually declined, along with the indexes of electric power and automobile production.

This marks the eleventh consecutive rise in the index of steel ingot production -- a sustained trend which has resulted from actual steel operations rising substantially in the face of a normally declining seasonal trend. During the last three weeks in July, however, the normal seasonal factor calls for a rising rate of operations, and in view of the high level of activity already attained, a levelling off or actual decline in the seasonally-corrected index of steel mill activity in the near future would not be surprising.

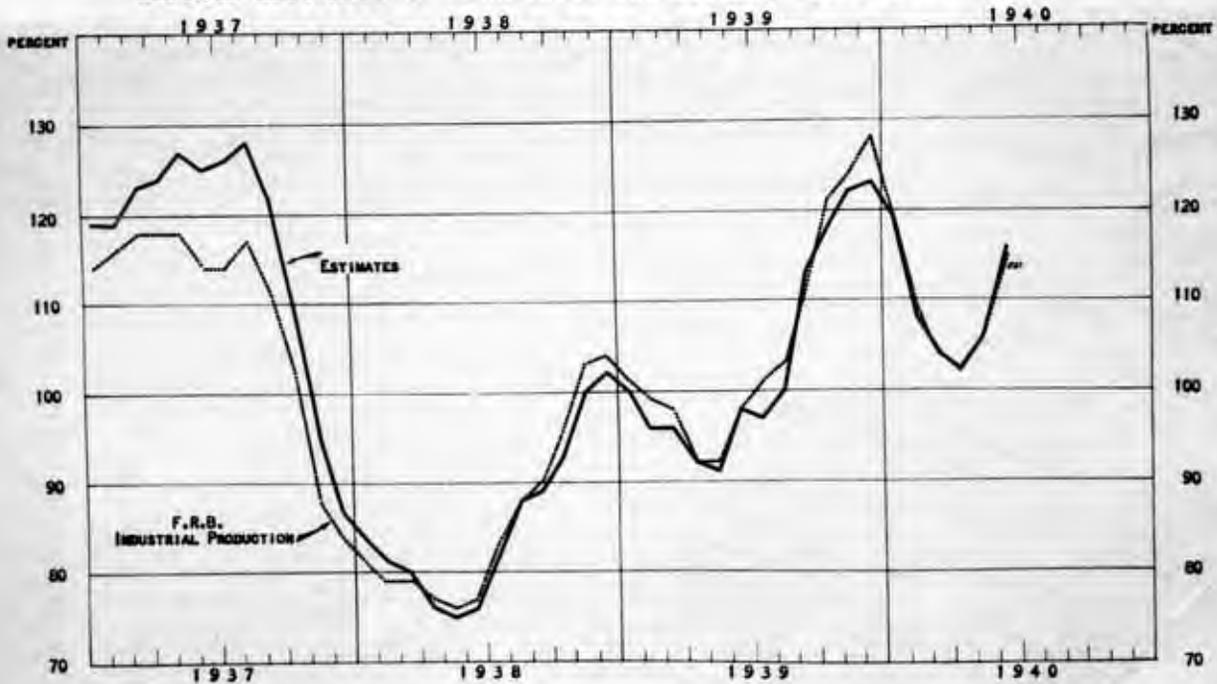
Barron's index of business activity for the week ending June 29 rose to 113.1 from 111.7 in the previous week, thus advancing somewhat more rapidly than the Times index.

Preliminary data for the week ending July 6 reveal declines as a result of the holiday. However, the decline in steel operations is estimated to have been of only seasonal proportions so that no change in the adjusted index occurred. On the other hand, most automobile plants worked only three days, and production dropped nearly 35,600 units to 51,975. Nevertheless, this was still 9,200 units over the corresponding week in 1939. A fairly good recovery in production is likely during the current week, after which a steady and marked decline should seasonally occur until the beginning of production of new models.

**WEEKLY ESTIMATES OF F.R.B. INDEX OF INDUSTRIAL PRODUCTION BASED  
ON N.Y. TIMES INDEX**  
1923 = 25 = 100, Adj.

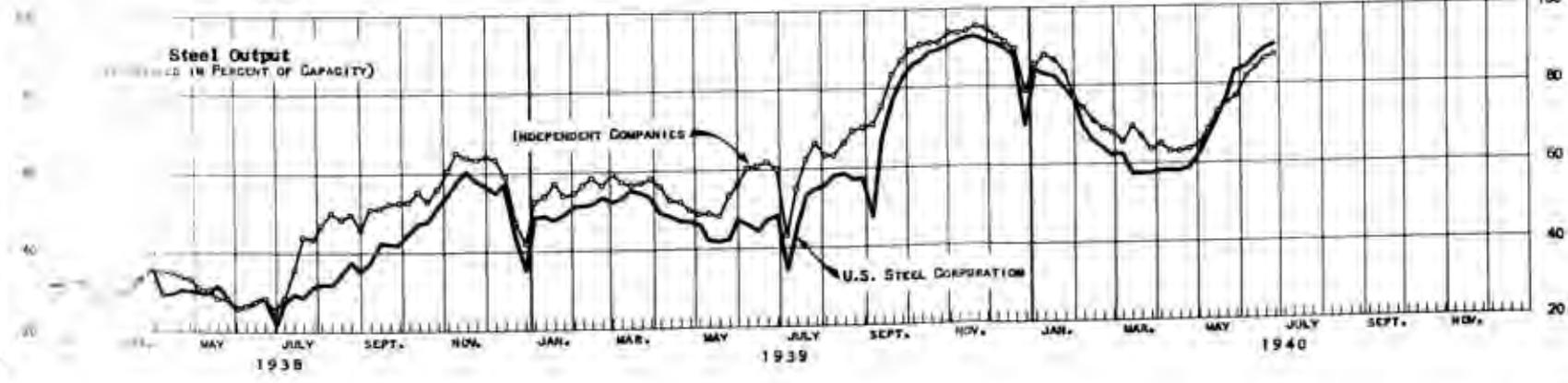
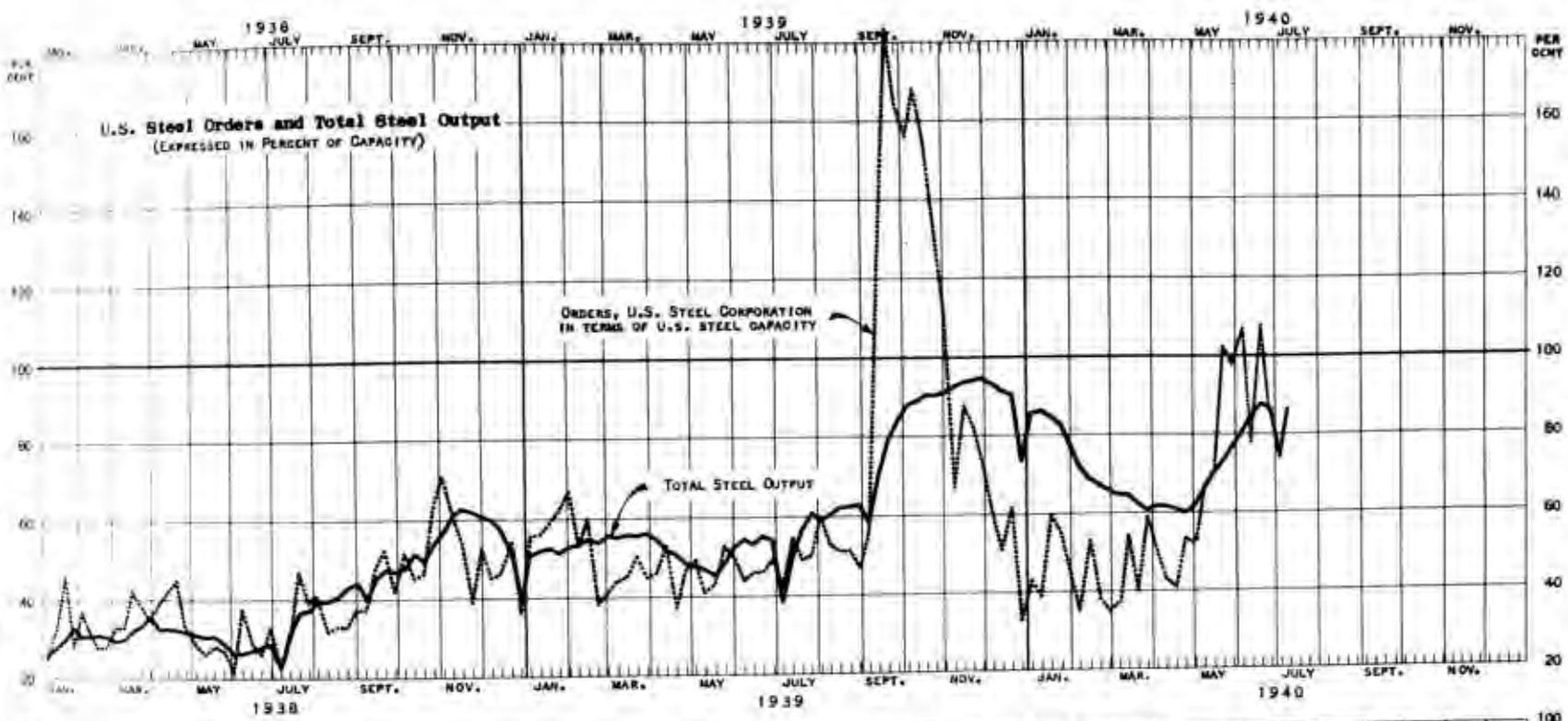


**MONTHLY ESTIMATES OF INDUSTRIAL PRODUCTION, BASED ON N.Y. TIMES**

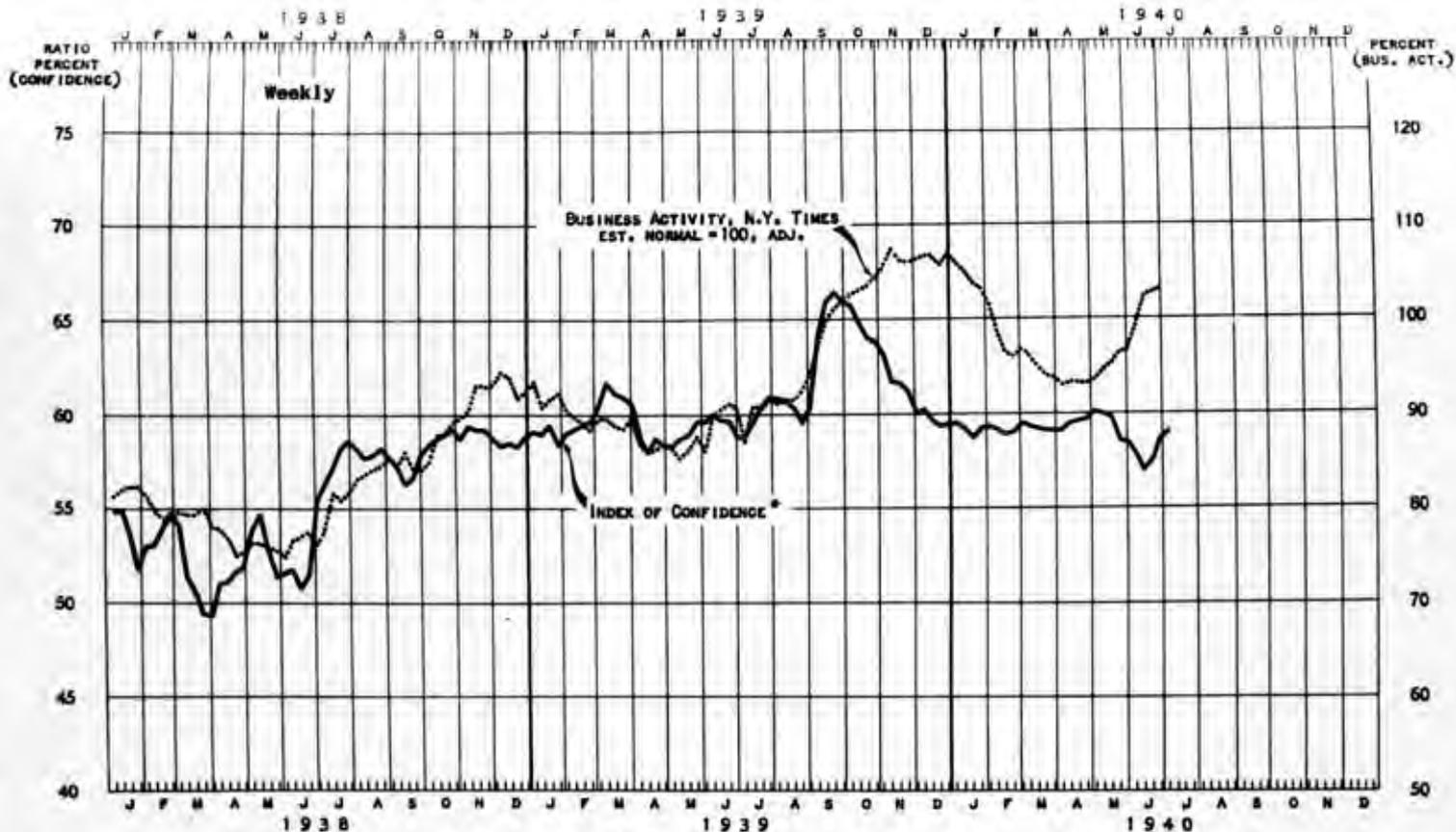


STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS

Chart 2  
CONFIDENTIAL



INDEX OF CONFIDENCE\* AND BUSINESS ACTIVITY



\* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

Office of the Secretary of the Treasury  
Division of Research and Statistics

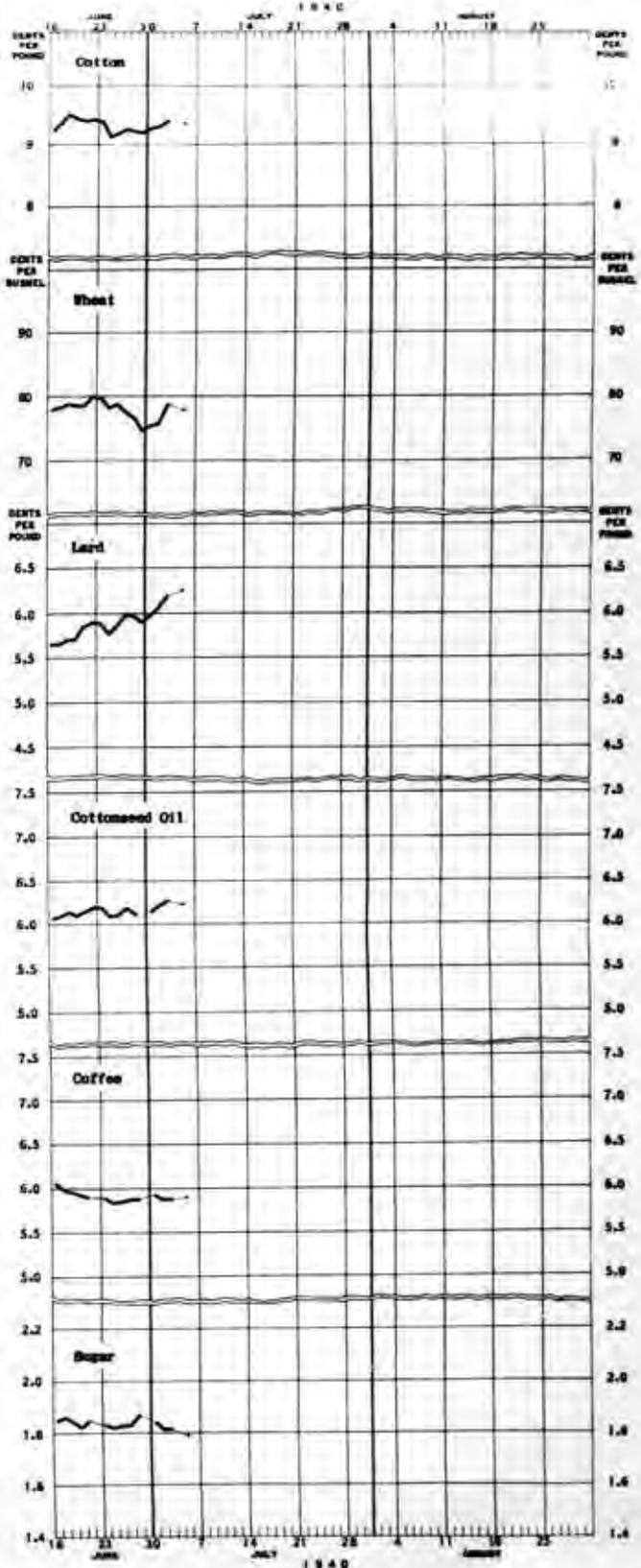
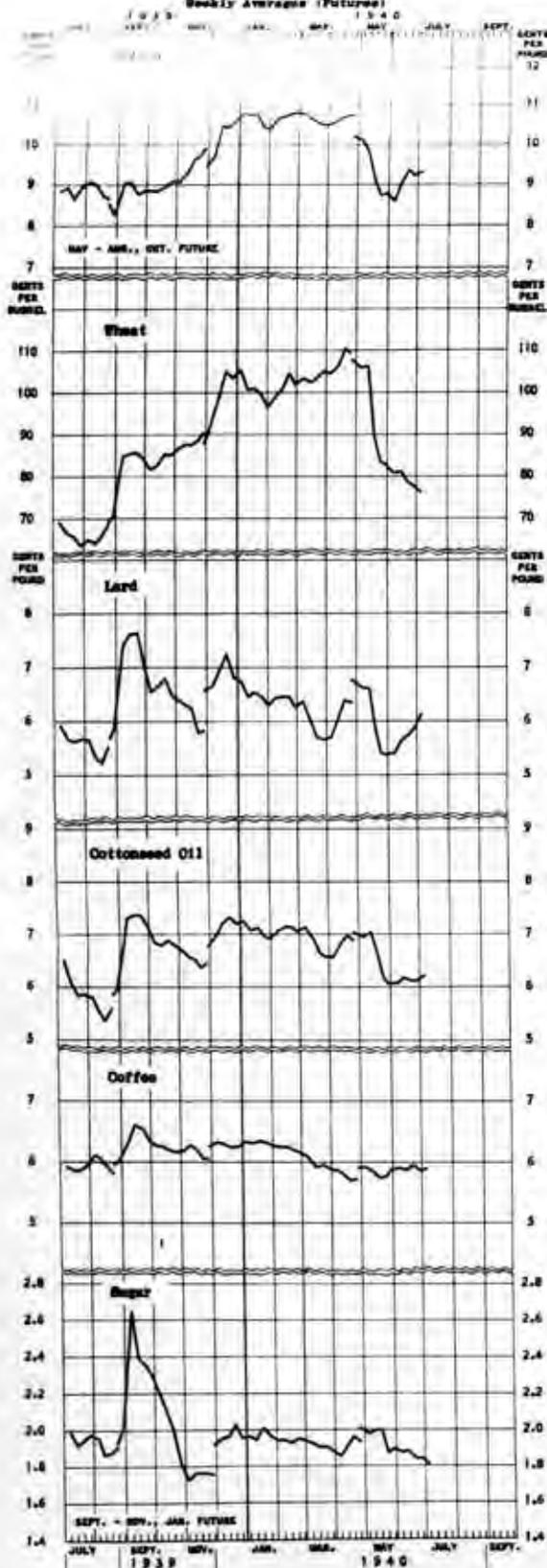
C-297

422 Chart 3  
CONFIDENTIAL

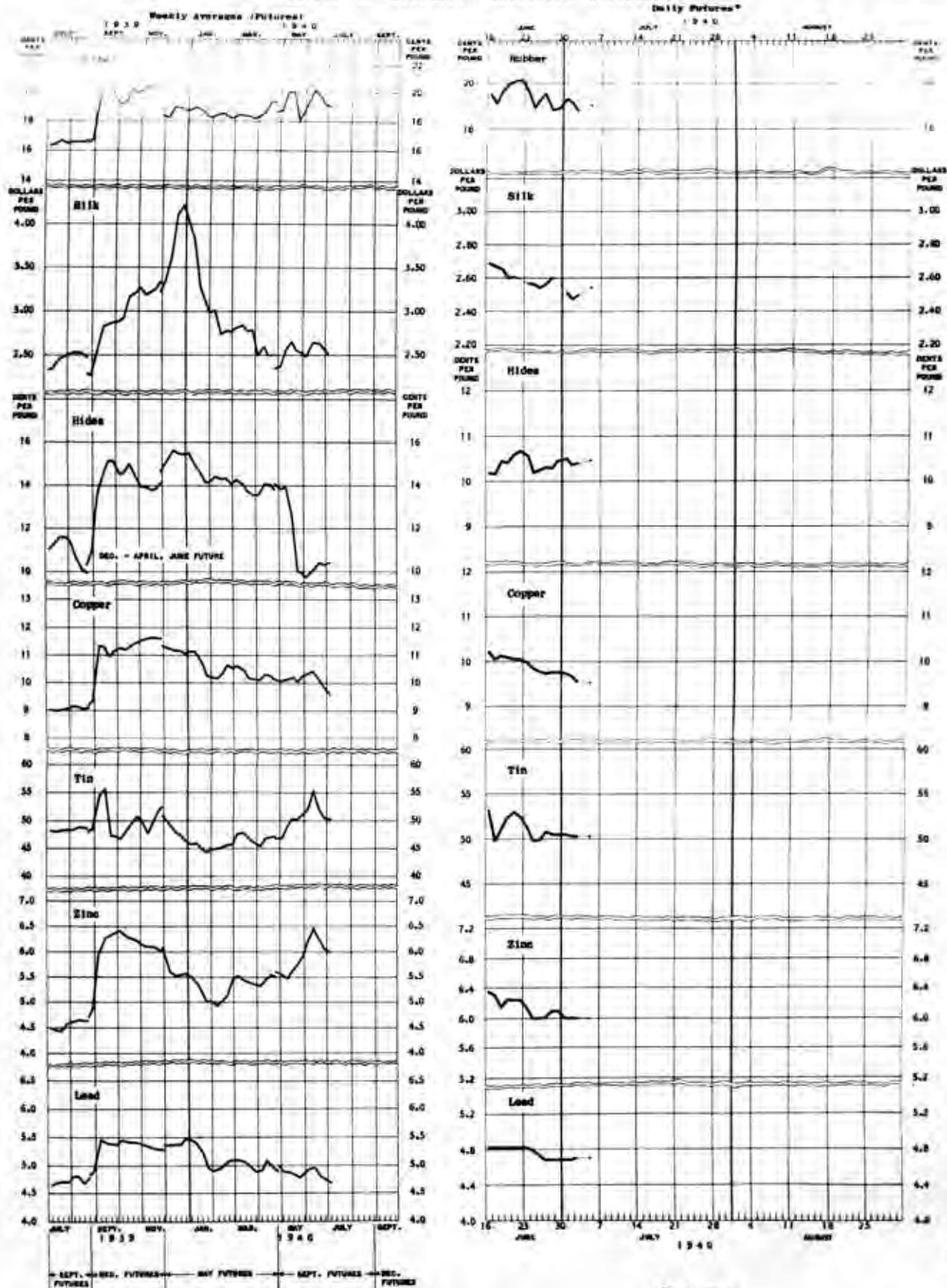
PRICES OF SELECTED AGRICULTURAL COMMODITIES

Weekly Average (Futures)

Daily Futures\*

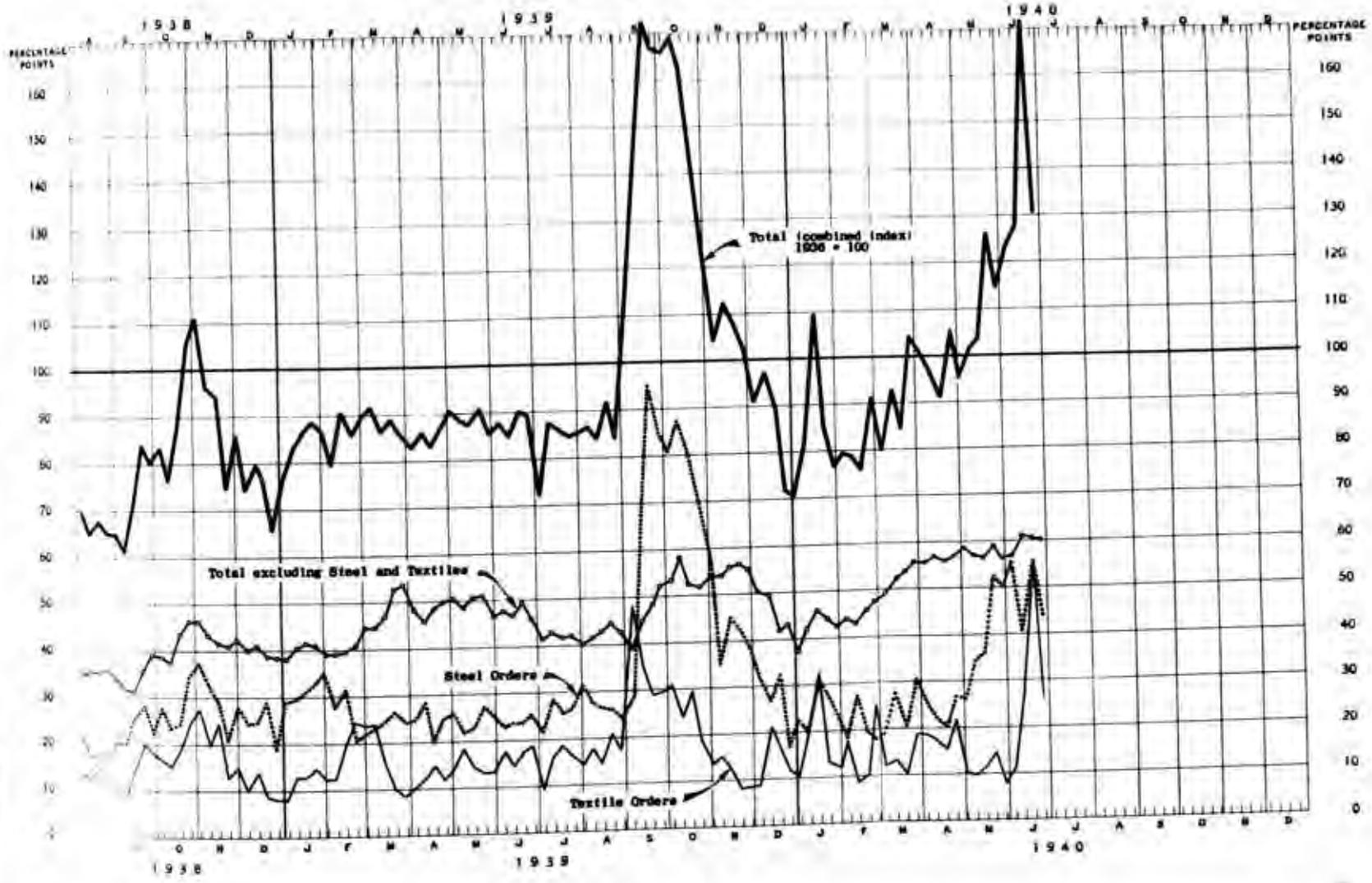


PRICES OF SELECTED INDUSTRIAL MATERIALS



### INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Youngs, the partner in Dominic & Dominic in New York who handles their foreign business, was referred to me this morning by Governor Szymczak of the Federal Reserve Board. Mr. Youngs gave me some idea of the business of his concern in holding securities belonging to Europeans, principally Swiss and French. He said some of these custodian accounts were quite old having been inherited from Islein & Company when his present firm took over that concern's business.

Mr. Youngs' purpose was not to discuss individual cases, but to find whether we could give him any information as to our long term planning on the freeing of accounts of invaded countries. He said that this custodian business was quite important for his concern. To handle it properly, he hoped for information as soon as it may be available as to how we plan to wind up the present system. That is, will some institution such as the office of Alien Property Custodian be set up or will the funds be freed to their owners as soon as hostilities cease or peace arrangements are effected?

Mr. Youngs stressed the nervousness of Swiss capitalists over the outlook. Some of these have already taken up residence in this country and are willing to remain here if their presence may help in preserving their fortunes. The question as to whether they should remain, whether they should set up corporations here to handle their business, et cetera, depends in part upon the policy which this Government may pursue. Mr. Youngs reminded me that our requirement for disclosure of names in connection with European assets on this market may reveal information which could possibly lead to the imposition of the death sentence by Germany, or of heavy prison sentences by other countries. The question arises as to whether in our efforts to be helpful and honest custodians, we may go too far along rigid and puritanical lines and defeat the plans of capital holders who have sent out refugee money to escape war and its consequences or, perhaps originally in some cases, to get out of reach of governments in which the owners no longer had confidence.

Mr. Youngs feels that we may injure the growth of New York as a banking and investment center if we do not move carefully. He is sympathetic with the idea of our doing everything possible to perform good custodianship.

I told Mr. Youngs that we were considering all phases of this business very thoroughly. On the other hand, we should appreciate receiving from him any observations, written or oral, which his firm might care to make as a result of its experience and based on its contacts with foreigners having assets on this market.

I endeavored to place Mr. Youngs in touch with Mr. Pehle, since the two are acquainted, but Mr. Pehle was engaged. Mr. Youngs is interested in the Westersche Bank case.

July 8, 1940

CONFIDENTIAL

My dear Mr. Secretary:

I have had a very thorough study made in the Treasury of your letter of March 22, 1940, and the enclosed tentative draft of a bill entitled "To extend protection to the civil rights of members of the Military and Naval Establishments of the United States engaged in the present war."

This draft appears to be a slight revision of the Act of March 8, 1918, and has been prepared for presentation to Congress in the event of a national emergency.

I am entirely in accord with the purposes sought to be attained by the proposed Act. However, certain changes appear to me to be desirable:

1. Reference to personnel of the Lighthouse Service should be eliminated from section 101(1). The former Bureau of Lighthouses was consolidated with the Coast Guard in this Department by Reorganization Plan No. 11 issued pursuant to authority of the Reorganization Act of 1939. Personnel of the former Bureau of Lighthouses are therefore included in the definition of the term "persons in military service" either as members of the Coast Guard or as civilian clerks and employees on duty with the military or naval forces of the United States.

2. It has been suggested to me that the protection of the Act should be extended to those persons who are being trained or educated under the supervision of the United States as a preliminary to being inducted into the regular military service on active duty. This can be attained by inserting as a final clause of the first sentence in section 101(1) the following: "as well as those persons undergoing training or education under the supervision of the United States preliminary to induction into the regular military service", and by adding at the end of the succeeding sentence the following: "as well as training or education

under supervision of the United States preliminary to induction into the regular military service."

3. Section 201 provides that any action by or against a person in military service shall be stayed unless such military service does not affect the prosecution or defense of the action. This section as now drawn might be construed to be limited to actions commenced after the beginning of the period of military service. A person in the military service might be seriously prejudiced by an action which was commenced prior to the period of such service being brought to trial during such service. The following revision of section 201 is therefore suggested to avoid this possibility:

"Sec. 201. That at any stage thereof any action or proceeding in any court in which a person in military service is involved, either as plaintiff or defendant, during the period of such service or within sixty days thereafter may, in the discretion of the court in which it is pending, on its own motion, and shall, on application to it by such person or some person on his behalf, be stayed as provided in this Act, unless, in the opinion of the court, the ability of the plaintiff to prosecute the action or the defendant to conduct his defense is not materially affected by reason of his military service."

4. In the third line on page 80 of the draft, the word "period" has been inadvertently included twice and should be amended where it first occurs.

5. A more serious difficulty arises in connection with article IV of the proposed Act. This article, in effect, provides for the guarantee by the United States of premiums of certain classes of insurance policies, the guarantees to be through the issue of bonds of the United States. Bonds so issued would not be an exercise of the borrowing power of Congress, but would depend entirely upon the war powers and would result in the issue of public debt obligations without any balancing receipt by the Treasury. Moreover, there is no provision for the payment of interest or of principal out of any funds available, nor has any provision been made for the expaen of issue. I am submitting herewith a redraft of article IV from section 407 to the end, providing for the same of satisfaction by the Administrator of Veterans' Affairs in lieu of the bonds provided for in the original draft.

You may feel that in view of the suggestions I have made a conference of the interested Departments is desirable. Representatives of the Treasury Department will be available for any such conference or for preliminary meetings with representatives of your Department if you so desire.

In view of the problems presented to the Treasury there are several officials of the Department whose consideration is necessary as a preliminary to any conference. I would, therefore, appreciate the receipt of at least three additional copies of the proposed Act provided such copies are available. They will, of course, be considered as confidential.

Very truly yours,

/s/ H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

Enclosures

TWC/rhs 6/21/40

SEC. 407. That the Administrator of Veterans' Affairs shall verify the computation of monthly differences reported by each insurer and shall, within 10 days thereafter, deliver each month to the proper officer of such insurer, a certificate in the amount of the monthly difference certified in respect of each insurer. Such certificate shall be signed by said Administrator in the name of the United States, shall be in such form as the Administrator shall determine, shall be payable to the insurer within 60 days after the approval of the statement of account, as provided in Section \_\_\_\_\_ hereof, and shall bear interest at the rate of \_\_\_\_\_ percent per annum, payable with the principal. Such certificate shall not be transferred except with the approval of said Administrator and shall remain with the insurer until settlement is made in accordance with this Article.

SEC. 408. That the certificate so delivered shall be held by the respective insurers as security for the payment of the defaulted premiums with interest. To indemnify it against loss the United States shall have a first lien upon any policy receiving the benefits of this Article, subject only to any lien existing at the time the policy became subject to this Act, and no loan or settlement or payment of dividend shall be made by the insurer on such policy which may prejudice the security of such lien. Before any dividend is paid or any loan or settlement is made the written consent of the Veterans' Administration must be obtained.

- 2 -

SEC. 409. That in the event that the military service of any person being the holder of a policy receiving the benefits of this Article shall be terminated by death, the amount of any unpaid premiums, with interest at the rate provided for in the policy for policy loans, shall be deducted from the proceeds of the policy and shall be included in the next monthly report of the insurer as premiums paid.

SEC. 410. That if the insured does not within one year after the termination of his period of military service pay to the insurer all past due premiums with interest thereon from their several due dates at the rate provided in the policy for policy loans, the policy shall at the end of such year immediately lapse and become void, and the insurer shall thereupon become liable to pay the cash surrender value thereof, if any: Provided, That if the insured is in the military service at the termination of the war such lapse shall occur and surrender value be payable at the expiration of one year after the termination of the war.

SEC. 411. That at the expiration of one year after the termination of the war there shall be an account stated between each insurer and the United States, in which there shall be credited to the insurer the total amount of the certificates held as security under this Article, together with accrued interest to the date of the account, and in which there shall be credited to the United States the amount of the cash surrender value of each policy lapsed

- 3 -

or forfeited as provided in section four hundred and ten, but not in any case a greater amount on any policy than the total of the unpaid premiums with interest thereon at the rate provided for in the policy for policy loans.

SEC. 412. That the balance in favor of the insurer in each case shall be certified by the Administrator of Veterans' Affairs to the Secretary of the Treasury who shall pay to the insurer the amount thereof, which is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, upon the surrender by the insurer of the certificates delivered to it from time to time by the Administrator of Veterans' Affairs under the provisions of this Article.

SEC. 413. That this Article shall not apply to any policy which is void or which may at the option of the insurer be voidable, if the insured is in military service, either in this country or abroad, nor to any policy which as a result of being in military service, either in this country or abroad, provides for the payment of any sum less than the face thereof or for the payment of an additional amount as premium.

SEC. 414. That this Article shall apply only to insurance companies or associations which are required by the law under which they are organized or doing business to maintain a reserve, or, which if not so required, have made or shall make provision for the collection from all those insured in such insurer of a premium to cover the special war risk of those insured persons who are in military service.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Belgrade

NO.: 297

DATE: July 8, 1940, 5 p.m.

I am told by the Franco-Serb Bank in Belgrade that the regulations recently inaugurated with respect to the withdrawal of French funds from the United States have greatly hampered their dealings with their American correspondent banks in New York. They have requested me to communicate with the Department in this regard. The Bank wishes to point out that when these regulations are applied to the business of the bank in Yugoslavia, interests which are entirely Yugoslav and which are controlled by Yugoslavia are adversely affected.

I told the bank that I would limit my action to communicating the complaint made to me to the Department. It is my understanding that the Minister of Yugoslavia in Washington has been asked to make representations there regarding this matter.

LANE

EA:EB

WAR DEPARTMENT

WASHINGTON

WD 523.6 (7-5-40)M-D

JUL 8 - 1940

"RESTRICTED"

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

In acknowledgement of your letter of July 1, 1940 in connection with the protection of shipments of gold bullion from New York to Fort Knox, Kentucky, I am pleased to inform you that the War Department will render gladly the assistance requested.

The Commanding General, II Corps Area, has been charged with the responsibility of carrying out the terms of the interdepartmental agreement of June 29, 1940, as pertains to the War Department.

Together with the signed agreement, there is enclosed herewith a copy of the letter of instructions to the Commanding General, II Corps Area.

Sincerely yours,



Acting Secretary of War ✓

2 Incls:  
Interdepartmental Agree-  
ment, June 27, 1940.  
Copy of Letter to  
Commanding General,  
II Corps Area.

"RESTRICTED"

Washington, D. C.,  
June 27, 1940,

CONFIDENTIAL

Subject: Protection for U. S. Treasury Department Shipments from  
New York City to Fort Knox, Kentucky.

RESTRICTED

1. In connection with the protection of certain shipments from the U. S. Treasury Department from New York City to Fort Knox, Ky., the following conditions are agreed to on the part of the Commanding General, Second Corps Area, the Treasury Department and the Post Office Department:

a. The Post Office Department shall assume complete responsibility for the protection of all shipments from the United States Assay Office at New York City to the train loading points at the railroad terminals from which terminals full train loads are dispatched. (See paragraph 1 f hereof.)

b. The Army shall assume complete responsibility for the protection of all shipments from the railroad terminal train loading points at New York City to the unloading point at the Fort Knox, Ky., Treasury vault. This protection shall begin at the moment the first portion of each shipment reaches the car loading points and continue until all portions of each shipment have reached the Treasury vault at Fort Knox, Ky.

c. It is understood and agreed to that should any emergency arise concerning the protection of the shipments, after the Army assumes responsibility and before said responsibility is terminated, that the commander of the U. S. troops shall have full and complete control, and that all representatives of the Post Office Department and the Treasury Department who may be present at the time shall accept instructions from said army commander and shall cooperate with him in every possible manner until the emergency no longer exists. The military commander of each train shall decide whether and when an emergency exists and upon the time of termination of such emergency. Until such emergency arises, the Post Office Inspector in charge of each shipment shall be in complete charge of the train.

d. The physical handling of all portions of each shipment from the United States Assay Office in New York City to the U. S. Treasury Department storage depot at Fort Knox, Ky., shall be the sole function of the Post Office Department.

e. Each shipment shall begin at a time agreed to by the Post Office Department and Treasury Department, the Commanding General, Second Corps Area, being given at least forty-eight hours notice in advance of the beginning of each shipment, initial shipment to be made on or after July 15, 1940.

RESTRICTED

Each train carrying U. S. Treasury shipments shall be made in the following manner:

- (1) Engine and tender.
- (2) Extra mail storage car (empty).
- (3) Combination coach for soldiers.
- (4) Mail storage cars.
- (5) Pullman for officers of the Treasury, War and Post Office Departments and Post Office employees.
- (6) Pullman for soldiers.
- (7) Diner.
- (8) Pullman for railroad employees.

RESTRICTED

4. The Treasury Department shall:

(1) Pay the normal rate costs of travel and per diem of one War Department liaison officer for such repeated trips between Washington, D. C. and Governors Island, N. Y., as may be necessary; the War Department to decide the time and number of such trips.

(2) Pay the normal rate costs of travel and per diem of the representative of the Commanding General, Second Corps Area, for such trips as may be necessary between Governors Island, N. Y. and Fort Hayes, Ohio, and/or Fort Knox, Ky., the Commanding General, Second Corps Area being the judge as to the number of trips to be made as well as the time of making said trips.

(3) Pay the normal rate costs of travel of all trips made between the loading points referred to herein and the point of destination of shipments, also referred to herein, and return to said loading point, by the officer representing the Commanding General, Second Corps Area, the said Commanding General being the judge as to the number of trips to be made, as well as to the time of making said trips.

(4) Arrange with the proper railway officials for the furnishing of three suitable meals each day for each enlisted man engaged in protecting the Treasury shipments from the moment the first motor truck load for each shipment arrives at the train loading point at the railroad terminal, during the journey to destination, until the last cargo is removed from the train unloading point, and during the time consumed by the return of the detachment, and for one midnight lunch for each soldier on the nights of loading and unloading: Provided, that the officer in charge of troops shall receipt to the dining car steward for the number of meals furnished. Soldiers employed as truck drivers or as additional guards at the unloading point will also be furnished lunches when on night duty.

(5) Pay to each of the two officers accompanying each shipment as may be in a repeated travel status without troops a per diem allowance of five dollars per day for the periods of time it may be necessary for them to

RESTRICTED

remain at the points of loading or unloading. For any and all travel without troops not included in a repeated travel status, pay mileage under the provisions of the mileage law (Act of June 10, 1922).

"RESTRICTED"

(6) Arrange with the proper railway officials for the rail transportation of two officers and thirty-two enlisted men who are designated to protect each of the various train shipments, it being understood that the troops will occupy one sixteen section Pullman sleeper with drawing room from the time loading of shipment begins, until the unloading of shipment has been completed and during the return journey; Provided, that the officer in command will receipt to railway company concerned for the number of tickets furnished and for the period that the Pullman sleeper has been used.

(7) Provide the normal number of meals per day to any and all enlisted men who may be delayed at the rail terminals.

(8) Defray the cost of any unavoidable loss or damage to railroad equipment occasioned by the U. S. Troops comprising the escort protecting the various shipments, and for any unavoidable damage to or expenditure of army equipment used by the Army in guarding shipments.

(9) Reimburse the proper army agency for the cost of all ferry, street car or subway tickets and gasoline and oil required for the transportation of troops between the proper station of military guard detachments and the loading terminal and at the railroad terminal at Fort Knox, Ky.

(10) Pay all charges for hire of transportation or other incidental expenses necessary to the protection of the shipments referred to herein; Provided that the officer in command of troops guarding shipment is authorized to issue proper receipts for services rendered, which are to be submitted to the Treasury Department for payment.

(11) Telephone calls, telegrams and similar matters pertaining to the Army's functions in guarding shipments will ordinarily be made through officials of the Post Office Department at the loading and unloading terminals, in order to relieve the Army of administrative matters connected with the settlement of these accounts. In case of emergencies, the Army officials obtaining the service will make payments in cash, obtaining receipt therefor and arrange for reimbursement from the Treasury Department.

(12) The Treasury Department shall also pay an allowance of five dollars per day for the actual number of days employed in a repeated travel status without troops away from his station, to the officer stationed at Governors Island who represents the Commanding General, Second Corps Area, in New York City, as liaison officer between the Army and the Post Office and Treasury Departments. For any necessary unreported travel without troops mileage will be paid.

"RESTRICTED"

2. The Army agrees to loan the Post Office Department approximately four two and one-half ton trucks, equipped with boom and tackle, (and one driver for each truck) for use during each unloading period at Fort Knox, Ky.

3. In carrying out the mission referred to herein the Army proposes to employ detachments, each consisting of two officers and thirty-two soldiers, suitably armed. Detachments to be furnished from the garrisons near New York City. In order that the various detachments may be placed at their respective home stations upon completion of the last shipment, the Treasury Department shall give the Commanding General, Second Corps Area, due and proper notice as to the number of shipments that will be made.

4. The Treasury Department shall provide an agency to effect settlements of all costs referred to herein in which the Army is concerned. Reimbursements for gasoline and oil, and other incidental expenses necessary to the Army's participation in the transaction referred to herein shall be made by said Agency.

5. Any arrangements between the Post Office Department and the Treasury Department which affect the Army, shall receive the concurrence of the Commanding General, Second Corps Area, prior to their becoming effective.

6. This agreement is signed in triplicate; one copy for the U. S. Treasury Department, one copy for the U. S. Post Office Department, and one copy for the Commanding General, Second Corps Area.

*SW Bell*

Representing the U. S. Treasury Department

*A. J. Vandamm Acting P.M.G.*  
Representing the U. S. Post Office Department

APPROVED

JUL - 5 1940

*Lawrence H. ...*  
SECRETARY OF WAR

~~Brigadier General, U.S. Army,  
Representing Commanding General,  
Second Corps Area.~~

*RMS  
JAC*

*ek g Bell*  
*Ray*

*Am* "RESTRICTED"

*4*

# RESTRICTED

AG 323.5 (7-5-40)M-D

ACN/ahb

July 8, 1940.

**SUBJECT:** Protection for U.S. Treasury Department  
Shipments from New York City to Fort Knox,  
Kentucky.

**TO:** The Commanding General, Second Corps Area,  
Governors Island, New York.

1. The Treasury Department will begin the shipment of bullion from New York to the U. S. Depository, Fort Knox Kentucky about July 15. The shipment will be made through the agency of the Post Office Department.
2. Upon request of the Treasury Department, the Army will furnish the necessary military protection in accordance with the interdepartmental agreement of June 27, 1940, two copies of which are inclosed for your information and guidance.
3. At a conference held June 27, 1940, attended by representatives of the three departments concerned, it was agreed that the procedure of shipment and protection would follow as closely as possible that followed in the 1937 shipments.
4. The Commanding General, Second Corps Area, will be directly charged with the responsibility for the protection of these shipments. He will furnish the necessary military guards for the trains and for the terminals as set forth in the interdepartmental agreement. He will call upon the Commanding General, Fifth Corps Area, for such cooperation as is deemed necessary from the troops of that Corps Area.
5. Responsibility of the military commander will be as defined in the agreement. If the emergency arises, the military commander will assume complete responsibility in accordance with the provisions governing use of Federal troops for protection of Federal property. The commander must, therefore, be free to take such preparatory steps as will insure the fulfillment of his responsibility.
6. The financing of this operation, over and above normal maintenance costs of the Army agencies involved, will be the responsibility of the Treasury Department as set forth in the agreement. The War Department and individuals concerned may not accept reimbursement in the form of pay.

- 1 -

2 inc 2  
RESTRICTED

# RESTRICTED

83.6 (7-5-40)M-D

U.S.A., Second O.A.

Cont'd.

7. While no publicity is desired, such as may be given will be the responsibility of the Treasury Department. However, since it will be impossible to keep such a continued project secret, the classification of routine orders, correspondence, reports, etc., as restricted documents is directed.

8. Representatives of the Treasury and Post Office Departments in New York City with whom contact may be made in the arrangement of details are:

Treasury Department - Mr. E. R. Lynch,  
U. S. Assay Office  
Telephone - Bowling  
Green 1-6331.

Post Office Dept. - Inspector A. E. Wetmore,  
through Chief Inspector  
J. J. Duran,  
U. S. Post Office  
Telephone - Pennsylvania  
6-7700.

9. A copy of this letter and inclosure are being furnished the Commanding General, Fifth Corps Area.

By order of the Secretary of War:

E. R. HOUSEHOLDER

1 Encl. - Interdepartmental  
Agreement, June 27, 1940,  
(in dup.).

Adjutant General.

COPIES TO: ✓ Secretary of the Treasury,  
Commanding General, Fifth Corps Area.

- 2 -

# RESTRICTED

July 8, 1940  
10:05 a.m.

## RE FINANCING

Present: Mr. Bell  
Mrs. Klotz

H.M.Jr: Dan, does the 2 $\frac{1}{2}$  thing fit in? 101-3/32nds is enough as far as I am concerned.

Bell: I think it is enough.

H.M.Jr: I am fixing between 5 and 700 million.

Bell: No, it does not fit in very well, because there is already, I think, 3 $\frac{1}{2}$  billion in that period. Here is '51, see. Those three days here - a billion six.

H.M.Jr: Supposing I go 2 and a quarter.

Bell: You can go 2 and an eighth and get a '52-'54. I think it will go very well. Hadley is now figuring on a 2 and an eighth '52-'54. It means '52 is all vacant, '53 and '54 are all vacant. The only thing you have to bear in mind is that if you don't call these on this date, they are callable in the next six months.

H.M.Jr: Supposing we went 2 and a quarter?

Bell: Yes, that would go still further. '52-'56 or '53-'55 would even make it a little better. Here is your '55.

H.M.Jr: Why not give them 2 and a quarter?

Bell: I think it would be a little better.

H.M.Jr: That gets into the area --

Bell: It gets out of the area, certainly. I don't

- 2 -

know - Bob Rouse thought your 2 and an eighth would be very popular to the banks. He didn't know whether the insurance companies would like it or not.

H.M.Jr: Well, they will take it anyway. I mean, that gets into that --

Bell: That is a very good area right there.

H.M.Jr: Write a very simple letter to the President, "My dear Mr. President," and tell him the situation on deposits. I would mention the fact that until we get beyond the 1951 area, the thing is very, very crowded, that this is a good opportunity to get beyond the crowded area, and I feel very strongly we should take advantage of it.

Bell: The market is good.

H.M.Jr: The market is good. I don't know when I will have another chance, and therefore I recommend that we sell between 5 and 700 million dollars of 2 and a quarters. Now, if you fix that letter up for me, I want to take it over.

Bell: At lunch?

H.M.Jr: I have no word about lunch.

Bell: I see.

H.M.Jr: I would go right out in that area. This will get out of the crowded area where we have a chance.

Bell: We want to talk some time about that general public debt limit. This 500 million you borrowed here will reduce it about a billion and a quarter or less than that.

H.M.Jr: I am going to let some bills run off.

Bell: Either that or we ought to announce that the December, March and June might be paid off partly in cash.

- 3 -

H.M.Jr: Would you also put in a paragraph that my program is not to sell any more notes except new national defense notes, you see, and I can't sell these now because I would be criticized because the expenditures for the national defense haven't started yet, you see. Furthermore, if I do this, I propose to let some of the bills possibly run off. Leave a place to let the President approve it.

Bell: Do you want to definitely put in 2 and a quarter or just say 2 and an eighth or 2 and a quarter?

H.M.Jr: I would rather say 2 and a quarter. If I go backward, it is all right. If I say 2 and a quarter the President will say make it 2 and an eighth. If I make it the other way, he won't be happy, you see. Let's say 2 and a quarter. I can always go backward.

Bell: All right.

H.M.Jr: I'll see these people outside in a minute and I want you to sit in on this tax thing.



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

July 5, 1940

MEMORANDUM FOR THE SECRETARY:

There are attached the following memoranda:

I. Approximate Prices and Yield Bases for Proposed Treasury Bond Issues with Coupons Ranging from 2 per cent to 2 $\frac{1}{2}$  per cent. You will note that a 2 per cent coupon bond maturing June 15, 1953, and callable June 15, 1951, will probably sell on a basis of market prices at the close of business on Wednesday at 101  $\frac{3}{32}$ nds. This may not be quite sweet enough, if not, we could issue a maturity for December 15, 1950-52. In other words, six months shorter.

II. Statement showing the Treasury bonds callable and maturing within the period of 1950-55. You will note that some of the first four bonds in this series, while maturing within this period, are callable on an earlier date. In all probability the first series of 2 $\frac{1}{2}$ 's 1948-51's and the third series of 3  $\frac{1}{8}$ 's 1949-52's will, because of their rather high coupon ~~value~~, be out of the picture before ~~the~~ 1950.

III. Statement showing the amounts callable on the major financing dates indicated and the vacant places which may be used by the Treasury for further maturities. I have marked the area covered by Statement II above which will readily indicate to you the vacant dates within this period.

*sub*

## I

Approximate Prices and Yield Bases for  
Proposed Treasury Bond Issues

(Based on Closing Over-the-Counter Quotations  
Wednesday, July 3, 1940)

| Proposed<br>Rate | Call<br>and<br>Maturity<br>Dates | Number of years<br>to call<br>and<br>to maturity | Probable<br>Yield<br>on Market | Probable<br>Market<br>Quotation |
|------------------|----------------------------------|--|--------------------------------|---------------------------------|
| 2%               | June 15/51-53                    | 11-13  | 1.89%                          | 101 3/32                        |
| 2 1/8%           | Sept 15/51-54                    | 11½-14½  | 2.02                           | 101 2/32                        |
| 2 1/4%           | Sept 15/53-56                    | 13½-16½  | 2.15                           | 101 5/32                        |
| 2 3/8%           | June 15/57-62                    | 17-22  | 2.29                           | 101 6/32                        |
| 2 1/2%           | June 15/63-68                    | 23-28  | 2.43                           | 101 8/32                        |

July 5, 1940

TREASURY BONDS IN AREA OF 1950 TO 1955

| Callable | Year | Maturity | Month    | Rate  | Amount Outstanding |
|----------|------|----------|----------|-------|--------------------|
| 1948     | -    | 51       | Mar. 15  | 2-3/4 | \$ 1,223 M         |
| 1948     | -    | 50       | Dec. 15  | 2     | 571                |
| 1949     | -    | 52       | Dec. 15  | 3-1/8 | 491                |
| 1949     | -    | 53       | Dec. 15  | 2-1/2 | 1,786              |
| 1950     | -    | 52       | Sept. 15 | 2-1/2 | 1,186              |
| 1951     | -    | 54       | June 15  | 2-3/4 | 1,627              |
| 1951     | -    | 55       | Sept. 15 | 3     | 755                |
| 1951     | -    | 53       | Dec. 15  | 2-1/4 | 1,118              |

Note. High coupon bonds callable earlier but maturing later than 1948 not included on the assumption that they will be called for payment on first call date. These include 4% of 1944-54, 3-3/4% of 1946-56, and 4-1/4% of 1947-52.

July 5, 1940

III  
**TREASURY FINANCING**

(Exclusive of regular Treasury Bills and special obligations issued directly to trust funds)

(In Millions of Dollars)

|      |           | MARCH 15     | JUNE 15      | SEPTEMBER 15  | DECEMBER 15  | TOTAL  |
|------|-----------|--------------|--------------|---------------|--------------|--------|
| 1940 | Notes     | -            | -            | -             | 737          | 737    |
|      | Bonds     | -            | -            | -             | -            | -      |
| 1941 | Notes     | 677          | 504          | -             | 204          | 2,764  |
|      | Bonds     | 545          | 834 (8/1)    | -             | -            | -      |
| 1942 | All Notes | 426          | -            | 342           | 232          | 1,000  |
| 1943 | Notes     | -            | 629          | 278           | 421          | 3,153  |
|      | Bonds     | -            | 454          | 1,401 (10/15) | -            | -      |
| 1944 | Notes     | 515          | 416          | 283           | -            | 3,770  |
|      | Bonds     | 1,519 (4/15) | -            | -             | 1,037        | -      |
| 1945 | Notes     | 718          | -            | -             | -            | 2,473  |
|      | Bonds     | -            | -            | 1,214         | 541          | -      |
| 1946 | All Bonds | 489          | 819<br>1,036 | -             | -            | 2,344  |
| 1947 | " "       | -            | -            | 759 (10/15)   | 701          | 1,460  |
| 1948 | " "       | 1,223        | -            | 451           | 571          | 2,245  |
| 1949 | " "       | -            | -            | -             | 491<br>1,786 | 2,277  |
| 1950 | " "       | -            | -            | 1,186         | -            | 1,186  |
| 1951 | " "       | -            | 1,627        | 755           | 1,118        | 3,500  |
| 1952 | " "       | -            | -            | -             | -            | -      |
| 1953 | " "       | -            | -            | -             | -            | -      |
| 1954 | " "       | -            | -            | -             | -            | -      |
| 1955 | " "       | 2,611        | -            | -             | -            | 2,611  |
| 1956 | " "       | -            | -            | 982           | -            | 982    |
| 1957 | " "       | -            | -            | -             | -            | -      |
| 1958 | " "       | -            | 919          | -             | -            | 919    |
| 1959 | " "       | -            | -            | -             | -            | -      |
| 1960 | " "       | -            | -            | -             | 1,485        | 1,485  |
|      |           | 8,723        | 7,258        | 7,651         | 9,324        | 32,936 |

OFFICE OF THE UNITED STATES SECRETARY

July 3, 1940

Two copies went  
to Under Secy Bell 147  
+ orig ret'd to him  
for personal  
files. Dan



TREASURY DEPARTMENT

WASHINGTON

July 8, 1940

CONFIDENTIAL

Dear Mr. President:

The working balance of the Treasury is now down to about \$975,000,000 and will probably fall below \$800,000,000 within the next ten days. It is necessary, therefore, to raise some additional money, and as the market is now in excellent shape I have decided, subject to your approval, under authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, to offer this week a bond issue for cash in the amount of between \$500,000,000 and \$700,000,000 with a coupon of about 2-1/4 per cent and a maturity within the 1952-57 area. This period is not very crowded with Treasury maturities whereas the period immediately preceding 1952 has large aggregate amounts maturing or callable each year.

I believe that the Treasury should issue no further Treasury notes except under Title III of the Revenue Act of 1940 which authorized the issuance of national defense short-term obligations. I do not believe that we would be justified in issuing these at this time prior to any heavy expenditures on account of national defense. I shall later in the year issue these defense obligations and probably allow some Treasury bills or other Treasury maturities to run off.

The authorizing act provides that bonds may be issued only with the approval of the President. Accordingly, I trust that the proposed issue will meet with your approval.

Faithfully yours,

*H. M. Humphreys*  
Secretary of the Treasury.

The President,

The White House.

APPROVED:

*Franklin D. Roosevelt*

July 8, 1940

CONFIDENTIAL

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Secretary of the Treasury.

The President,

The White House.

APPROVED:

Secretary

*[Handwritten signature]*

July 8, 1940

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Secretary of the Treasury.

The President,  
The White House.

APPROVED:

B:ELK:asp

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:10 Saturday noon, July 5, Dr. Feis telephoned me from the State Department in regard to the preparation of a reply to message No. 2028, dated 3:00 p.m. July 6, from Ambassador Kennedy. In this message Ambassador Kennedy referred to his cablegram No. 1914 of 7:00 p.m. July 1, and stated that Governor Norman of the Bank of England was particularly anxious to have an early reply to numbered paragraph two of the earlier message, since the National City Bank had just called \$19,000,000.

I told Dr. Feis that I had spoken with the Secretary of the Treasury in regard to Ambassador Kennedy's first message, and that I was promptly informing the Secretary of the follow-up cablegram. Feis insisted, however, that a reply be sent to Kennedy on Saturday, and desired to let the latter know that the two messages had been referred to the Secretary of the Treasury and that a reply would come from him the first of the week. I pointed out that the messages were addressed to both the Secretary of State and the Secretary of the Treasury, and finally agreed to a text along the following lines: "Your 2028. These matters being considered and further word will be sent you next week." This would be a State Department message.

When I spoke with the Secretary this morning in regard to drafting a reply to Ambassador Kennedy's later inquiry, the Secretary instructed me to tell Secretary Hull's office that he, Mr. Morgenthau, would not arrange any new shipment of gold from Europe on American warships. If Secretary Hull desired to approach the Navy Department that was up to him. I have given this message this morning to Mr. Renchard in Secretary Hull's office and to Dr. Feis, the latter having been the officer of the State Department who has been most active in advising France and Great Britain to get their gold to this country.

The Secretary will consider later an answer to the question of American credit withdrawals from London.



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE July 8, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

By telephone this morning I answered the inquiry of Mr. Zoltowski, Financial Counselor of the Polish Embassy, with offices in New York. I told him that if the Polish banks which had been established in France after Poland was invaded had left France prior to June 17, the date on which our freezing control was made applicable to France, there was no need for them to make reports under our freezing system. This question had arisen from inquiry made of Zoltowski by one of the American banks which had an account of a Polish bank which was in France for some months and had been moved on to England.

Zoltowski told me that he was confident that all of the Polish banks had left France for England prior to June 17. He will write me a letter giving the names of such banks and other pertinent information. I told him that the banks in New York are now familiar with the desired practice of submitting their cases directly to the Federal Reserve Bank in New York, and I advised that this practice continue to be followed by any New York bank which has a question concerning one of its Polish bank accounts. Mr. Zoltowski agreed to get in touch directly with the Federal to see if any inquiries had been made with respect to Polish banks, other than the one case immediately under reference. He contemplated issuing a circular letter to banks having Polish accounts if this may seem advisable after his preliminary inquiries.



July 8, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of June 29th concerning the assault on the residence of Leon Trotsky. Thank you for sending me this report.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Mr. J. Edgar Hoover, Director,  
Federal Bureau of Investigation,  
Washington, D. C.

July 8, 1940

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Mr. J. Edgar Hoover, Director,  
Federal Bureau of Investigation,  
Washington, D. C.

JOHN EDGAR HOOVER  
DIRECTOR

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**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.  
June 29, 1940**

PERSONAL AND  
CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest, there is being transmitted to you herewith a memorandum incorporating information received from a reliable confidential source concerning the assault on the residence of Leon Trotsky in Mexico on May 24, 1940.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

June 28, 1940

MEMORANDUM

Leon Trotsky resides in a two-story house located on the corner of Vienna and Morelos Streets in the village of Coyocan, Mexico. The house is a veritable fortress, surrounded by a rock wall fifteen or twenty feet in height. Trotsky is attended by four personal secretaries or bodyguards who are on duty within the residence night and day. The Mexican Government has also detailed a uniformed guard of four policemen in command of a Captain who are on duty night and day outside the residence, which is also wired with a secret alarm system and direct secret wire alarm system to the Coyocan Police Department. One of the inside guards is always on guard at the front door of the wall which is the only entrance and no person is permitted admittance until his identity has been established to the satisfaction of Trotsky.

At approximately 4:30 A.M. on May 24, 1940, a group of about twenty-five men dressed in Mexican police and Army uniforms forced their way into Trotsky's home with the apparent intent of killing or kidnaping him. They gained admittance by first surprising the outside police guards whom they disarmed and tied up. The Commander of the raiders was dressed in the uniform of a Captain in the Mexican Army and was a Mexican. The raiders then knocked on the front door and were admitted by Sheldon Harte, alias Bob Sheldon, who was on duty at the time. Harte was tied up, whereupon the raiders proceeded directly to the bedroom of Trotsky into which they opened fire with submachine guns and .45 calibre automatic pistols. It is estimated a total of about 300 shots were fired. It is apparent that the raiders had accurate information as to the layout of the inside of the residence, as well as to the telephones and the secret electric alarm system therein, inasmuch as all of the wires thereto previously had been cut.

Trotsky claims he and his wife saved their lives by hiding under the bed and that at no time did any of the raiders enter the room. His explanation as to why no entrance was made to the room is that the two doors thereto were wired in such fashion that a person opening them

would be met with a rain of bullets from automatic guns arranged according to a system devised by Trotsky himself which was always set after he and his wife retired. Trotsky claimed apparently his assailants were aware of this trap for which reason they did not enter his room. Persons visiting his residence after the attack saw no evidence of any such system as above described.

The raiders evidently remained on the premises for about twenty or thirty minutes, and on leaving took with them the guard, Sheldon Harte, and two automobiles belonging either to employees of, or persons visiting Trotsky. Both of these cars have been found by the Mexican Police near the village of Coyocan.

Trotsky has made several public statements and in each has definitely stated the plot was attempted under the personal direction of Joseph Stalin. He further stated that the arrangements were perfected by one Beria, whom he describes as the present director of the Soviet GPU.

The attackers abandoned a bomb which was found in the garden of the house. This bomb consisted of a glass jar containing fourteen half sticks of 40% dynamite, with a fuse and spring battery attached. The mechanism of it was operated with mousetrap springs, attached to which was a long cord permitting the ignition of a time fuse from a safe distance. The outside wrapper on the bomb bore the handprinted words "Danger-Dynamite" and "Stolen from Fresno Oil Co." Experts on explosives stated the bomb would have been sufficient to blow up the entire premises. Why it was not used and why it was left with the printed warning thereon are matters under consideration by the officials in connection with the theory held in some quarters that the entire plot was a fake engineered by Trotsky himself.

News reports have been received to the effect that the police at Mexico City announced the finding of the body of Sheldon Harte on June 25, 1940, in Mexico and that an examination thereof indicates Harte had apparently been murdered. It is noted that Harte, according to Mexican immigration records, entered Mexico through the port of Laredo, Texas, on April 12, 1940, as a tourist and apparently made direct contact with Leon Trotsky.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE July 8, 1940

TO Mr. Thompson  
FROM Mr. Haas *[Signature]*

In response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of June 1940.

## DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under  
Way, and the Names of Persons Working on Each,  
for the month of June 1940

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

## I. Projects or studies completed

1. Reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on the following dates: June 13 and 20. - Mr. Haas, Mr. Murphy, Mr. Tickton, Mr. Turner, Miss Eyre
2. A supplement to the memorandum on the setting for the June financing was prepared, and was transmitted to the Secretary on June 3. - Mr. Haas, Mr. Murphy, Mr. Turner, Miss Eyre
3. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1939 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1933 or since date of issue. - Mr. Brown, Mr. Moody, Mr. Kroll
4. Three proposals of the RFC, that the Secretary of the Treasury request that Corporation to purchase the preferred stock of banks, were examined. - Mr. Murphy, Mr. Turner, Miss Eyre

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5. At the request of the Secretary, arrangements have been made to secure periodically from the Anglo-French Purchasing Board certain information regarding purchases by the Allied governments in the United States. Weekly statements are received covering in dollar volume itemized purchases through the Board by England, France, Canada, and Australia, itemized purchases made by these governments with the knowledge of the Board but not through its facilities, and inquiries made by the Board or with its knowledge for future purchases. In these reports all Allied orders and deliveries are being classified in some twenty-five commodity groups designed especially for the purpose of this project.

Arrangements have been made also to secure from the same source periodic statements showing commitments and actual payments made by the Allied governments for the purpose of providing capital assistance to American companies in order to expedite deliveries. These commitments are listed in four groups - (a) expansion of plant capacity, (b) personnel training, (c) income tax contributions, and (d) United States development costs.

Special attention is being directed toward the aircraft industry, both as to the effect of capital assistance and as to output. Weekly statements are prepared showing by airplane and airplane engine companies the physical volume of orders placed, deliveries made, and estimated deliveries on unfilled orders and on options. These statements give detail by type of airplane or type of engine.

It is expected that similar statements will be prepared covering physical volume of Allied purchases from certain other industries. - Mr. Haas, Mr. Lindow, Mr. Tickton

In carrying on this project, reports were prepared and transmitted during June as follows:

- (1) Reports were prepared and transmitted to the Secretary on June 6 in tables showing scheduled deliveries, by months, of airplane orders and airplane engine orders of the British and French Governments, classified by manufacturer and by type of plane or engine, as of June 1, together with supplementary tables showing the number of airplanes and airplane engines ordered by the British and French Governments and delivered to them from May 23 to June 1, classified by manufacturer and by type of plane or engine.

- (2) Reports were prepared and transmitted to the Secretary on June 18, in tables showing scheduled deliveries, by months, of airplane orders and options and airplane engine orders and options of the British and French Governments, classified by manufacturer and by type of plane or engine, as of June 8, together with supplementary tables showing the number of airplanes and airplane engines ordered by the British and French Governments and delivered to them through May 22, and weekly thereafter through June 8, classified by manufacturer and by type of plane or engine.
- (3) A report was transmitted to the Secretary on June 18, in a table showing orders placed through the Anglo-French Purchasing Board during the week ended June 8, classified by commodity groups.
- (4) Reports were prepared and transmitted to the Secretary on June 24, in tables showing scheduled deliveries, by months, of airplane orders and airplane engine orders of the British and French Governments, classified by manufacturer and by type of plane or engine, and delivery schedules of airplanes and airplane engines under option by the British and French Governments, as of June 15. Supplementary tables showed the number of airplanes and airplane engines ordered by the British and French Governments and delivered to them through May 22, and weekly thereafter through June 15, classified by manufacturer and by type of plane or engine.
6. At the request of the Secretary on May 23, arrangements were made for securing each week from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared each week showing this information by type of plane or engine and by class of purchaser. Weekly reports were transmitted to the Secretary on June 5, 12, 19, and 26. - Mr. Haas, Mr. Reagh, Mr. Brown, Mr. Tickton
7. The statistical (graphic correlation) analysis of factors affecting high-grade interest rates has been completed. - Mr. Turner
8. A memorandum on the effect of the war crisis on Treasury financing plans was prepared at the request of Under Secretary Bell and submitted to the Secretary and the Under Secretary on June 28. - Mr. Haas, Mr. Murphy, Miss Eyre

- 4 -

9. A memorandum on the proposal to offer regular Treasury obligations for continuous sale at a fixed price was prepared at the request of Under Secretary Bell and submitted to him on June 28. - Mr. Murphy, Miss Eyre
10. A review of the book "How to Pay for the War" by J. M. Keynes was prepared and transmitted to the Secretary and the Under Secretary on June 28. - Mr. Murphy, Mr. Conrad
11. A memorandum on the proposed offer in compromise settlement of a tax claim against the Public Service Ticket Office, Inc. was prepared at the request of the Legal Division, and was transmitted to Mr. Foley on June 17. - Mr. Turner
12. Analysis of plan by State Senator Esquirol of New York for stimulating recovery by means of increased expenditures on housing, was prepared at the request of Under Secretary Bell, and was transmitted to him on June 7. - Mr. Murphy

## II. Projects or studies under way

1. Chart comparing yields on long-term Treasury bonds and over-the-counter volume depends for completion upon arrangements to secure the necessary data. - Miss Eyre
2. Study of the relationship between the yields and maturities of high-grade securities immediately preceding prior major bear markets in such securities. - Mr. Turner, Mr. Conrad
3. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad
4. Study of the effect of the size of the issue on the prices and yields of U. S. securities. - Mr. Lindow, Mr. Conrad
5. Chart and annotations with respect to the factors influencing the movement of interest rates during the last World War have been completed except for the graphic work. - Mr. Turner
6. Discussion of various problems encountered and solutions devised in connection with war borrowing. - Mr. Murphy

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7. Memorandum comparing and contrasting war and depression deficit-financing. - Mr. Murphy
8. Review of war-financing measures in the United Kingdom and the British Dominions, France, and Germany in the present war. - Mr. Murphy
9. Preparation of data for the Secretary of Commerce re amount of interest-bearing securities of Federal corporations and agencies outstanding December 1929-1939, as part of a report being prepared jointly with the Office of the Commissioner of Accounts and Deposits and the Division of Tax Research. - Mr. Lindow, Mr. Conrad
10. United States Savings Bonds - An analysis of factors affecting redemptions of United States Savings bonds, as a guide to future experience. - Mr. Conrad
11. Analysis of plan of Mr. J. R. Oishei entitled, "To Expedite New Enterprise for Increased Employment," is being made at the request of Under Secretary Bell on June 28. - Mr. Murphy
12. A review is being made at the request of the Division of Tax Research on June 12 of a memorandum prepared in that Division concerning the taxation of building and loan associations. - Mr. Murphy
13. Report on S. 4125 (Farm Credit bill) is being prepared at the request of the Legal Division in response to a request from Senator Wagner, Chairman of the Committee on Banking and Currency. - Mr. Murphy, Mr. Conrad

#### Revenue Estimates

##### I. Projects or studies completed

1. The regular monthly statement was prepared for the Office of the Commissioner of Accounts and Deposits showing the latest revised estimates of receipts, by months and by principal sources of revenues, for June 1940, and for the fiscal year 1941, and was transmitted on June 4. - Mr. Driver
2. The regular monthly summary comparison of estimated receipts and actual receipts in May and in the first eleven months of the fiscal year 1940, on the daily Treasury statement basis, was prepared, June 10. - Mr. Driver

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3. The regular monthly detailed comparison of estimated and actual receipts in May 1940 and in the first eleven months of the fiscal year 1940, based on the collections classification, was prepared, June 27. - Mr. Driver
4. Analysis of the income tax receipts in the first twenty-four days of June as compared with the revenue estimates was prepared at the request of Under Secretary Bell, and transmitted to him on June 26. - Mr. Driver
5. An estimate of receipts from the capital stock tax under the provisions of the Revenue Act of 1940, by months for the first four months of the fiscal year 1941, and for the fiscal year 1941, was prepared at the request of Mr. Landis in the office of the Under Secretary, and was transmitted to Mr. Landis on June 25. - Mr. Leahey
6. Recommendations of the Subcommittee on Industrial Classification of the General Advisory Committee on Statistics of Income, with respect to the preliminary report on corporation income tax returns for 1938, and the final report of Statistics of Income 1938, Part 2, relating to corporation income tax returns, were reviewed at the request of the Division of Tax Research and transmitted to Mr. Blough on June 11. - Mr. Leahey
7. Experimental tabulations, made upon recommendation of the General Advisory Committee on Statistics of Income, showing separate balance sheet items of certain corporations as of the beginning and as of the end of the year, were examined at the request of the Division of Tax Research. Since the tabulations had no particular application to the revenue estimates, they were returned without comment on June 27. - Mr. Leahey
8. Studies for refining and improving the methods of estimating revenues from the taxes listed below were discontinued on the basis of tentative findings. - Miss Rastall, Mr. Smith
  - (1) Lubricating oil;
  - (2) Wines, domestic and imported;
  - (3) Transportation of oil by pipeline;
  - (4) Tires and inner tubes.

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9. In connection with consideration of the Revenue Act of 1940, a number of revenue estimates, listed below, were prepared for use of Under Secretary Bell, Assistant Secretary Sullivan, Mr. Graves, and others designated by them, including Representative Doughton, Chairman of House Committee on Ways and Means, Representative Cooper, Chairman of the Subcommittee on Taxation of the Committee on Ways and Means, Senator Harrison, Chairman of the Senate Finance Committee, Mr. Middleton Beaman, House Legislative Counsel, and Mr. Colin F. Stam, Chief of Staff, Joint Committee on Internal Revenue Taxation. At Assistant Secretary Sullivan's request Mr. O'Donnell attended hearings before the House Committee on Ways and Means and the Senate Finance Committee and testified as requested on matters relating to the revenue estimates. - Mr. O'Donnell, Mr. Driver, Mr. Leahy, Mr. Wilson
- (1) Tentative estimates of additional revenue from the individual income tax were transmitted to Assistant Secretary Sullivan on June 4, in a table showing additional amounts to be received for the full year, and for the fiscal year 1941, under various plans relating to reduced personal exemptions, and increased normal tax and surtax rates; together with a tabulation of three surtax rate schedules showing for the various amounts of surtax net income by the proposed rates of tax, the total surtax on the upper limit.
  - (2) An estimate of monthly distribution of revenue for the fiscal year 1941, was transmitted to Under Secretary Bell on June 4, in a table showing on the daily Treasury statement basis, estimated receipts under the present revenue law, the increase attributable to the proposed Revenue Act of 1940 (H. R. 9966), and the estimated receipts under the proposed Revenue Act of 1940.
  - (3) Tentative estimates of additional revenue from the individual income tax were transmitted to Assistant Secretary Sullivan on June 4, in a table showing additional amounts to be received for the full year as permanent revenue and from the supertax, with total, and the additional total amount to be received for the fiscal year 1941, under two plans relating to reduced personal exemptions and increased surtax rates.

- (4) Tentative estimates of additional revenue from the individual income tax were transmitted to Assistant Secretary Sullivan on June 5, in a table showing additional amounts to be received for the full year as permanent revenue and from the supertax, with total, and the additional total amount to be received for the fiscal year 1941, under two plans relating to reduced personal exemptions and increased surtax rates; together with a tabulation of two new surtax rate schedules compared with the existing law, showing for the various amounts of surtax net income by the proposed rates of tax, the total surtax on the upper limit.
- (5) Estimates of additional revenue from the individual income tax, were transmitted to Assistant Secretary Sullivan on June 6, in a table showing additional amounts to be received for the full year, exclusive of the supertax, under three plans relating to reduced personal exemptions and increased surtaxes; together with surtax rate schedule D showing for the various amounts of surtax net income by the proposed rates of tax, the total surtax on the upper limit.
- (6) Individual income tax surtax rate schedules were prepared on June 6, at the request of Assistant Secretary Sullivan for use of Committee members and experts during the meeting of the Subcommittee of the Ways and Means Committee, in a mimeographed tabulation of three proposed rate schedules showing for the various amounts of surtax net income, by the proposed rates of tax, the total surtax on the higher amount.
- (7) Two separate individual income surtax rate schedules were designed, at the direction of Assistant Secretary Sullivan, for the use of the Ways and Means Committee on June 8, which would make the total estimated yield from the bill approximately \$1 billion, including the \$652 millions to be raised from what was then Title I of the bill H. R. 9966, (a) increasing corporation income tax rates by 1 percent, (b) raising the entire revenue from the individual income tax after reducing personal exemptions to \$2,000 and \$800 for married and single persons, respectively.

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- (8) Estimates of additional revenue attributable to the proposed Revenue Act of 1940 (as recommended by the Ways and Means Subcommittee on Taxation June 8, 1940) were prepared at the direction of Assistant Secretary Sullivan, for the use of the Ways and Means Committee, on June 8, in the form of a mimeographed table showing amounts to be received by major sources of revenue under Titles I and III, together with a mimeographed schedule showing individual income tax surtax rates under existing law compared with surtax rates mentioned in Item (7).
- (9) A schedule of individual surtax rates recommended by the Ways and Means Subcommittee on Taxation was prepared and transmitted at the direction of Assistant Secretary Sullivan to Mr. Middleton Beaman on June 7, in the form in which it was to appear in section 12b of the law.
- (10) Estimates of additional revenue attributable to the proposed Revenue Act of 1940 were prepared at the request of Assistant Secretary Sullivan for inclusion in the report of the Ways and Means Committee and were transmitted to Mr. Stam on June 9 and to Assistant Secretary Sullivan on June 10, in a table showing amounts to be received, by major sources, for the first full year. A similar table, mimeographed, and in more detail by sources, and showing also additional revenue for the fiscal year 1941, was prepared and transmitted to Assistant Secretary Sullivan on June 10, and distributed later to the Committee on Ways and Means.
- (11) Estimates of additional revenue attributable to the proposed Revenue Act of 1940 (H. R. 10039), as passed by the House of Representatives on June 11, by major sources in detail, for the first full year, and for the fiscal year 1941, were prepared and transmitted, in mimeograph, to Assistant Secretary Sullivan on June 11, and distributed at the hearings of the Senate Finance Committee on June 12.
- (12) A schedule of individual income tax surtax rates under the existing law compared with surtax rates under the proposed Revenue Act of 1940 (H. R. 10039), was prepared, in mimeograph, on June 11, at the request of Assistant Secretary Sullivan for use by the Senate Finance Committee on June 12.

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- (13) Estimates of additional revenue attributable to the proposed Revenue Act of 1940 (H. R. 10039), as amended by the Senate Finance Committee on June 15, at the request of Assistant Secretary Sullivan were prepared for use in the Report of the Senate Finance Committee and transmitted to Mr. Stam on June 15, in a table showing by major sources of revenue under Titles I and II, amounts to be received for the full year.
- (14) Estimates of additional revenue attributable to the proposed Revenue Act of 1940 (H. R. 10039), as reported by the Senate Finance Committee on June 17, were prepared and transmitted in a mimeographed table to Assistant Secretary Sullivan on June 17, and in accordance with his instructions copies were delivered to Mr. Johnston, Clerk of the Senate Finance Committee. The table showed by major sources of revenue in detail, under Titles I and II, amounts to be received for the first full year, and for the fiscal year 1941.
- (15) Estimates of increase or decrease in revenue attributable to the proposed Revenue Act of 1940 (H. R. 10039) were prepared and transmitted to Assistant Secretary Sullivan on June 18, and at his direction copies were transmitted to Senator Harrison, Representative Doughton, and Representative Cooper. The table showed by major sources in detail under Titles I and II for the first full year, and for the fiscal year 1941, the comparison of the yield over existing law of (1) the Bill as reported by the Senate Finance Committee June 17, 1940, and (2) the Bill as passed by the House June 11, 1940; and a comparison of (3) the yield of the Senate Finance Committee Bill over the House Bill.
- (16) Estimates of additional revenue attributable to the proposed Revenue Act of 1940, as reported by the Senate Finance Committee June 17, prepared in accordance with instructions by Mr. Stam, were transmitted to Assistant Secretary Sullivan on June 17. The table showed, by major sources in detail, additional amounts to be received under Titles I and II, and under Title I the estimated receipts from the individual income tax by the portion due to the reduction in personal exemptions

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and by the portion due to the increase in surtax rates.

- (17) An estimate of monthly distribution of revenue in the fiscal year 1941 was transmitted to Assistant Secretary Sullivan on June 19, in a table showing the total estimated additional revenue attributable to the proposed Revenue Act of 1940 (H. R. 10039), as reported by the Senate Finance Committee June 15, 1940.
- (18) Estimates of increase or decrease in revenue attributable to the proposed Revenue Act of 1940 (H. R. 10039) were prepared and transmitted to Assistant Secretary Sullivan on June 22, and at his direction to Mr. Johnston, Clerk of the Senate Finance Committee, for Senator Harrison, to Representative Doughton, Representative Cooper, and to Mr. Stam. This material was for use in discussion of the Conference report in the Senate and the House. The photostatic table showed, by detailed sources of revenue under Titles I and II, for the first full year, and for the fiscal year 1941, comparison of the yield over existing law of the Bill (1) as reported out of conference June 21, 1940, (2) as passed by the Senate June 19, 1940, and (3) as passed by the House June 11, 1940; and a comparison of the yield of the Conference Bill over (4) the Senate Bill and (5) the House Bill. Comparison of the yield over existing law of the Bill as reported out of Conference June 21, was prepared in a separate mimeographed table and transmitted on June 22 to Assistant Secretary Sullivan, and at his direction to Representative Cooper and to Mr. Johnston, Clerk of the Senate Finance Committee.
- (19) A summary of tax rate increases and estimated yield under Title II (Defense Taxes) of the Revenue Act of 1940, as passed by the Congress June 22, 1940, was prepared at the request of Mr. Graves, and transmitted to him on June 24, in a table showing by detailed sources of revenue, the old rate of tax, the new rate, and the percentage increase in rate; and the estimated revenue on the full year basis at the old rates of tax, and at the new rates, the additional revenue, and the total revenue.

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## II. Projects or studies under way

1. An estimate of the revenue effects of the bill H. R. 1, 76th Congress, First Session (a bill providing for an excise tax on retail stores) is in process of preparation for the Division of Tax Research. - Mr. Leahey
2. An analysis of preliminary estimates of income tax receipts for the calendar year 1940 from individuals classified by net income and marital status, is in preparation for the Division of Tax Research, and has been nearly completed. - Mr. Driver
3. At the request of Assistant Secretary Sullivan estimates are being made of the probable increases in revenue which would result from abolition of the earned income credit, reduction of the personal exemptions, or from a combination of both, as requested by Representative John W. Boehne, Jr., in a letter to Assistant Secretary Sullivan dated May 21, 1940. - Mr. Driver

### Economic Conditions Related to Fiscal and Revenue Matters

#### I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and transmitted to the Secretary on the following dates: June 3, 10, 17, and 24. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith, Miss Rastall

These memoranda contained, in addition to analysis of the current situation, special studies as follows:

- (1) Domestic sales and domestic sales equivalent of national income, shown in a chart in memorandum of June 3. - Miss Rastall
  - (2) Production of steel ingots and pig iron and the consumption of steel scrap, shown in a chart in memorandum of June 24. - Mr. Daggit, Mr. Smith, Miss Rastall
2. Memoranda on employment under the Work Projects Administration were prepared and transmitted to the Secretary on the following dates: June 4, 10, 18, and 24. - Miss Hagedorn

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3. Memoranda on the movement of export freight from North Atlantic ports were prepared and transmitted to the Secretary on June 6, 13, 19, and 27. - Mr. Daggit, Mrs. May
4. Weekly charts showing the location of blast furnaces in the United States, grouped by districts, indicating which plants are active and which idle, were prepared and submitted to the Secretary on June 6, 13, 20, and 27. - Mr. Daggit, Mrs. May, Mr. Smith, Miss Rastall
5. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indices, foreign and domestic security transactions, security prices, exchange rates, etc., as well as other data for the Secretary's chart book. - Mr. Chevraux
6. Stock prices at Milan, Italy, compiled daily on the basis of cable reports, together with market comments, were transmitted to the Secretary each day, until the project was discontinued on June 10. - Mr. Chevraux
7. Relationship between New York Times index and FRB index. - This study was completed. It was undertaken in order to be able to estimate the weekly level of the FRB index from the New York Times index. - Mr. Daggit, Mrs. May

## II. Projects or studies under way

### 1. Index of unfilled orders.

An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries. - Mr. Daggit, Miss Rastall

### 2. Indications of business maladjustment.

Various indications of business maladjustments, shown in graphic form, are being brought together for convenient reference. This project is practically completed. - Mr. Daggit

### 3. Forces determining trends of basic commodity prices.

This project involves individual price studies for various basic commodities, a number of which have been

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completed, which are intended eventually to be combined into a general index representing the basic price trend, after allowance for the effect of supplies, industrial demand, and other separable factors. During June work was done on the section of this study concerned with determining the influence of monetary factors on commodity prices. - Mr. Daggit, Mrs. May

4. Trends of individual commodity prices and price factors during the World War period.

This project is patterned after the general study of prices and price factors, 1913 to 1922, made in October, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. The project is designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May

5. Index of commodity stocks.

This project is designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level. Stocks of sixteen important industrial materials, expressed in terms of their net effect on prices, are being compiled for this index. - Mrs. May

6. Index of goods inventories.

A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit, Miss Restall

7. Index of buying on deferred payments.

A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. It is in abeyance at present, pending publication of a new study by the Department of Commerce. - Mrs. May

8. Weekly approximations of the FRB index of industrial production.

Project was started during March and will be completed after the release of the new FRB monthly index (now in process of revision by the Federal Reserve Board and expected out in one to three months). This project is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Miss Rastall, Mr. Smith

9. Measures of consumer buying.

A project is under way with the object of developing (1) an index to measure the buying power of consumers in terms of physical volume of purchases, after correcting for the effect of changes in price on the apparent demand; and (2) an index to measure changes in total consumer expenditures, in dollar volume. These two indices will supplement our present "index of sales," which is designed to measure the "offtake" of manufactured goods into various consumption channels. This undertaking is well on the way to completion. - Mr. Daggit, Mrs. May, Miss Rastall, Mr. Smith

10. New orders in the lumber industry.

This project is designed to obtain current figures on a seasonally-adjusted basis for appraising the outlook for lumber production. The project, begun in June, is nearly completed. - Mr. Daggit, Mrs. May, Miss Washabaugh

11. BLS index of factory payrolls between census years.

A study has been begun to determine the downward bias of the BLS index of factory payrolls between census years, for use chiefly in estimating tax revenues. - Mr. Daggit, Miss Rastall

Actuarial Problems

I. Projects or studies completed

1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

The nineteenth Annual Report of the Board, which had been

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in process, was completed during June and submitted to the Civil Service Commission. - Mr. Reagh

## II. Projects or studies under way

1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

There is pending before the Board of Actuaries the matter of approving regulations with respect to the optional benefits payable under the Civil Service Retirement Act. At the present time the Board is awaiting the decision of the Comptroller General as to whether a cash refund of voluntary contributions would be permissible under the Act. - Mr. Reagh

2. Report of the Civil Service Assembly of the United States and Canada on "The Retirement of Government Employees."

A first draft of the chapter on "Financing the Plan" is in process of preparation. - Mr. Reagh

3. Actuarial Advisory Committee under the Railroad Retirement Act.

An actuarial report on the proposed plan of procedure for a valuation of the Railroad Retirement plan has been completed by the Railroad Retirement Board, and has been submitted to the members of the Actuarial Advisory Committee for review. - Mr. Reagh

4. Retirement system for Haitian Government employees.

The State Department is preparing data with respect to the employees included under a proposed retirement plan, and informal request has been received that on the basis of data submitted cost estimates be prepared and plans be suggested for financing the system. This project is in abeyance pending receipt of an official request. - Mr. Reagh

5. Federal Communications Commission.

A request from the Federal Communications Commission was received on May 18 to review an actuarial report of the American Telephone and Telegraph Company regarding recent changes which they have made in the valuation of their pension plan. Members of the Division's staff

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will serve in an advisory capacity. The actuarial report has been submitted to the Division for study. - Mr. Reagh

Other Projects or Studies

1. Treasury Bulletin.

Data were prepared or reviewed for the June issue of the Bulletin, as follows:

Prepared -

Average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Lindow, Miss Eyre

Reviewed -

Amount of interest-bearing debt outstanding, the computed annual interest charge and the computed rate of interest. - Mr. Lindow

Estimated customs duties and taxes, and value of dutiable and taxable imports, by tariff schedules. - Mr. Lindow, Mr. Wilson

Estimated receipts from taxes imposed by various revenue acts on imports. - Mr. Lindow, Mr. Wilson

Computed duties collected, by countries. - Mr. Lindow, Mr. Wilson

Vessels cleared from the United States, direct for foreign ports, classified by nationality. - Mr. Lindow

Treasury criminal cases. - Miss Michener, Mr. Lindow

2. Other material for publication.

- (1) Report of the Executive Secretary to the Central Statistical Board for April and May 1940 was reviewed, at the Board's request, June 3. - Mr. Haas, Mr. Reagh
- (2) Galley proof of section on Treasury financing for the July issue of the Federal Reserve Bulletin was reviewed at the request of Under Secretary Bell and was returned to him on June 21. - Mr. Haas, Mr. Murphy

3. Cumulative index of Treasury Publications.

Work has been begun on the preparation of a cumulative subject index of Treasury publications since the establishment of the Department, covering (1) Annual Reports of

the Secretary, (2) other publications issued by the Department, including annual reports of the bureaus and offices in the Department, and (3) material prepared in the Treasury Department which was published in Congressional documents, hearings before Committees of Congress, or the Congressional Record. - Miss Westerman

4. Correspondence.

Replies were prepared to letters of inquiry on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During June 390 letters were received in the Division and 395 were handled as required.

5. Charts.

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of June is attached.

Work completed in the Graphic Section, Division of  
Research and Statistics, June 1 to 31, 1940

| Type of work                          | For Division<br>of R & S | For<br>Others | Total  |
|---------------------------------------|--------------------------|---------------|--------|
| <u>Graphic:</u>                       |                          |               |        |
| <u>New charts:</u>                    |                          |               |        |
| Total charts completed                | 23                       | 4             | 27     |
| Bond book charts completed            | 57                       | -             | 57     |
| <u>Charts brought up to date:</u>     |                          |               |        |
| 3 bond chart books brought up to date | 25 (times)               | -             | 25 (t) |
| All other charts brought up to date   | 671                      | 18            | 689    |
| <u>Miscellaneous:</u>                 |                          |               |        |
| Total jobs                            | 12                       | 7             | 19     |
| <u>Photographic:</u>                  |                          |               |        |
| <u>Photographs:</u>                   |                          |               |        |
| Total jobs                            | 25                       | 25            | 50     |
| Number of-                            |                          |               |        |
| Negatives                             | 23                       | 113           | 136    |
| Contact prints                        | 39                       | 125           | 164    |
| Enlargements                          | 199                      | 89            | 288    |
| <u>Photostats:</u>                    |                          |               |        |
| Total jobs                            | 156                      | 15            | 171    |
| Number of-                            |                          |               |        |
| Lettersize copies                     | 748                      | 225           | 973    |
| All other copies                      | 6,158                    | 73            | 6,231  |
| <u>Multilith:</u>                     |                          |               |        |
| Total jobs                            | 8                        | 2             | 10     |
| Number of-                            |                          |               |        |
| Zinc plates                           | 12                       | 75            | 87     |
| <u>Miscellaneous:</u>                 |                          |               |        |
| Total jobs                            | 6                        | 10            | 16     |

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Statistical Report on Work Completed by the  
Graphic Section, Division of Research and Statistics, by months,  
beginning January 1940.

| Type of Work                  | Jan.  | Feb.      | Mar.   | Apr.  | May    | June   | Total   |
|-------------------------------|-------|-----------|--------|-------|--------|--------|---------|
| <b>A. Graphic</b>             |       |           |        |       |        |        |         |
| New charts completed          | 41    | 52        | 52     | 50    | 73     | 27     | 295     |
| Charts brought up to date     | 773   | 678       | 713    | 713   | 700    | 689    | 4,266   |
| Bond book charts completed    | 57    | -         | -      | -     | -      | 57     | 114     |
| Bond books brought up to date | -     | 24(times) | 25 (t) | 26(t) | 26 (t) | 25 (t) | 126 (t) |
| Miscellaneous jobs completed  | 49    | 11        | 38     | 32    | 28     | 19     | 177     |
| <b>B. Photographic</b>        |       |           |        |       |        |        |         |
| <u>Photographs:</u>           |       |           |        |       |        |        |         |
| Total jobs                    | 69    | 89        | 73     | 98    | 84     | 50     | 463     |
| Number of-                    |       |           |        |       |        |        |         |
| Negatives                     | 179   | 145       | 137    | 170   | 216    | 136    | 983     |
| Contact prints                | 192   | 947       | 369    | 370   | 196    | 164    | 2,238   |
| Enlargements                  | 604   | 226       | 141    | 214   | 358    | 288    | 1,831   |
| <u>Photostats:</u>            |       |           |        |       |        |        |         |
| Total jobs                    | 137   | 101       | 165    | 181   | 183    | 171    | 938     |
| Number of-                    |       |           |        |       |        |        |         |
| Lettersize copies             | 2,361 | 464       | 2,522  | 780   | 938    | 973    | 8,038   |
| All other copies              | 781   | 868       | 1,589  | 1,014 | 2,569  | 6,231  | 13,062  |
| <u>Multilith:</u>             |       |           |        |       |        |        |         |
| Total jobs                    | 2     | 4         | 8      | 14    | 5      | 10     | 43      |
| Number of-                    |       |           |        |       |        |        |         |
| Zinc plates                   | 65    | 66        | 89     | 81    | 74     | 87     | 462     |
| <u>Miscellaneous:</u>         |       |           |        |       |        |        |         |
| Total jobs                    | 6     | 3         | 9      | 14    | 6      | 16     | 54      |

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 8 - 1940

TO Secretary Morgenthau  
FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of June, 1940.

Attachment

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SUMMARY REPORT ON STUDIES OR PROJECTS IN  
THE OFFICE OF THE GENERAL COUNSEL -  
JUNE 1940

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Income and Other Taxes — Suggested Expansion of Provisions of Code Relating to Tax Liens. At the suggestion of Mr. Tarleau, study has been given to amending Sec. 3672(b) of the Internal Revenue Code so as to bring within its provisions certain rights to receive money not now included. The suggested study was prompted by the decision of the District Court of New Mexico in Magnolia Petroleum Co. v. Vidal (2-1-40). Sec. 3672(b) as amended would permit a transfer free of an established tax lien to a mortgagee, pledgee, or purchaser for value with respect to a "security" providing the transferee had no actual knowledge of the lien. The term "security" is defined to mean money, negotiable instruments, and certain instruments and certificates which, though not negotiable, circulate in business transactions substantially as freely as negotiable instruments, such as certificates of stock, voting trust certificates, and registered bonds. The term does not include accounts receivable and rights to receive money in general. The court held that a bona fide assignee for value of accounts receivable took subject to the tax lien. A memorandum was prepared

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opposing the suggested enlargement of the term "security". A lien valid with respect to personal property in general should be valid with respect to accounts receivable. If accounts receivable were to be permitted to pass free of the lien, it would be difficult to justify the exclusion of other forms of personal property.

2. Income Tax - Proposal to Exempt Income of Philippine Official Personnel on Duty in the United States. Study has been given to the suggested amendment of the Code by virtue of which there would be exempt from taxation the income of Philippine official personnel on duty in the United States. There was prepared and forwarded by the Secretary under date of June 18, a communication directed to the Secretary of the Interior giving expression to Treasury approval in part with respect to the suggested amendment.
3. Income Tax - Disclosure to Foreign Government re Income from Impounded Funds of Norway and Netherlands. Study has been given to the suggestion that the Department disclose to Foreign Governments revenue information in connection with impounded funds of Norway and the Netherlands and the nationals thereof.
4. Income and other Taxes - Legislative Designation of Particular Mortality Tables and Interest Rates. Study is being given to the suggestion that the Internal Revenue Code be revised so as to specify certain tables of mortality and interest rates by

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reference to which Federal estate, gift, and income tax provisions of the statute shall be administered. Sometimes the Board of Tax Appeals has wholly avoided the use of tables. Some tables are believed by some to be too old to be wholly satisfactory.

5. Income Tax - Basis of Property Received in Taxable Transactions. Study is being given to the suggestion that Sec. 113 of the Code be revised so as to provide that the fair market value shall be the basis for determining gain or loss in the case of property other than money received in certain transactions, such as a taxable exchange, a payment for services rendered, or the like.

6. Social Security - Proposal to Extend Coverage to Certain Employees of Religious and Charitable Organizations. Study has been given to the content of S. 3579 proposing an extension of coverage to certain employees of religious and charitable organizations. A draft of Treasury Report has been prepared and forwarded to the Legislative Counsel objecting to that portion of the proposed enactment which would require tax collections to be paid directly into the Federal Old-Age and Survivors Insurance Trust Fund instead of into the Treasury of the United States as Internal Revenue collections.

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7. Social Security - Proposal to make Decisions of the Railroad Retirement Board Binding in the Treasury Department.

Study has been given to H.R. 9706 and S. 3920 pursuant to Sec. 20 of which the Railroad Unemployment Insurance Act would be amended so as to make certain decisions of the Railroad Retirement Board binding upon the Treasury Department and the Bureau of Internal Revenue. There has been prepared and forwarded to the Legislative Counsel a Treasury Report objecting to the proposed enactment in this respect.

8. Vinson-Trammell Act. Study has been given throughout the month to the proposed revision of the Vinson-Trammell Act and to the substance of Treasury regulations which would be rendered necessary by the enactment of proposed revisions now under consideration.

All of the above matters were handled under the supervision of G. E. Adams, Head, Legislation and Regulations Division.

The following matters received attention in the office of Assistant General Counsel Tietjens:

9. Railroad Obligations Held by the Treasury Department under the Transportation Act, 1920. Messrs. Sherbondy and Folkerth have completed a preliminary examination of the present status of railroad obligations held by the Treasury Department under the Transportation Act, 1920, in the aggregate amount, principal

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and interest, of approximately \$45,000,000. In reply to correspondence they have received considerable information bringing up to date the financial statements of the various railroads.

Mr. Sherbondy prepared a proposed bill to amend the Transportation Act, 1920, in order to give adequate authority to sell and exchange railroad obligations now held by the Treasury Department. Similar bills had been introduced in Congress in past years, but none had been voted on in either House. Mr. Sherbondy and Mr. Reeves, in Mr. Bernard's office, discussed the bill with Chairman Lea of the House Committee on Interstate and Foreign Commerce, and Chairman Wheeler of the Senate Committee on Interstate Commerce. The bill was introduced in the House and the Senate by Messrs. Lea and Wheeler, respectively. Messrs. Sherbondy and Reeves testified before the House Committee on Interstate and Foreign Commerce with respect to the bill. The bill was reported by the House Committee without amendment and passed unanimously by the House. The bill is now pending in the Senate Committee on Interstate Commerce, and Mr. Wheeler has stated that he will take steps to have it reported.

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The following matters were worked upon under the general supervision of Assistant General Counsel Cairns:

10. Obligation of Secretary of Treasury to pay claims pursuant to settlement and closing agreement between American Ry. Express Co. and Director General of Railroads. An opinion, prepared by Miss Goode on this question, concludes that the agreement does not require payment of the claims in question, and that the Secretary should not pay them.

11. Political activity - Mrs. Bernice S. Pyke, Collector of Customs at Cleveland, Ohio. Mrs. Haley prepared an opinion concluding that no adequate evidence has been developed by investigation upon which a charge of violation of the Hatch Act or the Secretary's orders could be based.

12. Microfilms of securities in the Office of the Register of the Treasury, the original securities being destroyed, as constituting adequate legal evidence. The opinion on this question was prepared by Mr. Zarky and concludes that such reproductions would be admissible in evidence but that, because of the destruction of the originals, they might not be sufficient evidence to sustain the burden of proof in some cases where forgery is involved.

13. Acceptance by National Bank of discount in purchasing securities. The opinion on this question, prepared by Messrs.

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Gilmore and Morton, expresses the conclusion that a national bank may purchase investment securities for its own account at a discount. In purchasing securities and stock for customers it may not take a discount for itself unless authorized by the customer for whom it acts. In dealing in "exempt securities" it may act as principal and therefore take a profit or a discount for itself.

14. Flight of military airplanes purchased by British Government directly to a point in Canada. The opinion in this case concludes that airplanes may legally be flown to a point in Canada provided there is compliance with conditions set forth in opinion. It was prepared by Messrs. Wolf and Feidler.

15. Use of Coast Guard appropriation "Repairs to vessels" for compensating civilian clerical employees, and application of Civil Service law and regulations with respect to manner of employment and rates of pay. This opinion received the joint attention of Mrs. Haley and Messrs. Wolf and Feidler. The opinion concludes that both questions should be answered in the affirmative. Civilian clerical employees may be paid from the appropriation "Repairs to vessels" for time spent in work incident to repairs to vessels. There being no exemption from Civil Service Rules, civilian clerical employees are subject to Civil Service Rules with respect to manner of employment and rates of pay.

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16. Use by official of recorded telephone conversation.

This opinion was prepared by Mr. Zarky. It concludes that in view of General Counsel's opinion dated January 8, 1940, it would seem to be unlawful to make and divulge such a recordation unless parties to the conversation gave express or implied consent. Records may be resorted to for personal use to refresh recollection.

17. Pledge of assets by national banks to secure deposits

of: (1) moneys received by postmasters; (2) moneys paid into the registry of court; (3) moneys collected by receivers of insolvent Joint Stock Land Banks; (4) moneys received by market administrators. In an opinion prepared by Mr. Zarky the conclusion is expressed that national banks may pledge their assets to secure deposits made by postmasters. The opinion further concludes that it may not safely be ruled that national banks have authority to pledge their assets to secure deposits of: (1) moneys paid into the registry of court; (2) moneys collected by receivers of insolvent Joint Stock Land Banks; (3) moneys received by market administrators.

18. Covering into Civil Service of certain Emergency Relief

employees. This opinion, prepared by Messrs. Wolf and Feidler, dealt with the question whether certain employees who, on July 1, 1940, were transferred from the emergency roll "Emergency

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Relief, Treasury, Accounts and Deposits, Administrative Expenses" to regular roll "Salaries, Office of Commissioner of Accounts and Deposits" may be covered into classified civil service pursuant to sec. 6 of Civil Service Rule II. The opinion concludes that such employees may be covered into the service pursuant to sec. 6 of Civil Service Rule II. Executive Orders No. 7916 and 8044 were held to be inapplicable to the employees in question.

19. Tax-free transfer of harvested hemp fiber. The study which was being made of the circumstances under which harvested hemp fiber might be transferred tax free from the farmer-producer to the decorticating mill, due to a number of circumstances, including lack of interest on the part of the hemp growers, has been dropped. The matter was handled in the Narcotic Legal Section by Mr. A. L. Tennyson.
20. Liquidation of duress entries. In T.D. 50102(4) the Bureau ruled that, where a duress entry is made and the importer subsequently loses his test case, liquidation of the duress entry must be made on the basis of its final appraised value. A question had arisen whether this was a correct interpretation of H.J.R. No. 336 (U.S.C. title 19, sec. 1503a) and section 503(b) of the Tariff Act of 1930 (U.S.C. title 19, sec. 1503(b)), or whether liquidation of the duress entry

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must be made on the basis of its entered value or final appraised value, whichever is higher, if the importer has lost the test case. A memorandum was therefore prepared by Mr. Chambers, of the Customs Legal Section, in which the conclusion was reached that T.N. 50102(4) is correct.

21. Attorneys' liens. In connection with the mitigation of penalties and forfeitures arising under the customs laws, it has recently been the practice to secure from the importer whose penalty is mitigated a release of any refunds which may become due to him on protests then pending. The question has arisen whether the customs attorneys representing the importer in such protests obtain liens for their services which must be satisfied from the refunds even though the importers themselves have agreed that the Government shall retain the refunds. This matter is now being studied by Messrs. Flynn and Chambers of the Customs legal staff.

22. Suspension of provisions of "Eight-hour" law. In connection with the proposed suspension of the provisions of the "Eight-hour" law as applied to Coast Guard contracts, and Executive Order suspending said provisions was prepared for the signature of the President, together with a letter to the President explaining the need therefor. The Executive Order was not forwarded, however, because provisions accomplishing

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the same purpose were included in section 5 of H.R. 9822, which was then pending. A letter was prepared for signature of Commandant to the Chairman of the Senate Committee on Commerce, recommending that section 5 of H.R. 9822, a bill "To expedite national defense, and for other purposes", providing for suspension of the provisions of the "Eight-hour" law during the existing emergency be amended to include Coast Guard. The amendment was adopted and the bill was passed by the Congress on June 22, 1940. These matters received the attention of Messrs. Harrison and Morton of the Legal Section, Coast Guard.

The following matters received attention in the Legislative Section under the direction of Assistant General Counsel Bernard:

CONTINUATION OF PROJECTS

23. Bill to relieve the hospitals from double taxation (for description see original report, Item 9). This bill, prepared by Miss McDuff, has been returned from Budget with a request for further expression of our views in the light of the comments of the Federal Security Administrator. In response to this request, a letter and statement of arguments in support of the provision establishing an occupational tax classification for hospitals has been prepared by the Bureau of Narcotics and is being reviewed by this office. Messrs. Lubore and Mitchell of the Narcotics Legal Section cooperated.

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24. Fidelity Bond Bill (formerly identified as "Bond Survey")  
(for further description see original report, Item 10). A draft of our proposed Fidelity Bond Bill and letter of transmittal to Congress were sent to Budget on March 30, 1940. Because of the wide interest in this bill, copies of it and the letter of transmittal were disseminated among the various interested agencies, about ten in all. Replies from some of these agencies have been transmitted to us by Budget, for our consideration, but not all the replies have been received yet and Budget has, therefore, not yet cleared our bill.

In addition to a considerable amount of research work, which has been completed, to support this bill, we are preparing a memorandum of the result of an investigation of the laws and facts concerning the situation which was referred to by Mr. Henry Deane, representative of the American Surety Company and the New York Casualty Company, as the disastrous experience of the State of Nebraska with a State fidelity bond guaranty fund in the 20's, so that we may be armed for any attack on this basis against our bill. It appears that Nebraska did have a disastrous experience in the 20's with a guaranty fund for the protection of depositors in state banks, but that it did not enact a Fidelity and Indemnity Official Bond Fund Act until 1935. Mr. Spingarn has been engaged upon this.

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25. Compilation of money statutes (for description see original report, Item 11). Miss McDuff is continuing the work on this material.

25. Compilation in annotated form of laws and regulations affecting Government personnel (for description see original report, Item 13). The Legislative Section is continuing this project under Mr. Bernard's general supervision.

26. Codification of Federal regulations (for description see original report, Item 16). The Treasury phases of this work are being handled by Mr. Spingarn.

27. Codification of anti-counterfeiting and related laws (for description see original report, Item 7). Mr. Koken is continuing his work on this matter.

28. Federal Depository System (for description see original report, Item 6). Mr. Reeves is drafting this bill, together with necessary letters of transmittal, in final form for submission to the Bureau of the Budget for clearance. It is planned to transmit the bill to the 77th Congress since it would be difficult to secure legislative consideration during this session because of the complicated nature of the subject matter and the controversial character of certain of the bill's provisions.

29. Fiscal Service (for description see February report, Item 40). The Legislative Section has completed its work in connection with the establishment of the Department's new Fiscal Service, pursuant to Reorganization Plan No. III.

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30. Bookmaking bill (for description see April report, Item 31). This proposed bill, as revised after a conference with Mr. Klaus, was transmitted informally to Mr. Klaus for his use. In the letter of transmittal it was pointed out that the Treasury Department is not to sponsor the legislation. Miss McDuff did the work.
31. Federal Tort Claims bill (for description see March report, Item 35). Mr. Koken is continuing his work on the proposed Federal Tort Claims Act in the light of the comment thereon by the various staff members of the Legal Division. This bill is sponsored by the Department of Justice.
32. Proposed anti-slug (used in vending devices) legislation (for description see May report, Item 49). Mr. Spingarn of the Legislative Section conferred with Chief Wilson and Mr. Murphy of the Secret Service on the advisability of proposed legislation directed against tokens and slugs manufactured for use in coin telephones and automatic vending devices. They were of the opinion that the Treasury should not approve such legislation. In the light of this, an appropriate letter to Representative Schafer was prepared and sent, which, among other things, called attention to the fact that his state, Wisconsin, already has a penal statute on this subject. Our work on this is, therefore, completed. Miss McDuff was also engaged upon this job.

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NEW STUDIES

33. Acting Administrators bill. The Legislative Section is studying the feasibility of legislation to provide for act-  
ing bureau or division chiefs in the absence of a chief. Some of the organic laws creating various divisions, bureaus, etc., contain no specific provision on this subject and have in the past presented administrative problems because of the apparent inadequacy of the general statute on the subject, as in the case of the postponement of the transfer of the Federal Alcohol Administration to the Treasury Department. A survey of all the statutes dealing with the various Treasury offices, the administrative problems of this character which have arisen in other departments, and specific cases in the Treasury Department, is being made by Miss McDuff.

The following projects received attention by Mrs. Campise, of the statistical unit, under the supervision of Mr. Cox:

34. Installation of a punch card system for keeping chronological records of employment status, educational background, and experience of legal personnel. The installation has been completed and is now ready for use.

35. Installation of a punch card system for recording applicant's records. The form for recording the information to be punched has been set up and necessary codes prepared. This project is in the

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data-gathering stage. The data on approximately three fourths of the applicants have been taken off on cards and coded.

The following matters were worked on under the direction of

Mr. Bernstein:

36. Foreign Exchange Control. This office drafted an amendment to the Executive Order and Regulations extending the provisions thereof to property of France and nationals thereof and prepared instructions to Government officers accompanying such Order and Regulations. Subsequent to the issuance of the amended Order and Regulations, a number of general licenses were prepared and issued. Extensive work has been done in answering inquiries concerning the Order and Regulations. The entire staff has worked on the Order, Regulations, general licenses, inquiries, etc. Messrs. Pehle and Rupert worked on applications for licenses. Considerable work was done in connection with the control of securities in which the invaded countries or nationals thereof had an interest. An existing general license with respect to the purchase and sale of securities was amended so as to limit the transactions authorized thereby and a new general ruling prohibiting the importation of securities from all foreign countries except upon condition that they be delivered to a Federal Reserve bank for examination was prepared and issued. In this connection, a considerable amount of work was done in cooperation with the Post Office and Customs in

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preparing instructions to postal and customs employees. Consideration has been given to other problems in connection with securities and a draft of an Executive Order and Regulations with reference to this matter has been prepared.

37. Federal Reserve Legislation. We collaborated with the Federal Reserve Board and State officials in preparing legislation to protect the Federal Reserve banks in paying out funds on the order of representatives of foreign governments that may have nationalized the assets of their central banks. Varying portions of time were devoted to this task by Messrs. Bernstein, Aarons, Friedman, Du Bois, and Luxford.

38. Propaganda Legislation. A draft of legislation was prepared for inclusion in the bill being prepared by the Department of Justice for control of "fifth column" activities. The draft prepared in this office would confer broad powers to regulate such activities through the control of funds of countries engaged in such activities in the United States. This matter received the attention of Messrs. Bernstein and Aarons.

39. Examination of Consular Mail. In connection with the enforcement of General Ruling No. 5, it was decided after a lengthy study was made that consular officials, their mail and baggage should be subjected to the same treatment as any other person's mail or baggage entering the United States. A memorandum recommending that

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procedure was prepared and circulated. Messrs. Bernstein, Luxford, and Mann worked on this.

40. Reconstruction Bank. In collaboration with Mr. White, this office prepared a draft of a statute for the establishment of a bank to aid in the reconstruction of nations affected by the war. Messrs. Bernstein, Aarons, and Ferguson were engaged upon this job.

July 8, 1940  
2:37 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

H.M.Jr: Hello.

Marriner S.  
Eccles: Hello.

H.M.Jr: Marriner?

E: Yes, Henry.

H.M.Jr: How are you?

E: I'm fine. How are you?

H.M.Jr: Oh, I'm alive.

E: Are you getting away over the weekend?

H.M.Jr: Yeah.

E: That's fine.

H.M.Jr: Marriner, I saw the President for a few minutes at one o'clock and I'd like to do a little financing this week.

E: This week.

H.M.Jr: Yeah.

E: You mean .....

H.M.Jr: ..... some new money.

E: You don't know what kind.

H.M.Jr: Yeah. I got him to sign a piece of paper -- 2 $\frac{1}{2}$ % bond. The reason for that is this. I don't want to sell any more notes until we have the National Defense notes to sell.

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- E: I wish you didn't have those.
- H.M.Jr: Well .....
- E: Maybe you can get rid of that before you have to sell them.
- H.M.Jr: Well, anyway, I've got them. The other thing is -- anything from '52 -- 1952 down, I mean, less than that, is terribly crowded and I figure this is going to be a long show and this may be one of our last chances to sell a long bond.
- E: Well, there's this thing to be said in favor of bonds, that they would be taken -- that is, the insurance companies and investors need some investments and we don't need the banks to take them. The investors won't take short stuff. They go into the -- and it means that the banks continue to take them and I think that it's very much better to get the bonds distributed in the hands of the institutional individual investors than it is to get more of them in the hands of the banks because as they get into the hands of the banks, that only creates more deposits and we don't need any more.
- H.M.Jr: No.
- E: So that from a monetary standpoint I would -- I'm favorable to getting away from notes -- and I'm very sorry that Congress did what they did in connection with these Defense Notes and I'm in hopes that before we have to put them out that we might get some leeway on that because I think it's a mistake.
- H.M.Jr: Well, I'd like to talk to you about it some time and give you a little of the background.
- E: Well, you mean about the notes.
- H.M.Jr: Yeah, I mean, how we happened to get them in the way we did and all that.

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- E: Yes. Yeah. Well, I understand I think some of the reasons for it and -- but don't you think that those reasons might change before you have to use them?
- H.M.Jr: Goah, Marriner, I'm willing to change my mind in the morning and afternoon these days the way things move.
- E: Well, I know, but I think that the -- this of course will come within the \$45 billion.
- H.M.Jr: Yes, it will.
- E: Well, now, do you want to discuss the matter with us at all -- the Committee?
- H.M.Jr: Well, this is what I'd like to do. I have a press conference every Monday at three, and unless you had some strong objection, I'd like to say at that time that the Treasury was thinking of getting out a bond issue this week.
- E: How large would you expect it to be?
- H.M.Jr: Well, what I told the press was between \$5 and \$700 million.
- E: Uh-huh.
- H.M.Jr: See?
- E: And it would be as of what date, either July first, I mean your .....
- H.M.Jr: Well, I don't know. We might have an odd date for this time but I think that -- Dan hasn't -- I haven't talked -- they could be on an even date except possibly this one wouldn't, you know.
- E: Uh-huh.
- H.M.Jr: I mean, I imagine it would be dated June 15th.
- E: You mean, you'd go back to the June date.
- H.M.Jr: I think so. I'm not sure .....

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- E: I think it's better personally. I mean, you've everything else, you're trying to get it in quarters and it certainly has an advantage.
- H.M.Jr: Yeah. I think if they can do it mechanically the 15th of June would be the best.
- E: Yes.
- H.M.Jr: I would like to discuss it with you people, but I would like to go out that far to get the market ready.
- E: Well, merely -- you wouldn't say of course either the amount or the terms at all -- merely that you expected to put out -- to do some financing.
- H.M.Jr: A bond issue -- I'd like to say a bond.
- E: A bond issue -- not saying whether it was short or long or .....
- H.M.Jr: No. Just say a bond and get the market a little ready and see what happens.
- E: Yes. Well, O. K.
- H.M.Jr: Then, I'd like to -- I mean, I had to put something in writing -- the President is terribly hard to see these days, I mean, and so I put down  $2\frac{1}{2}\%$  -  $5\%$  - \$100 million which brings it into the '52-57 area, which is not so heavily packed as some of the other.
- E: '52-57.
- H.M.Jr: I mean, for somewhere in that area.
- E: Yes, I would think it would fall at least -- maybe even '55-60.
- H.M.Jr: Well, I don't know but it's a point -- when you take a look at it, you'll find '52 or below is terrifically crowded and I don't know how you feel, but I don't think we'll get money any cheaper the rest of the year.

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E: Well, I would doubt if you do. I think that -- I look to see the market though stay pretty strong. Of course, you can't tell, if England capitulated and temporarily that might affect it.

H.M.Jr: Well, I don't think you'd get it any cheaper, you'd agree on that wouldn't you.

E: I would doubt it. I would doubt it. The market though has -- now I don't know whether you've followed it, but we sold -- we've sold about \$25 million of bonds the last two or three weeks because the market was so strong, there were no offerings and it went up there -- it went up as much as half a point.....

H.M.Jr: Dan told me about it.

E: .....a day and we felt that there was just no sense in the damn thing going up so fast so what we had bought -- you see, we bought about \$10 or \$12 million only on the down-pull after the -- May when the Germans went into Holland and Belgium so we sold not only that \$10 million but sold about another \$15 million and then the Treasury, I think, sold a few.

H.M.Jr: Yeah.

E: And in spite of that fact the market now is almost back -- the market now is almost back to where it was before the Germans went into Belgium.

H.M.Jr: Well, Marriner, how would three o'clock tomorrow afternoon suit you?

E: That would suit me fine.

H.M.Jr: Well, supposing you and your gang come over then, will you?

E: Well, do you want George down?

H.M.Jr: Sure.

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E: Then in other words, you want to meet with the Executive Committee.

H.M.Jr: Yes, please.

E: O. K. then.

H.M.Jr: Thank you.

E: All right. Good-bye.

EMBASSY OF THE  
UNITED STATES OF AMERICA

Rio de Janeiro, Brazil, July 8, 1940.

No. 3247

Subject: Purchase of Dollar Bonds in the United States.

(STRICTLY CONFIDENTIAL)

The Honorable  
The Secretary of State,  
Washington, D. C.

Sir:

With reference to the Embassy's telegram no. 335 of July 6, 1940 2 p.m., regarding the purchase of dollar bonds in the United States, I have the honor to enclose copies of the letter from the Bank of Brazil to the Federal Reserve Bank of New York.

As stated in the telegram under reference the Brazilian Government had decided to use part of the gold balance in the Federal Reserve Bank of New York for this purpose. The initial plan called for the purchase of dollar bonds with a current market value of \$2,000,000.

Today the Bank of Brazil investigated the reasons for the sudden rise in the milreis/dollar rate on the black market here, it having increased from 22\$500 to about 23\$000 in five days. The Bank discovered that two important Brazilians, who are very close to officials in the Ministry of Finance, were largely responsible for the sudden demand for dollars and that they purchased approximately \$500,000 in three days. The Bank has reason to believe that the Brazilians intended to use this money for the purchase of dollar bonds. In view of the obvious leak the Bank of Brazil has suspended plans for purchasing the dollar bonds.

Respectfully yours,  
For the Ambassador:

Walter J. Donnelly,  
Commercial Attaché.

Enclosure:  
Copies of letter from Bank of Brazil.

File 861.6

WJD:XF

(COPY:EMS)

Regraded Unclassified

Enclosure to Despatch No.3247 of July 8, 1940, American Embassy, Rio de Janeiro, entitled: "Purchase of Dollar Bonds in the United States."

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( C O P Y )

FEDERAL RESERVE BANK OF NEW YORK  
Fiscal Agent of the United States,  
New York, U. S. of America.

Dear Sirs:

We hereby confirm our letter dated June 25, with regard to the shipment of gold per s/s "Cantuarria", a duplicate set of documents of which is being forwarded under separate cover.

We hereby inform you that it is our Government's intention to purchase in the United States, through the intermediary of American banks, bonds of Brazil's foreign debt, for which purpose the Banco do Brasil will be given the necessary power to act on its behalf, as fiscal agent.

Accordingly, and for the purpose of raising the necessary amount of dollars in the United States, we wish to utilize the gold which is now deposited, under earmark with your Institution.

We consult you therefore on the following procedure: as the bonds are purchased, and for this purpose, you will furnish the necessary funds, retaining a proportional amount of the gold deposited with your goodselves in our name, as fiscal agent of the Brazilian Government, in guarantee. In accordance with the terms of the Agreement signed July 15, 1937, as supplemented and modified by letter of September 2, 1938, the corresponding amount in milreis will be credited here to a special account in your name. It would be a great satisfaction to us to know that you would undertake the transaction.

We fear, however, that your organization might not enable you to carry out this business directly, and if this is so, it occurs to us that you might possibly undertake to carry it out through a bank which you might wish to select. We would ask you to give us, in this respect, details of the accounts to be opened for this purpose, as also any other procedure required for the handling of these dollar advancements.

We would request you to kindly give us a prompt reply, even if you cannot see your way to complying with our request in either of the above mentioned forms.

Yours very truly,  
by the BANCO DO BRASIL

\_\_\_\_\_  
Director of Exchange

\_\_\_\_\_  
Chief of the Exchange Department

July 8, 1940

My dear Mr. Hoover:

This will acknowledge receipt of the following letters from you:

July 1 - Use of the French Fleet by  
Germany;

July 1 - Strike to be called at Boeing  
Aircraft Aeronautic Union;

July 1 - Eric L. F. Archdeacon.

Sincerely yours,

(Signed) H. W. Morgenthau, Jr.

Mr. J. Edgar Hoover,  
Director,  
Federal Bureau of Investigation,  
Washington, D.C.

JOHN EDGAR HOOVER  
DIRECTOR

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**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

July 1, 1940

BY SPECIAL MESSENGER  
PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

I am transmitting herewith four memoranda containing information received from two confidential sources. The matters related in these memoranda concern European affairs and are being furnished for your information.

As subsequent information is received from the same sources, it will, of course, be communicated promptly to you.

Sincerely yours,

J. Edgar Hoover

Enclosure

July 1, 1940

WYGGAND

The following information was furnished by a confidential informant on June 25, 1940.

The informant expressed the opinion that the German Government would make some move to dismantle the French Navy. His action would be intended as a strong gesture to the United States that Germany has no intention of using the French Fleet to wage war in the Eastern Hemisphere. He also expressed the opinion that Germany preferred to prove to Great Britain that the war could be won by Germany without the use of the French Fleet.

When questioned concerning the reported concentration of Russian troops on the German border, the informant answered that there was no such concentration taking place, and in the second place expressed the opinion that Germany would be very little concerned because of such a concentration of troops by Russia, in view of the proven inefficiency of the Russian Army. He referred to the difficulties encountered by the Russian forces in Finland and stated it was evident the German Army would have little difficulty with that of Russia.

Inquiry was made of the informant as to the possibility that a pact or understanding had been affected between Russia and England. He stated that he hoped England would not be foolish enough to make such a mistake, which he referred to as being similar to the arrangements made by Great Britain with Turkey, whereby approximately two hundred and fifty million dollars were advanced to Turkey by Great Britain.

The informant also stated the Russians were aware that General Wyggand had command of a colonial expeditionary force for a march against Russia through the Baklan oil fields. This was prior to the time that Wyggand was placed in command of the French Army.

July 1, 1940

MEMORANDUM

The following information was furnished on June 25, 1940, by a confidential informant.

The individual furnishing this information was considerably upset by the signing of an armistice between France and both Germany and Italy. He blamed France's downfall on the "One Hundred," a group allegedly including outstanding social and financial families in France, such as the Snyders (munitions manufacturers), Mr. Bonnet, Pierre Laval, General Petain, and General Heygand. The "One Hundred" was referred to as the coming Fascist leaders of France, and it was stated that the French government would be organized on the Nazi pattern and would be entrusted to Laval, Bonnet, and the military leaders named above.

It was further stated that the armaments furnished to France by the United States, said to include 400 airplanes, 2,000 airplane motors, approximately 500 75-millimeter guns, and ammunitions, had now fallen into the hands of the Germans "like a ripe apple from the tree." It was further mentioned that alleged Fascist forces in France were perfectly willing to let Adolf Hitler and his Government take full advantage of the assistance rendered to France by the United States.

General Heygand, it was reported, belongs to a secret society which has strong Fascist tendencies.

The individual who furnished the above information also stated that there was a strong Fascist movement in Great Britain and that this movement was headed by the Clivenden set, led by Lady Astor, who had been inoculated with Nazi propaganda through Von Ribbentrop while he was German Ambassador to Great Britain. It was stated that Oswald Mosley, the alleged Fascist leader in England, is a minor figure compared with the Clivenden set, who wield enormous power behind the scenes of the present British Government. Because of these forces operating in Great Britain, it was the opinion of the informant that there is great likelihood Great Britain will capitulate and set up its own Fascist leader.

With regard to the lifting of the American embargo against Russia, the Informant stated that it was his own State Department realized that Soviet Russia had some too good a feeling toward Hitler. He pointed out that Russia, since gaining control of Latvia, Lithuania, and Estonia, is in full control of the Gulf of Bothnia, and has taken this action in direct opposition of Hitler.

When questioned as to the possibility that Russia would combine with Great Britain, in opposition to Germany, the Informant stated there was no chance that Russia would undertake such an endeavor. He pointed out, however, that when control of the British Government falls into the hands of liberal factions under Communist leadership, Russia would attack Germany. It seemed to be of the opinion that the day is not far distant when the English people will overthrow their present Government and follow a government patterned after that of Russia. He said that the large labor unions in England presently embodied most of the ideals of the Soviet Government.

The informant expressed the opinion that it was Hitler's plan to perfect a union of nations in Europe, carrying with it a solidarity of Fascist ideology, from which Russia and England are to be excluded. Most of the Balkan States, according to the informant, will adopt Fascist forms of government and become members of the union.

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July 1, 1940

MEMORANDUM

The following information was furnished by a confidential informant on June 30, 1940.

With regard to the relations between Russia and Germany, the informant stated that no difficulties were being encountered and that everything was proceeding according to schedule; further, that the ceding of Bessarabia to Russia is a part of the understanding between the two countries.

It was reported, however, that there is considerable discussion in Germany today with regard to the possibility Stalin is preparing to desert Hitler. This viewpoint has been particularly evident since the Russian invasion of Rumania and Bessarabia. It is stated, however, that at least two years' time would be required before Stalin could build a war machine comparable to that of Hitler.

The informant reported he had had a long talk with Comensky, the Russian Ambassador to the United States, during which Comensky told him that Secretary Hull had agreed to about thirty per cent of the requests made on behalf of the Soviet Government. Comensky expressed the intention of again visiting Secretary Hull in an attempt to have further requests granted, including the sending of machine tools to Russia.

The informant displayed great interest in the nomination of Wendell Willkie by the Republican Convention. He stated he understood that Mr. Willkie had been present at a meeting of William Allen White's committee against Hitlerism, which was also attended by members of the J. P. Morgan firm. The informant expressed surprise that Mr. Willkie should attend such a meeting, in view of the fact his grandparents had come to the United States directly from Germany. He pointed out that although Mr. Willkie was American born, he was, nevertheless, of German stock.

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The informant advised that he was intending to call on Secretary Hull in connection with the arrest of one Hoehn. He stated that Hoehn had been traveling on an official German passport, en route to South America, and had left San Francisco for Los Angeles, where he was taken off an airplane and held for four days. He further stated that Hoehn had official German documents with him pertaining to trade instructions to various German officials in South America. The informant advised there was nothing secret about these papers and that they were not written in code. He expressed the opinion it appeared that every possible means was being used to create a situation which would justify the hostile attitude exhibited by the United States toward Nazi Germany.

July 1, 1940

MEMORANDUM

The following information was furnished by a confidential informant on June 30, 1940.

The informant, who is an outstanding Communist in this country, was angered by information he had received relative to a meeting between Premier Reynaud, Marshal Petain, General Weygand, and one Mandell. This meeting is alleged to have taken place after Mr. Churchill had conferred with Premier Reynaud at some port on the French coast and suggested a national union between France and Great Britain.

According to the informant, when Reynaud returned from this meeting and imparted the information to Marshal Petain and General Weygand, it was brought out that Mandell had accompanied Reynaud at the meeting with Mr. Churchill. Mandell is said to have made the statement during the meeting that it was his opinion the plan proposed was a "glorious thing." General Weygand is said to have been infuriated when he found that Mr. Churchill's proposal had been placed before Reynaud and Mandell rather than before Marshal Petain and himself, particularly when he learned that Mr. Mandell had indicated he favored the suggestion of Mr. Churchill.

General Weygand is said to have made the statement to Mr. Mandell that the primary reason for the defeat of France was international Judaism linked with Russian Communism which had destroyed the vitality of the French. Marshal Petain pleaded with General Weygand that he hold his temper because of the critical condition of the French, although he, Petain, fully agreed with Weygand's attitude toward Mandell.

JOHN EDGAR HOOVER  
DIRECTOR

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Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

July 1, 1940

PERSONAL AND CONFIDENTIAL  
BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

As of possible interest to you, you are advised that I am in receipt of information from the Seattle office of this Bureau to the effect that it had been learned that a strike had been voted by the Boeing Aircraft Aeronautic Union. The meeting of the Union occurred on June 29, 1940, and the vote in favor of a strike was forty-three hundred to four hundred.

The negotiations with the Boeing Aircraft Company, it was indicated, would be continued on July 1, 1940, and the strike is not expected to be called for eight or ten days.

It was understood that a battalion from Fort Lewis was being held in readiness in case the necessity should arise for its use.

Sincerely yours,

J. Edgar Hoover

JOHN EDGAR HOOVER  
DIRECTOR

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Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

July 1, 1940

PERSONAL AND CONFIDENTIAL  
SPECIAL MESSENGER

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

My dear Mr. Secretary:

I am transmitting herewith a memorandum outlining complete details as to the information possessed by the Federal Bureau of Investigation with regard to Eric L. F. Archdeacon, thinking that these data might be of interest to you in connection with your contemplated interview with the individual in question.

Sincerely yours,

J. Edgar Hoover

Inclosure

July 1, 1940

MEMORANDUM

Eric L. F. Archdeacon, approximately forty-three years of age, presently residing on Old Church Road in Greenwich, Connecticut, telephone Greenwich 2327, has served as European representative of the Bankers Trust Company of New York, 16 Wall Street, for approximately ten years. Archdeacon has been interviewed by a Special Agent of the Federal Bureau of Investigation following an introduction arranged by Mr. O. Parker McComas, Vice President in charge of the Banking Department of the Bankers Trust Company of New York. Archdeacon is the son of an English father and a German mother. His father was a mining engineer who had done a considerable amount of work in Germany, although he was engaged in mining work in Singapore during Archdeacon's early childhood. Archdeacon was born in England, but spent most of his life in Germany with his mother.

Archdeacon, together with his brother, was educated in Germany. They both studied engineering, hoping to return to England and follow this occupation. Archdeacon at the outbreak of the first World War was attending school at Bonn, Germany, being arrested shortly after commencement of hostilities as a British alien. During efforts on the part of his family to smuggle him out of Germany, Archdeacon was again arrested and imprisoned. He spent approximately six months in jail, being thereafter removed to a concentration camp. Although several efforts were made to conscript Archdeacon while he was still imprisoned, he managed to delay actual conscription until he was released from the German concentration camp, allegedly through the influence of an uncle who was a high ranking German naval officer. Following his release, Archdeacon, as well as his younger brother, was conscripted into the German navy and placed in coastal defense work on mine sweepers. Archdeacon's younger brother was killed when the mine sweeper he was on was blown up and Archdeacon, himself, narrowly escaped death in this connection on four different occasions. Archdeacon allegedly possessed an uncle who served as a high ranking official in the British Navy during the first World War.

Memorandum

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Following the war, Archdeacon was employed by the German Steel Trust, which was at that time headed by Frita Thyssen, the noted German industrialist. Archdeacon was employed in the office of the Secretary of this Trust and he handled some of the negotiations with Dillon, Reade and Company of New York City in connection with financial matters. Dillon, Reade and Company was apparently represented by one Eberstadt and through an acquaintance which he formed with Eberstadt at this time, Archdeacon subsequently entered the employ of the latter individual. Eberstadt subsequently left the employ of Dillon, Reade and Company and he approached the Bankers Trust Company of New York, recommending Archdeacon for possible use by the company in the European division thereof. Consequently, the bank employed Archdeacon as Berlin representative, in view of his fluent command of the German language.

Archdeacon employed as Secretary one Erika Von Redern, who was the daughter of the Chamberlain to the last Kaiser of Germany and later married her. Erika Von Redern's family was very high in German society but "land poor." Through his marriage, Archdeacon succeeded in obtaining entree into the leading families in Germany, thus being in a position to render excellent service to the bank. He was divorced about 1935, apparently for the reason that his wife would not, or could not, have children. Gerhardt Alois Westrick served as Archdeacon's attorney during the divorce proceedings. Westrick, it will be recalled, is presently serving as Commercial Counsel in the United States for Nazi representatives.

Archdeacon later married the daughter of W. E. Hall, a member of the law firm of Hall, Cunningham, Jackson and Heywood, with offices at 22 East 40th Street, New York City. This marriage was allegedly consummated over the objections of Mr. and Mrs. Hall. During April of 1939, Archdeacon and his wife returned to the United States from Germany and remained in this country due to the outbreak of the current war in September of 1939. While attempting to obtain his possessions from Germany, Archdeacon apparently encountered difficulties with his former wife and the latter is reported to have forced

Archdeacon to guarantee alimony payments to her, upon threats that she would report him as an anti-Nazi and as a member of an anti-Nazi subversive group. According to available information, Archdeacon succeeded in adjusting this difficulty satisfactorily, inasmuch as he received his furniture and other effects from Germany approximately two months ago. At the present time, Archdeacon is reported to be "marking time" at the bank in New York City with very little in the way of work to do.

It is reported that Archdeacon made reports to the British and French governments during the last three or four years he spent in Germany concerning conditions in the last named country. The Nazis were apparently cognizant of the information being furnished by Archdeacon to the British and French governments. Due to the above fact, Mr. McComas, of the bank, felt that Archdeacon might become apprehensive in the event he heard of an investigation being conducted concerning him, for which reason Mr. McComas approached Archdeacon, advising the latter that the Federal Bureau of Investigation was presently contacting numerous men in various occupations who have an intimate knowledge of foreign countries and that McComas, himself, had been approached by an FBI Agent in this connection, whereupon McComas had suggested that an Agent interview Archdeacon. Thus an interview with Archdeacon by an Agent of the Federal Bureau of Investigation was arranged.

Archdeacon has advised that he is very well acquainted with Gerhardt Alois Westrick and that the latter has attempted to cultivate Archdeacon socially, with no success. He has advised that Westrick was formerly anti-Nazi, although he is presently engaged in serving the Nazi government as Commercial Counsel in this country very capably.

Archdeacon has advised that during his residence in Germany he furnished information regularly to the British and French governments and was, himself, amazed to learn that the Nazi secret police were aware of this fact. He stated that upon one occasion a member of the Nazi Bureau of Propaganda invited Archdeacon to his home, at which time Archdeacon was per-

mitted to hear a record of his own voice. He has voiced the opinion that should the Nazis win the present war, they will be in a position to undersell American products in all the markets of the world, with a resulting drastic drop in the American standard of living. Mr. Archdeacon has expressed a desire to aid the Federal Bureau of Investigation and the United States Government as much as possible, stating that he would be very happy at all times to offer any information he might have or whatever interpretation he might be able to furnish with regard to any particular event.

He has advised that he is very well known to Joseph Flack of the State Department. He has furnished information that Nazi investments in the United States total about two billion marks and American capital in Germany totals about three billion marks. The earning power of the former in the United States is a principal source of revenue for Germany to carry on its activities here and he believes that exchange control similar to that instituted by the Nazis would cut off American financial aid to that country. He further expressed the belief that most of the large German interests in the United States are camouflaged as Dutch, Swiss or Swedish Corporations and that if this country could find some way of going behind these corporate screens to haul them, with the resulting loss of income, it would be a tremendous blow to the Nazis.

Archdeacon has further advised that for the immediate future at least German agents will probably ship their purchases of materials from this country in Japanese boats across the Pacific and via the northern water route to Murmansk, Russia, which he understands has been completed and is navigable and ice free for about six to eight weeks per year during the months of July and August, thence by railroad across Finland and reshipment to German Baltic ports. He further added that Russia's bargaining position with the Nazis has been of sufficient strength to force them to furnish munitions, machinery and machine tools in return for oil. He also brought out that in speaking with a high military official in Germany he has been told that Russia's agriculture has been highly

Memorandum

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7-1-40

mechanized, and that Russia needs about 50% of the oil she has for the operation of the farming machinery. This same source advised Archdeacon that if Germany ever declared war against Russia she would immediately attack the Russian oil fields which would eventually starve that country within its own borders.

July 8, 1940

My dear Mr. Hoover:

Thank you for your letter of July 3rd with the inclosed memorandum concerning Dr. Herbert Hoehne and Dr. Emil Wolff. I was keenly interested in reading this material and would very much appreciate having the results of your further inquiry into the matter.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,  
Federal Bureau of Investigation,  
Washington, D.C.

JOHN EDGAR HOOVER  
DIRECTOR

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**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

July 3, 1940

BY SPECIAL MESSENGER  
PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

I am transmitting herewith as of possible interest to you a copy of a memorandum setting forth information relative to Dr. Herbert Hoehne, with aliases; Dr. Emil Wolff; Registration Act; Espionage.

Additional inquiry is being made in this matter and you will be advised of the results thereof.

Sincerely yours,

*J. E. Hoover*

Enclosure

*Will see Hoover Jan  
much  
to get in the  
MM 2*

July 2, 1940

M E M O R A N D U M

Re: DR. HERBERT HOEHNS  
DR. HEIL VOLFF  
REGISTRATION AGT  
ESPIONAGE

Dr. Herbert Hoehns arrived in San Francisco, California, via the Japanese NYK Line's Asama Maru, on June 16, 1940, possessing an ordinary two-day visitor's permit visa without diplomatic status. This visa, according to available information, was issued in Germany, being American Consulate General, Berlin, Germany, Transit Certificate No. 75, issued April 26, 1940, Serials No. 1297. Hoehns possesses a German passport bearing "Mr. 10409 B/39." Dr. Hoehns is approximately twenty-eight years of age and purports to be a doctor of philosophy. He was contacted upon arrival in San Francisco by one Lowell E. Alderman, who is employed by the Kirtthrop Chemical Company, 211 Sutter Street, San Francisco, California.

Hoehns subsequently on June 21, 1940, at 11:00 a.m. arrived in Los Angeles, California, via Pan American Airways, at which time he made a reservation to Buenos Aires, Argentina, for himself on the airplane scheduled to leave Los Angeles at 3:00 a.m., June 22, 1940. Hoehns at this time made a reservation for one hundred pounds of excess baggage to Mexico City on the same plane. Pan American Airways officials considered the above matter suspicious, in view of Hoehns's obvious German nationality, for which reason the matter was reported to the Los Angeles Field Division of the Federal Bureau of Investigation.

Hoehns proceeded from the airport at Los Angeles to the Willmore Hotel, Los Angeles, and thence immediately to the office of the German Consul in Los Angeles. He took with him to the German Consul's office in Los Angeles a small package under one arm. Hoehns left the office of the German Consul in Los Angeles at approximately 1:00 p.m. and, according to available information, he thereafter went on a sightseeing tour of points of interest in Los Angeles and vicinity with Lowell E. Alderman, mentioned above, who had accompanied Hoehns from San Francisco to Los Angeles on the date in question.

According to information obtained from strictly confidential sources, Hermann Looper, Chancellor, German Consulate, San Francisco, communicated telephonically with an officer of the German Consul's office at Los Angeles by the name of Heinsmann, inquiring as to the whereabouts of Hockms. Looper, according to the above mentioned confidential source, advised Heinsmann that three packages possessed by Hockms should be held by Heinsmann and not released for transportation to Mexico by Hockms, inasmuch as word had been received from Mexico by Looper indicating that entry of the packages in question into Mexico would not be permitted. Looper at this time, however, instructed Heinsmann that the two letters possessed by Hockms could be taken to Mexico. Heinsmann was further instructed by Looper to hold the three packages in his possession until "next week, when you can bring them up to San Francisco when you come."

Hockms was subsequently located at the Biltmore Hotel, Los Angeles, at which time he was accompanied by Lowell H. Alderman.

Hockms has advised that he is a representative of the I. G. Farbenindustrie Gesellschaft, a chemical concern of Berlin, Germany. He at first denied any connection whatsoever with the Reich Government, but later admitted that he is a "courier man," indicating that while he travels, ostensibly, as a commercial representative of the above mentioned commercial firm, he is under orders to visit German Consulates in various cities and countries visited during his travels for instructions; further, that he is told to follow these instructions.

Hockms stated that he left Berlin, Germany, several weeks ago simultaneously with one Dr. Emil Wolff, another representative of the I. G. Farbenindustrie, it being indicated that Wolff and Hockms were instructed to travel by separate ships, Wolff proceeding to Valparaiso, Chile, via the Yasukuni Maru of the Japanese NIK Line, and Hockms to Buenos Aires, Argentina, by way of Pan American clipper from the United States. Hockms at first disclaimed additional knowledge as to the travels, whereabouts or activities of Dr. Wolff. Despite these denials, however, information has been obtained from a confidential

source to the effect that Hoekns, on June 18, 1940, visited Wolff aboard the Yasukuni Maru when that vessel touched at San Francisco. Hoekns has subsequently admitted that he did visit Dr. Wolff on June 18, 1940, and that he lunched with that individual in San Francisco, California.

It will be noted Lowell E. Alderman has indicated that his employer, the Walthrop Chemical Company, on June 13, 1940, received a RGA radiogram from Iobe, Japan, having been dispatched by the Pharm Drug Manufacturing Company, as follows:

"Receive on Yasukuni Maru Doktor Wolff Assam  
Maru Doktor Hoekns both travelling Buenos Aires."

Mr. Alderman has advised that in accordance with the usual custom whereby his company entertains other commercial representatives of foreign companies in the United States, he, Alderman, was designated by his company to entertain Dr. Wolff and Dr. Hoekns, whereupon he, Alderman, met Dr. Hoekns on June 16, 1940, when the Assam Maru docked at San Francisco. Hoekns at that time was accompanied by a German individual by the name of W. O. G. Guntner. Hoekns had allegedly met Guntner as a fellow passenger on the Assam Maru from Japan to the United States. Alderman has also advised that on June 18, 1940, he accompanied Dr. Hoekns to meet the Japanese NYK Liner Yasukuni Maru, on which Dr. Wolff was a passenger. It was Alderman's understanding that Dr. Wolff was a representative of the I. G. Farbenindustrie.

Hoekns has stated that he contacted the office of the German Consul General in San Francisco, California, following his arrival in San Francisco, as indicated above, being furnished with three packages of a highly confidential nature and two letters which Hoekns was instructed to deliver to the German Legation in Mexico City, Mexico. While Hoekns has furnished conflicting information on this point, he has stated that he talked to Fritz Wiedemann, the Consul General at San Francisco, and Wiedemann told him that he wanted him to deliver the two letters and the three packages and had also told him how extremely important the letters and packages were. Wiedemann assured him that he, Wiedemann, would take full responsibility

for the packages and letters and had further assured him that he, Wiedemann, would protect Hoehne in every way and that there was no danger to Hoehne in such a mission because he, Wiedemann, would take all responsibility. He also dealt with Hermann Looper, the Chancellor of the German Consulate in San Francisco.

It will be noted, of course, from the information set forth therein, that Hoehne has apparently not furnished complete or accurate information as to the consulates or legations to which he was supposed to deliver the documents possessed by him. This individual speaks very little English and this is in unintelligible form. He has made additional admissions that he was instructed to deliver the documents found in his possession to the German Legation, Bogota, Colombia; the German Consul General, Valparaiso, Chile; the German Embassy, Santiago, Chile; the German Legation, La Paz, Bolivia; and the German Embassy, Buenos Aires, Argentina.

Hoehne stated that upon arriving in Los Angeles he took the three packages and two letters, in accordance with instructions received by him from Chancellor Hermann Looper of the German Consulate in San Francisco, to the office of the German Consul General in Los Angeles, having been informed that these documents and packages should not under any circumstances be permitted to leave his possession. Hoehne has advised that he called back at the office of the German Consul in Los Angeles at 9:00 p.m., June 21, 1940, to obtain the packages and letters for transportation to Mexico City in accordance with previous instructions, being at this time informed by Heinemann, a German Consular official at Los Angeles, that the three packages could not be released to him inasmuch as instructions had been received from the German Consulate in San Francisco that these packages were not to be released to Hoehne. Hoehne was told, however, by Heinemann to deliver the two letters in accordance with instructions.

Hoehne at first denied any knowledge whatsoever as to the contents of the documents possessed by him, although

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he subsequently admitted he possessed information as to the general nature thereof.

The following are translations of documents taken from Dr. Hockne:

"German General Consulate  
San Francisco, California  
June 19, 1940

Furo. Si. 6 Nr. 1

German subject, Emil Wolff, Ph. D., of the I. G. Farbenindustrie (dye industry) born Feb. 3, 1908 in Mannheim, possessor of passport no. 84/40, issued January 29, 1940, at Fuppertal, is on a business trip from here to Buenos Aires, has, as a special courier, taken a heavy trunk with him from here containing the following cipher material:

|            |          |          |   |
|------------|----------|----------|---|
| 5 packages | Furo. EB | No. 922  | No. 1 - 5 addressed to the<br>Consulate in Buenos Aires |
| 1 package  | Furo. EB | No. 555  | " " "   |
| 1 package  | Furo. EB | No. 974  | " " "   |
| 1 package  | Furo. EB | No. 555  | Addressed to Legation at Bogota,<br>Columbia            |
| 1 package  | Furo. E  | No. 1524 | Addressed to Legation at La Paz,<br>Bolivia             |

I request the unhindered and unopened entrance of the trunk to be taken care of, and that upon his arrival in Valparaiso, approximately July 14, 1940, on the steamer YAMUNO MARU of the Japanese NIK line, Dr. Wolff be received by officers with legitimation papers who will take charge of the trunk.

This trunk has been obtained here and is to be treated as Reich property. Any expenses which Dr. Wolff may have had are to be reimbursed to him as government expense. Please inform us here by air mail of the receipt of the shipment with the keyword 'EMIL' (trunk) and take care of the forwarding of its contents and their correct arrival. A set of trunk keys is enclosed; may Dr. Wolff has a second with him. Possibly the packages destined for Buenos Aires can be given to Dr. Wolff for further forwarding.

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" (signed) Wickmann  
 To the German Embassy  
 Santiago, Chile

Copy - German Embassy, Buenos Aires, Argentina with the original release from the Foreign Office of April 15, 1940 - Para. IB 922 forwarded for their information. Confirmation of arrival of Foreign Office's release is requested. Consul General in Valparaiso has received copy.

(signed) Wickmann, San Francisco  
 June 19, 1940."

"German General Consulate  
 San Francisco, California  
 June 19, 1940

Second Copy for the Consul General in Valparaiso

Para. 21, 6 No. 1

The German subject, Emil Wolff, Ph. D., of the I. G. Farbenindustrie (dye industry) born Feb. 3, 1880 in Mannheim, possessor of passport number 64/40, issued January 29, 1940, at Wuppertal, on a business trip from here to Buenos Aires, S. A., has, as a special courier, taken a heavy trunk with him from here containing the following cipher material.

|            |                  |  |
|------------|------------------|--|
| 5 packages | Para. IB No. 922 | No. 1 - 5 addressed to the Consulate in Buenos Aires |
| 1 package  | Para. IB No. 555 | " " "  |
| 1 package  | Para. IB No. 974 | " " "  |
| 1 package  | Para. IB No. 555 | Addressed to the Legation at Bogota, Colombia        |
| 1 package  | Para. I No. 1524 | Addressed to the Legation at La Paz, Bolivia         |

I request the unhindered and unopened entrance of the trunk to be taken care of, and that upon his arrival in Valparaiso, approximately July 16, 1940, on the steamer YASUNI

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"PART of the Japanese NIK line, Dr. Wolff be received by officers with legitimation papers who will take charge of the trunk.

This trunk has been obtained here and is to be treated as Reich property. Any expenses which Dr. Wolff may have had are to be reimbursed to him as government expense. Please inform us here by air mail of the receipt of the shipment with the key-word 'KOFFER' (trunk) and take care of the forwarding of its contents and their correct arrival. A set of trunk keys is enclosed; Herr Dr. Wolff has a second with him. Possibly the packages destined for Buenos Aires can be given to Dr. Wolff for further forwarding.

(signed) Wiseman"

GERMAN GENERAL CONSULATE  
SAN FRANCISCO, CALIFORNIA

Berlin  
May 6, 1940

FOREIGN OFFICE  
'Pers. E 1524/40 XII'  
1 enclosure

It is requested that the attached shipment marked 'Pers. E 1524,' which contains a code book, be sent in a proper manner as soon as possible to the German Legation in LA PAS.

It is requested that receipt of this order and the attached matter be confirmed.

By order of,

(signature omitted)

To the  
German General Consulate  
in San Francisco, Calif.

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**Transcriptively  
to the German Legation  
in La Paz, Bolivia.**

forwarded for your information. The shipment will arrive  
in Santiago, Chile (at the Embassy) the middle of next month.

San Francisco, June 19, 1940.

By order of,

(signature)"

**FOREIGN OFFICE**

**'Page 1. B. 922 g'**

1 instruction for sealed matter  
50 enclosures

Berlin WH,  
April 15, 1940

**CONFIDENTIAL**

- I. Inclosed herewith we are sending  
25 enciphering books, Pages No. 5000 - 7499  
25 deciphering books, Pages No. 7500 - 999,

which carry the Serial '50'. These books are intended  
as reserves for the German Missions in South America.  
They are to be placed in safeskeeping. We will give out  
special instructions from here in each case for the use  
of these volumes in the respective Missions.

The forwarding of reserve volumes to the Missions may be  
carried out only when absolutely safe opportunities exist.

- II. The German Embassy in Washington has been instructed,  
consistent with the development of political conditions,

to see to it that all dispensable volumes at the Embassy and the Consulates in North America are opportunely transported to Buenos Aires. These volumes should then be forwarded to the Missions in South America as reserve volumes to be used in case of emergency.

It is requested that these volumes be placed in safe-keeping there, and that further instructions as to their use be awaited.

- III. In the event that political conditions in Argentina should make it necessary, all volumes on reserve at the Embassy should be sent to the German Diplomatic Office of another South American State which, as far as is humanly possible to judge, would remain neutral. In so far as other safe means for carrying out this transportation do not exist, this would have to be undertaken by sending an official from there.
- IV. It is requested that confirmation of the receipt of this order and its enclosures be openly telegraphed, without reference to this order, by the use of the catchword 'K e l i b r i.'

By order.

(signature)

To the German Embassy,  
Buenos Aires

Instructions for the sealed matters.

(so-called enclosure 3)

C o n f i d e n t i a l

- 1. This is a State-Secret within the meaning of the statute SS ESTGE, enacted April 24, 1934 (RGBl. I S 341 ff).

2. Transfer among officials to be made from hand to hand. The receiver is liable for its safekeeping; violation of this rule to be punished severely.
3. Any reproduction of any kind, either in part or whole, is forbidden.
4. Transfer, as already expressly stipulated, to be made in a double, sealed envelope by courier or confidants.
5. Pertinent written reports to the Foreign Office are to be forwarded in a double, sealed envelope only by courier or confidants. The outer envelope to bear the address: 'An das Auswertige Amt, s. Hd. des Leiters des Hauptbureau, Herrn Hofrat Schimpke oder Vertreter in Amt' (To the Foreign Office, Attention Chief of Headquarters, Aulic Counsellor, Herr Schimpke or his official representative), the inside envelope to bear the address of the signer of the order to which the report refers or—in case this should be the Secretary of State, the Under Secretary of State, resp. the Ministerial Secretary or the Ministerial Director—that of the instigator of the report and which will read as follows: 'An das Auswertige Amt, su Haenden von V. L. R. Salchow oder Vertreter' (To the Foreign Office, Attention of V. L. R. Salchow or his representative). Should no courier or confidants be available for forwarding purposes, then the same is to be enciphered. On both envelopes of the written reports the date and the number of the same is to be placed, without reference to the confidential contents. On the report form the date and number of the reports is to be given within the columns provided therefor, likewise without any reference to the confidential contents, and in the column 'Inhaltsangabe' (Contents) the receiver at the Foreign Office, as given on the inside envelope, is to be placed.
6. Should the danger arise inevitably that the document might fall into unauthorized hands, e.g. during period of war and unrest, the document is to be opportunely destroyed by fire.

RTP. No. 43/38."

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"I have received from the German General Consulate in San Francisco:

- 1 Small Package - 'Pers. ID 555' for the Legation in Guatemala
- 1 Small Package - 'Pers. ID 555' for the Legation in Panama
- 1 Small Package - 'Pers. ID 555' for the Legation in Mexico
- 1 Letter for the German Embassy in Santiago, Chile
- 1 Letter for the German General Consulate in Valparaiso, Chile

San Francisco, June 21, 1940."

"From the German General Consulate  
26 O'Farrell St.  
San Francisco, California

June 19, 1940

A package intended for the Legation there has been received here from the Foreign Office, and has been sent on to the Embassy in Santiago, Chile, where it will arrive the middle of next month.

(signed) <sup>11</sup>LOPER

To the  
German Embassy  
Bogota, Colombia."

He also had in his possession the following document

written on the letterhead of the German Consulate at San Francisco, dated June 19, 1940, in English:

TO WHOM IT MAY CONCERN:

This is to certify that Dr. Herbert Hohne, born 11.8.1911 in Berlin, who is travelling from San Francisco to Buenos Aires, Argentina by airplane, is taking along three small packages containing diplomatic mail from the Foreign Office in Berlin, Germany to the German Legations in Mexico, Panama and Guatemala.

According to international accepted rules and customs, these packages, which are sealed with an official seal of the Foreign Office at Berlin, are exempt from inspection.

Any courtesies which may be extended to Dr. Hohne in connection with this diplomatic mail, will be greatly appreciated.

San Francisco, June 19, 1940.

(signed) H. Looper  
Chancellor

A number of cards and memoranda were found in his possession as follows:

A card of Otto Kroehn on the reverse of which was written "Winkler and Company, Yokohama 256, P. O. Box 161 or New Grand Hotel."

A card of Percy Hill on the front of which was written "Herr Hermannthal Jahahn vice" and on the reverse of which was written "With happy wishes and best regards for the trip (translation)."

A bill from Hotel de Rome, Riga (Latvia) to Egon Hohne, dated 13 and 14 May 1940.

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A 2nd class berth in Mitropa dated 13 April 1940 from Berlin to Ritten (border station between Berlin and Latvia), together with one Mitropa receipt dated 13 May 1940.

A piece of square ruled paper containing writing in German which has been translated as follows:

HOLY  
 10-31 May Japan (Kobe)  
 16 June Frisco  
 18 June Los Angeles  
 14 July Arica  
 16 July Valparaiso  
 YASUKUNI MARU

Two letters of introduction to Sr. Alfonso Weber, Estrada 833, Buenos Aires, Argentina and Herr Roberto Hincapiar, Buenos Aires, Ave. America 3733.

A slip of paper containing "Senor Jose Kuschn, Ave. America 3725, Buenos Aires, Argentina."

A telegram, Manchuria Telephone and Telegraph Company (apparently a copy of a message), dated 23 May 1940, addressed to L. C. Breitgraf, Berlin, Katsbachstr. 13. Text: Siberian trip happily ended. HERBERT.

Rules of transit for strangers in the USSR (Text in French and Russian).

A sheet of paper with the following typed addresses:

General Secretary  
 Heinrich Haubach  
 Buenos Aires  
 Bahadere 4040

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Engineer Felipe All  
 Buenos Aires  
 Bolafere 4040

German speaking Catholic Association of  
 St. Boniface, same address as above

Peter Alfonso Weber  
 Buenos Aires  
 Estrada 833

A letter from I. G. Farbenindustrie Company concerning  
 the issuance of the subject's travelers cheques for  
 \$250.00.

A pack of notes on chemical formulas.

Personal cards of the following:

Friedrich Himm - "Deifag", Deutsche Farben,  
 Handelsgeellschaft, Weibel and Company, Menden.

Dr. Erwin Jahn - Kaiserl. Universitat Kyoto, Dai  
 San Kotogakko, Kyoto-Shi, Yoshida, Honmachi.

Otto Krosch - Puerto Caballo, Venezuela.

Furey Will - Fa. John Spinck and Company, Riga.

G. v. Frenck - "Bayer", Yakuhin Gansai Kaisha, Tel.  
 Marunouchi (23) 4067-9973; Tokyo, Room No. 419  
 Yasu Buidg, Marunouchi Kojimachi-Ku.

Rud. Bruckner - "Bayer", Yakuhin Gansai Kaisha;  
 Tokyo, Central Post Office 127.

Hermann Hanzere, S. J. O Joeki Universitat, Tokyo.

Julius Henschel - Gesehaft; Berlin NW 7, Neustadtische  
 Kirchstr. 9, Tel. 120024; Privat: Lauenrodt Str. Teltow,  
 Lindenweg 7/9, Tel. Konigs Mollerhofen 2176,  
 (Schmollverteler Berlin).

Dr. I. Otsuka - Prof. D. Physiologie, Der  
Medizin. Hochschule, Kaijo, Japan.

Annegret Weinert - Takemura 22 Naka-ku,  
Yokohama.

Lowell E. Alderman - Department of Medical  
Research, Winthrop Chemical Company, Inc.,  
one eleven Sutter, San Francisco, California.

Rudolf E. Westpfahl - Direktor Der I. G.  
Farbenindustrie Aktiengesellschaft, Berlin S.O. 36.

A 3" x 4 1/2" paper sticker of Dr. F. Schenling - Yokohama,  
No. 8 Midorigaoka, Hommoku-machi, Naka-ku, Japan.

It will be noted that the passport possessed by Hoekes  
reflects the following:

What appears to be an ink blot covers a portion  
of the eagle located on the first page of the  
passport, opposite the flyleaf.

The possible significance of this is not known, although infor-  
mation has been obtained to the effect that other German  
passports have reflected this identical peculiarity.

Definite information has been obtained to the effect  
that Dr. Emil Wolff journeyed to San Francisco, California, as  
a passenger on the Japanese NYK Liner Yasukuni Maru, and  
touched at San Francisco on June 18, 1940. Dr. Wolff went  
ashore at San Francisco and saw Hoekes, as indicated above.  
He obtained shore leave in San Pedro, California, at which  
point the Yasukuni Maru touched on June 21, 1940. This vessel,  
with Dr. Wolff aboard, departed from San Pedro, California, on  
June 21, 1940, at 6:30 p.m. en route to Manzanillo, Mexico,  
Balboa, Panama, and South American ports, its ultimate desti-  
nation being Valparaiso, Chile, at which point the vessel is  
scheduled to arrive on or about July 16, 1940. The first  
scheduled stop of the Yasukuni Maru, following departure from

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San Pedro, California, was Manzanillo, Mexico, at which point it was scheduled to arrive on June 25, 1940. This vessel is scheduled to arrive at Balboa, Panama, on June 30, 1940, or July 1, 1940.

Information subsequently received with regard to Dr. Wolff indicates that he is approximately fifty-two years of age and is traveling under a German passport issued in Wuppertal, Germany, on January 29, 1940, bearing number 84/40. Information obtained is to the effect that this passport does not indicate diplomatic status of any kind on the part of its bearer.

Additional descriptive data with regard to Dr. Emil Wolff is as follows:

|                 |   |
|-----------------|---|
| Height          | 5 feet, 6 to 7 inches                                     |
| Weight          | 160-165 pounds  |
| Build           | Medium heavy  |
| Complexion      | Fair, light, somewhat sandy - some splotchy freckles      |
| Hair            | Thin, wavy  |
| Eyes            | Believed to be blue (wears eyeglasses)                    |
| Dress:          | Somewhat sloppy   |
| Facial features | Round head; jovial type; southern German                  |
| Marital Status  | Claims to be married, with a daughter residing in Germany |

Dr. Wolff occupies Stateroom No. 10, first class, Deck A, port side, aboard the Yasukuni Maru. Through a confidential source of information it was ascertained that a suitcase under the German Consulate seal was placed aboard the Yasukuni Maru at San Francisco, where it was put in Stateroom No. 8, supposed to be occupied by two Germans whose identities are unknown at the present time. This Stateroom was unoccupied from Japan to San Francisco. One Günther Schnell occupied Stateroom No. 6, and as noted above Dr. Wolff occupies Stateroom No. 10.

This same source of information advises that the German

representatives in San Francisco do not know when couriers are expected to arrive and that the Gestapo and the German Government do not advise the German representatives in San Francisco of the movements of such couriers. The fact that the German representatives in San Francisco wanted it known that Dr. Wolff and Dr. Hoehms are of no importance would indicate that they are probably prominent persons.

According to the latest information available in San Francisco, the Yasukuni Maru arrived at Libertad, Salvador, on June 28, 1940, which was not a regular stop, and according to the latest information, this ship is due to arrive at Balboa, Panama, at 11:00 a.m. on July 2, 1940.

Pursuant to a request from Mr. Fletcher Warren of the State Department an Agent of this Bureau boarded the Yasukuni Maru at Manzanillo, Mexico, on June 25, 1940, in order to travel from Manzanillo to Balboa for the purpose of observing the actions and activities of Dr. Wolff. Another Agent of this Bureau has proceeded to Balboa, Panama, for the purpose of meeting the first Agent and cooperating with the Military Authorities of the Canal Zone in connection with efforts to ascertain the contents of the trunk or sealed suitcases in Dr. Wolff's possession.

On June 26, 1940, a Federal complaint was filed before the United States Commissioner at Los Angeles, California, charging Dr. Herbert Hoehms with having violated the act of June 8, 1938, requiring agents of foreign principals to register with the United States Department of State. He pleaded not guilty, and is presently confined in the Los Angeles County Jail in default of \$25,000.00 bond. The facts are to be presented to the Federal Grand Jury at Los Angeles on July 3, 1940, his hearing before the Commissioner at Los Angeles having been set forth July 8, 1940.

Information has been obtained from a strictly confidential source that at 3:30 p.m. on June 27, 1940, Hermann Loeper, Chancellor of the German Consulate at San Francisco, California, called someone at the German Consulate at Los Angeles, at

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which time a conversation took place with regard to the papers and documents possessed by Dr. Herbert Hoehne at the time of his arrest by Special Agents of the Federal Bureau of Investigation.

Mr. Looper made the statement during this conversation that Dr. Hoehne did not have any papers of extreme importance on his person and added that Hoehne "certainly had no instructions about the plot." Looper added, "Tell them about one or the other service places so that it confuses them so they will not see the other."

On June 27, 1940, Dr. Hoehne requested permission of the United States Marshal at Los Angeles to communicate with the German Consulate in San Francisco, this request having been granted. According to available information, Dr. Hoehne upon the above occasion spoke to Chancellor Herman Looper of the German Consulate in San Francisco, indicating that he has been detained since June 21, 1940, and has not been able to communicate with the Consulate. Dr. Hoehne made the following statement: "They have got Dr. Wolff." According to available information, this apparently agitated Looper, who exclaimed in a noticeably agitated voice: "It is not true! It could not be true! It is unbelievable!" Looper immediately asked Hoehne whether the latter had furnished information concerning Dr. Wolff, being informed that Hoehne had not furnished information in this regard but that the letters in his, Hoehne's possession had been seized and opened. Dr. Hoehne was assured by Looper that the German Consulate would make every effort to procure bail for him.

Subsequently, on the same date, Dr. Hoehne communicated telephonically from the office of the United States Marshal at Los Angeles with Fritz Wiedemann, the German Consul General in San Francisco, at which time Wiedemann told Dr. Hoehne that arrangements were being perfected whereby a lawyer would be procured for Dr. Hoehne on June 28, 1940.

Shortly following the telephone call between Dr. Hoehne and Chancellor Herman Looper on June 27, 1940, a representative of the German Consulate in San Francisco

satisfied officials of the Japanese RIX line office in that city, inquiring as to whether Dr. Wolff had indicated any intention to leave the Yankumai Ward at Solbes, Panama, instead of Valparaiso, Chile. The Consulate representative was advised in the negative by the Japanese line officials.

On June 26, 1940, at 9:00 a.m., Pacific Standard Time, one Schulz of the German Embassy, Washington, D. C., communicated telephonically with Fritz Wiedemann, the German Consul General in San Francisco. According to information obtained from a confidential source, Schulz is reported to have inquired of Wiedemann as to what the Hoehne matter is all about. Schulz was allegedly informed by Wiedemann that an air mail, special delivery letter had been dispatched to Washington, D. C., outlining the complete facts of the matter. Schulz inquired, "Haven't he (Hoehne) going to Peru?" Wiedemann is reported to have replied: "Yes. Let him stay in jail. If we try to get him out they will think the letters are important. The letters are not important. When you get the letter, advise the State Department (apparently referring to the United States State Department) that the letters are not important."

Subsequently, on the same date, June 26, 1940, Dr. Rosenberg of the German Embassy, Washington, D. C., telephonically communicated with Fritz Wiedemann at San Francisco and inquired as to what the Hoehne matter was all about. Wiedemann indicated that an air mail, special delivery letter, containing details, was on its way to Washington. Dr. Rosenberg inquired as to whether the letters in Hoehne's possession were official, to which Wiedemann replied that Hoehne was carrying official letters. Dr. Rosenberg then, according to available information, expressed extreme displeasure at Wiedemann's expense, apparently due to the fact that Wiedemann's explanatory letter had not arrived. Dr. Rosenberg requested Wiedemann to dispatch full details of this matter by wire immediately, whereupon a discussion ensued, with Wiedemann insisting that he did not think the facts should be transmitted by telegram. Dr. Rosenberg, however, allegedly insisted that a wire outlining the facts be dispatched immediately to the German Embassy in Washington.

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It was subsequently ascertained through a strictly confidential source that Wiedemann called Gyswelling, German Consul at Los Angeles, at which time he talked with one Greh, attached to the German Consulate at Los Angeles. Wiedemann advised Greh that in his opinion it would be better not to have anything to do with Dr. Hoehne, particularly in connection with furnishing bail for Dr. Hoehne's release. Wiedemann instructed Greh to tell Hoehne that the latter had suffered "bad luck."

Subsequently, Hoehne put through a call from the office of the United States Marshal at Los Angeles to Hermann Leoper, Chancellor of the German Consulate General, San Francisco. Leoper, at this time, encouraged Hoehne and advised the latter to have patience. Leoper advised that the Consulate could put up the \$25,000 for bail, but that this was not considered advisable, inasmuch as it would be better for Hoehne to be cleared legally.

Leoper exhorted Hoehne to "think of the boys in the trenches," and added, "We don't want to appear to have dirty hands."

Hoehne subsequently called Gebhardt, attorney of the German Consulate at Los Angeles, at which time he was informed by Gebhardt that the latter was too busy to talk. Gebhardt indicated that he had to leave right away, and hung up on Hoehne.

Information was obtained from the above mentioned confidential source indicating that at 2:40 p.m., Pacific Standard Time, Fritz Wiedemann called Dr. Rosenberg of the German Embassy at Washington, D. C., advising that Gyswelling, the German Consul, had called from Los Angeles stating that the I. G. Farbenindustrie firm in Mexico was prepared to put up the necessary funds for Hoehne's bail. Wiedemann indicated that he had instructed Gyswelling not to accept this offer, it being Wiedemann's view that the German Consulate officials should not attempt to put up the bail for Hoehne, but should let the latter clear himself through the necessary legal procedure. Wiedemann added that, in his opinion, the authorities possessed "nothing on" Hoehne, and that if the German Consulate should immediately furnish bail,

it would indicate that they were accepting responsibility for Hoehne. Wiedemann at this time emphasized that copies of the letters possessed by Hoehne had been transmitted to the Embassy in Washington.

At 2:59 p.m., Pacific Standard Time, Gysseling, German Consul at Los Angeles, according to information obtained from a confidential source, communicated with Wiedemann, repeating the offer of the I. G. Farbenindustries of Mexico to furnish the necessary \$25,000.00 for bail. Wiedemann instructed that the offer not be accepted. Wiedemann instructed Gysseling to tell Hoehne that "Everything is going clear through to Berlin, and he will not be in jail long." Wiedemann made the statement that he would not furnish bond for Hoehne even if it was as low as \$5,000. He added, "They did not give us any notification of his arrest, and we finally learned through Mexico." Wiedemann instructed Gysseling not to let it appear that they were the least bit concerned. Wiedemann added that the United States had no right to interfere in this case. He made the following assertion: "He had letters from us, but the three little packages were brought back, so we are safe." Wiedemann in response to inquiry from Gysseling, advised that a statement should be made to the press indicating that the German Consular officials possessed the necessary funds with regard to furnishing Hoehne's bond, but that the German Consular officials would not furnish the bond, inasmuch as they desired to have the whole thing straightened out according to legal procedure.

Additional inquiry with regard to this matter has failed to indicate to date any implication on the part of Lowell K. Alderman, except in an entirely innocent capacity, as explained by him. Further inquiry is being conducted in this connection.

No specific information or evidence has been obtained indicating that W. O. C. Gunther, mentioned above, is implicated in this matter, other than as a casual shipboard acquaintance of Dr. Hoehne. Gunther apparently resides at 42 Smith Terrace, Stapleton, Staten Island, New York, and additional inquiry is being conducted with respect to him.

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In a conversation with a confidential informant on June 29, 1940, Fritz Wiedemann advised that Dr. Hoehne and Dr. Wolff were acting in the capacity of messengers and that the suitcase in Dr. Wolff's possession contained nothing but new codes for diplomatic officials of the German Government in various countries in South America.

July 8, 1940  
9:30 a.m.

## GROUP MEETING

Present: Mr. Bell  
Mr. Haas  
Mr. Graves  
Mr. Thompson  
Mr. Young  
Mr. Foley  
Mr. Sullivan  
Mr. Schwarz  
Mr. White  
Mr. Harris  
Mr. Cochran  
Mrs. Klotz

H.M.Jr: We had a very good meeting at my house Saturday. We worked this excess profits tax out, at least so that we can present it to the President at twelve o'clock. To my amazement, he wanted to see us at twelve, so the boys rushed a little bit. That excess profits is some responsibility.

For the record I suggested - and for your (Schwarz') background - that Harrison and Doughton and Cooper be there and I got word at 9:06 not to bring them. That is in the room. I thought it would sweeten them up if they were there.

Schwarz: That was a good suggestion.

H.M.Jr: I thought so.

(Telephone conversation with McReynolds follows.)

July 8, 1940  
9:33 a.m.

H.M.Jr: Hello.

Operator: McReynolds.

H.M.Jr: Hello.

Wm. H. McReynolds: Good morning, sir.

H.M.Jr: Hello General.

McR: How are you this morning?

H.M.Jr: Generalissimo is too long. I don't know whether to call you Moe or General.

McR: Well, why not just Mac?

H.M.Jr: I think I'm going to call you Moe. Everybody calls you Mac.

McR: Well, O. K. (Laughs)

H.M.Jr: Does that group or part of that group of yours want to talk on depreciation with me this morning?

McR: Any time that you can be available, sir.

H.M.Jr: Well, we're going to the White House at twelve so that if they want to be here at sharp eleven, I'll be glad to see them.

McR: They'll be there.

H.M.Jr: Now who's coming, Mac?

McR: Well, let's see.

H.M.Jr: You'd better come for one.

McR: Yea. I'm supposed to come for one and Jack Biggers and .....

H.M.Jr: Leon Henderson?

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McR: I think Leon.

H.M.Jr: Yeah.

McR: I think he's the third one -- just three of us.

H.M.Jr: Well, I want Leon anyway.

McR: Yeah. Well, Leon was one that was coming and Jack Biggers and myself I think were the ones that were to come.

H.M.Jr: Well, we'll be ready.

McR: At eleven o'clock.

H.M.Jr: Yeah.

McR: Well be right in there, sir.

H.M.Jr: I've retained Alvord of Chamber of Commerce to defend me against your Committee.

McR: Oh, you have!

H.M.Jr: Yeah. I thought he'd be helpful.

McR: (Laughs)

H.M.Jr: I hear you've got all the other Washington Tax Bar except Alvord so I've retained him.

McR: Oh, so you're taking him, huh?

H.M.Jr: Yeah. I hear he was left out so he's on my side.

McR: O. K. (Laughs)

H.M.Jr: O. K.

McR: Eleven o'clock, sir.

H.M.Jr: All right.

McR: Thank you.

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Sullivan: Are they coming at eleven?

H.M.Jr: Yes. Have Alvord here, will you?

Sullivan: Yes. See you at ten?

H.M.Jr: Yes. Can you take care of Alvord?

Sullivan: We did last time. Senate Finance Committee took care of that.

H.M.Jr: How about the man I wanted for Mr. Morgenthau?

Thompson: I haven't heard from him yet. Admiral Waesche, I think, wants to see you.

H.M.Jr: Yes. As soon as I know where I am, I told McKay he'd get the first appointment today. When he comes, I want Bell in on it, too. It is an additional appropriation for --

Thompson: ....forty-three million dollars.

H.M.Jr: Could you give the Admiral this thought, which I had? It seems to me he might be thinking about it before I see him. I think it would be swell if every Coast Guard Station was armed with an anti-aircraft gun, plus a gun big enough to penetrate the armament of a submarine and these crews were trained to handle one, an anti-aircraft gun, and two, to handle a gun which would be big enough to penetrate the armament of a submarine. Ask him if that is included.

Thompson: No, that isn't included.

H.M.Jr: And plus enough sub-machine guns to fight off a landing party, see. We have practically no shore batteries on the whole United States Coast, but we have got all these Coast Guard Stations and if they were equipped that way - I have been there and these men sit there 24 hours a day and they work only about two days a year and if they were trained for that purpose, how to handle sub-machine guns - in other words, I would have the Marines land a couple of parties and take a Coast Guard Station and let

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them fight off a Marine landing party so that it leaves every Coast Guard Station prepared to defend itself against a landing party. If he has not included that, I think that is something the Coast Guard Stations should be trained for. It takes months to train them to handle one of these anti-aircrafts, and months to handle one of these guns big enough to penetrate the armament of a submarine.

Thompson: I will talk to him about it.

H.M.Jr: We have practically no - that is my own idea - we have practically no shore batteries anywhere and we have got all these things dotted all along the Coast. Don't you think it is a good idea?

Harris: Yes, I do. We would be starting to train the nucleus of a new group, too.

H.M.Jr: Yes, and these fellows sit there. Actually they work two or three days a year. It is just in case of a great storm or something and the way we train them for these anti-aircraft and so forth and so on - personally, I think - I don't know what he has got in the 43 million, but I think that would be a much more popular thing.

Bell: That ought to be mobile equipment.

H.M.Jr: Right, yes, absolutely. It could go either way. And then they ought to have enough trucks to take the men and the machine guns to any particular spot within the area.

Thompson: I will talk with the Admiral.

H.M.Jr: I think I know what he wants, but this is a thing which would be popular, I think, and would be very useful.

Dan? Dan, I would like you and White and Foley to sit in at ten o'clock and listen to what these fellows are going to say, will you please?

Bell: All right. Do you want a meeting today on financing?

H.M.Jr: I wish you could give me a letter to the President whereby - you stay a couple of minutes afterward, and I will tell you what I want.

Harold?

Graves: Nothing.

H.M.Jr: I told what's his name - Sullivan - that I was really quite shocked to read in either Friday's or Saturday's Scripps-Howard Paper, the story on the financial page of McNutt paying three thousand dollars income tax and Mr. Bowman Elder paying thirty thousand dollars, and I understood this did not include his gambling monies in the Philippines. Somebody has talked and I am very angry. I don't know where it is.

Schwarz: We had inquiries from every press service. They said that story was current out in Indianapolis.

H.M.Jr: Harold, will you please put your best men on it, because I am really very much annoyed.

Graves: I had intended going to Indianapolis tomorrow on these other cases that are now on the pan out there, and I will cover this while I am out there.

H.M.Jr: Is this an Indianapolis story?

Schwarz: That is where it came from.

Graves: Yes.

H.M.Jr: I am very much annoyed.

Graves: I think that you can be certain it did not come from any of our people. The story, as I understand it, was that it came from Bowman Elder.

Schwarz: That is what some of them said to us.

Graves: It came to us for confirmation.

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H.M.Jr: Why would Bowman Elder give it?

Graves: I don't know.

H.M.Jr: Well, there is one chance in five you can find out, but take that one chance, will you please?

Graves: Yes.

Schwarz: We referred them all right back to the taxpayers. We had no information.

H.M.Jr: Harry?

White: Soong is going to see you either today or tomorrow, I understand. Do you want to canvass the possibilities before he comes, or would you rather wait until after --

H.M.Jr: He has no appointment with me.

Cochran: He was asking me to get one for him.

H.M.Jr: I asked the President what he told Soong and he said nothing.

White: He told him nothing?

H.M.Jr: Nothing other than to see me.

White: I told you - well, my information, which was second hand -

H.M.Jr: Mine was right from the President's own mouth.

White: In that case then, we can wait.

H.M.Jr: Pardon?

White: Then we can wait.

H.M.Jr: Yes. The President said he told him nothing. Well, register him with Mac, will you, Cochran? I have got to do this tax thing and I am not going to do anything until I get that straightened out.

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White: Did you have an opportunity to look over the report of the Latin-American Committee for the Interim Cabinet Committee?

H.M.Jr: Did everything but that.

White: Well, I don't know when that Cabinet Committee is going to meet, but some time in the next few days you might want to glance at a section of it.

H.M.Jr: When I'm here, you and Bell go to work.

White: All right. That is all. We are working on preparation of this material. Dan Bell said it would be a good idea if we prepared the various types of questions and problems for Mr. Chamberlain, who is going to be here tomorrow. We have got a good deal --

H.M.Jr: Oh yes, and I am counting on you people also, which will be the same thing for Chamberlain, for when our English friend arrives here.

White: That is on the 15th, isn't it?

H.M.Jr: The 12th.

White: We will have something on it.

H.M.Jr: Phillips. Dan, I want you to take the leadership in preparing that stuff for Phillips, the question we want to put before him. You get White and Cochran and Professor Chamberlain.

White: That is all.

H.M.Jr: Basil?

Harris: Mr. Jennings of the Standard of New York was in my office this morning to see me about shipments of oil to the Canary Islands. Now, he said he would like to know if we would be willing to tell him if you do not want oil from Central America or South America to go to the Canary Islands. If you don't

want it to go, they won't ship it, but at the present moment, they are having great difficulty. There is apparently no embargo against it. They go out and load a ship and the next thing they know the ship is tied up and they would like to know whether you couldn't call in the five oil companies and just tell them what your policy is and they will be glad to go along.

H.M.Jr: I would love to tell them, if I knew.

White: Isn't that a matter for this new committee? Doesn't that fall clearly within the matter of the control over exports of the strategic materials?

Harris: But oil isn't on there.

White: Yes, you remember the addition that we made in the bill which was accepted was specifically to provide for oil. According to Ed and his lawyers, the new bill provided for oil and gasoline and they can stop it if they wish to and it seems to me that --

H.M.Jr: Well, I read a little piece in the Tribune that all these exporters are at sixes and sevens. They don't know where they are at. I don't know whether it is exaggerated because it is in the Tribune. They can't get any information or anything else. Is there any truth to that, Basil, on these strategic materials?

Harris: I think just at the moment there is quite some confusion, quite naturally, but it will work out very quickly.

H.M.Jr: Is this oil or gasoline?

Harris: This is crude, and it is refined in the Canary Islands by the Spanish monopoly group.

H.M.Jr: They have refineries there?

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Harris: Yes, they have refineries. Now, previous to the war, the oil came from Iraq.

H.M.Jr: I will ask Mr. Hull. It seems to me it is a matter of foreign policy and I will tell him we would like to have an answer, if possible, today.

Bell: I don't believe oil was in that Executive Order, was it?

H.M.Jr: It was not.

Foley: I don't think so. The statute is broad enough, as Harry points out, that they could put in oil.

H.M.Jr: Neither was scrap iron.

Harris: When I attended one meeting, I asked them to put on oil and they refused to do it. I asked them to put on gasoline.

H.M.Jr: Crude oil from the Canary Islands coming from where?

Harris: From Colombia, Venezuela and Central America and South America.

(Telephone conversation with Secretary Hull follows:)

July 8, 1940  
9:47 a.m.

H.M.Jr: Hello.

Mr. Hull's  
Secretary: Just a second, Mr. Secretary.  
(Pause)

Secretary  
Hull: Hello.

H.M.Jr: Hello.

H: What's going on, Henry?

H.M.Jr: Well, there's this, Cordell. The American oil companies have asked us, do we or don't we want them to continue shipping oil to the Canary Islands and I'd like some advice from you.

H: Well, suppose I talk that over a little and call you back.

H.M.Jr: Will you do that, please?

H: Yeah -- be glad to.

H.M.Jr: Now, as I understand it, this is oil which they ship -- crude oil which goes to the Canary Islands where it's refined. They have refineries there which are controlled by the Spanish monopoly.

H: Yes, and it could be taken over for the benefit of Germany.....

H.M.Jr: Oh, yeah.

H: ..... any time.

H.M.Jr: Do you think you could let me know today?

H: Yes, I'll call you back.

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H.M.Jr: All five oil companies say that they'll do whatever we ask them to do but they'd like to know.

H: These are strict American companies.

H.M.Jr: Yes, but it's oil coming out of Colombia and Venezuela largely .....

H: Yes.

H.M.Jr: ..... but owned by United States companies.

H: Yes. Thank you very much.

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- White: Mr. Secretary, just where do we come in on that? Why do the oil companies come to us?
- Harris: Well, you went a little bit further than I meant you to go, but I don't think there is any harm. The one who is protesting is the Standard Oil of New York and they say that all the others will be glad to go along if they know your policy and what they would like you to do is call the five of them here, if that is the policy, and say, "We don't want any oil to go to the Canary Islands," and they would be very glad to do it.
- H.C.Jr: As a matter of fact, following up White, why should the Secretary of the Treasury tell them that?
- Harris: Only that a great many of the instructions on holding up shipments seem to have come through this particular source.
- Hall: They get the oil all loaded and find out the ship can't sail.
- H.C.Jr: But this is not a ship for an American port.
- White: In the light of that new bill, it is no longer justified.
- Harris: The Standard of New York has been chartering a good many ships and when they go to the Maritime Commission to get the charter approved they say, "Nothing doing," and they say, "If you are going to leave us in that position, we will charter Japanese ships or some others, but if we know what your policy is, if you don't want it, we will stop it," and they say, "All the other companies will stop it, too."
- H.C.Jr: I don't think it is up to me. I think it is up to the State Department.
- Harris: I think so, too.

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White: I am wondering whether another telephone conversation might --

H.M.Jr: I can correct it when he calls.

Harris: Are you conversant with that row we had with FBI on sending a man to Martinique?

H.M.Jr: I don't know whether I am or not.

Harris: Well, we are trying to get a man to go to Martinique and FBI had a man and apparently everybody south of Jersey City knew the fellow, so they might just as well send a brass band with him. We had a man who just came back from France and speaks French perfectly and we wanted to send him down and the State Department wouldn't clear him unless FBI okayed him and FBI said, "Wait a minute, we have got a man," and the thing just went ring-around-the-rosie and nobody has gone yet.

I talked with Berle this morning and if it is agreeable with you, I will talk with Mr. Hoover right after this meeting. I think we can agree on a man quickly.

H.M.Jr: I think I would drop it. If the papers are correct, there are five U. S. destroyers down there. I would drop it.

Harris: All right.

H.M.Jr: There are five U. S. destroyers. What I wanted to go was a secret, but now the world knows it. I would drop it.

What else?

Harris: Nothing.

H.M.Jr: George?

Haas: (Handing report to Secretary) Allison is still

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optimistic about the future.

H.M.Jr: Who is?

Haas: Allison.

H.M.Jr: They dropped to six engines.

Haas: They went down a little bit.

H.M.Jr: But the fourth of July was in there.

White: I saw a movie in which it showed Allison motors going - why, you could see them rolling. I counted six.

Haas: Those are the ones I have got there.

White: That must have been all they had.

Bell: March of Time.

H.M.Jr: It must have taken about two weeks to make the movie.

Haas: They could splice the movies.

White: It is probably what they did, then. I got the impression they were just rolling off.

H.M.Jr: What else, George?

Haas: That is all.

H.M.Jr: You know, it is perfectly amazing the way nobody has paid any attention to the number - the fewer people there are on WPA. You see, on February 28 was the high, 2,224,000. It has dropped to 1,666,000 since February 28. There isn't a thing in the paper about it.

Schwarz: We can do a little missionary work.

H.M.Jr: Bring that to Steve Early's attention and Lowell Mellett. They keep talking about taking the people off the relief rolls. -

How can they take them off any faster?  
Give it both to Steve and Lowell Mellett,  
will you?

Schwarz:

Yes.

H.M.Jr:

658,000 have been dropped.

Bell:

That is because of the appropriations, isn't  
it?

H.M.Jr:

Granted, but there are 658,000 off the rolls  
in four months.

White:

Are they employed?

H.M.Jr:

Ask Miss Perkins. The fact remains that there  
are 658,000 less WPA than there were four  
months ago.

Bell:

Much of that is seasonal. In March, April  
and May, it goes way down.

H.M.Jr:

I am boasting about it, but they keep saying -  
what made me think about it, today's New York  
Times editorial said that they should do away  
with WPA and all the rest of that stuff.

White:

I saw a tentative program of what they can do  
in the way of aiding the defense. It looks  
very imposing. Some of the things they have  
already done, but they could expand.

H.M.Jr:

Well, Harrington is a good man on that. There  
isn't a better man in the country.

Schwarz:

There have been no complaints from the local  
authorities this year, as there frequently  
have been in the past, of needs by people  
being thrown off the rolls, so many of them  
must be getting other jobs.

At 10:00 and 11:00 o'clock in the third floor  
projection room in the Navy Department they  
are showing the official German pictures of  
the invasion of Holland and Belgium and through

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the Coast Guard any of these folks who can make it have been invited to see them.

H.M.Jr: Official German pictures?

Schwarz: Yes.

White: At night?

Schwarz: No, this morning.

H.M.Jr: Anybody who wants to go, can go, as long as they are here to take care of me.

Bell: As long as they are here at 10:00 and 11:00.

H.M.Jr: Yes. What else?

Schwarz: That is all.

H.M.Jr: Phil?

Young: I have nothing at the moment. Those Smith & Wesson guns have gone to the British. I haven't yet been able to find out how. Do you know?

H.M.Jr: No. They have?

Young: They have taken them over, yes.

H.M.Jr: You mean those 2,000?

Young: Yes.

H.M.Jr: I have got your stuff and we will get down on it and I have got to answer Kennedy's cable today on that engine. Will you tell McKay that you are number two on my list?

Young: Yes.

H.M.Jr: Waesche first, and then you.

Young: Right.

H.M.Jr: Did you check that with George Meade on this engine business?

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- Young: I talked with Kraus, not with Meade.
- Cochran: Archie Lochhead is in town this morning. I have an appointment for 10:00 o'clock with him.
- H.S.Jr: I called him up and said, "My God, do I have to sell your tin for you?" It seems as though I do. I have got an interest in this Universal Trading Company, the Government has, I mean, and they have got 900 tons of tin and I want to help them sell it, so I called up on the phone and I said, "What is the matter with you, anyway?" I said, "Come on down and find out how this fellow Lee got this order on this strategic materials instead of Universal." I mean, every time we help Universal make some money, they pay the Government back.
- White: Of course, our purchasing agents ought to contact them first before doing any business with China. That was the original idea.
- H.S.Jr: But you see, these new men here don't know about Universal Trading and Archie should be introduced to them, so between you, you should take care of him.
- But I called him up on the telephone and I said, "Come down and spend a couple of days and get acquainted with these new fellows." I said, "I have sold your old tin for you, but you ought to see these people."
- Cochran: He met Mr. Nelson the first day Mr. Nelson was here, but they talked of other matters.
- H.S.Jr: What else?
- Cochran: That is all. I will speak to Mac about Dr. Soong and I will have to make a reply to Kennedy on this Norman question. You may have seen that second wire I sent you.

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H.M.Jr: What?

Cochran: The question Montague Norman raised.

H.M.Jr: I am not going to do a thing. Believe me, after yesterday, for an hour and a half I thought this United States destroyer was sunk. I am not going to go through the thing again. My nervous system can't take it. Let the State Department do something about it. Call up Mr. Hull's office and make a record of it and say in regard to that request of Kennedy's for Montague Norman, I am not going to do anything. If Mr. Hull wants to ask the Navy to do it, it is O.K., but I am not going to ask them.

Cochran: Right. On that second --

H.M.Jr: Mr. Hull has been so much interested in that, let him answer it, whether they want to move over any more gold in battleships. I won't ask him. I have got enough on my conscience without that.

Cochran: On the second part, I am a little hesitant about doing anything in New York on those inquiries about withdrawals of credits. It is a purely central banking question, if you want to refer that to the Federal.

H.M.Jr: I am not familiar with it. We can sit down during the day. Will you (Bell) please put before Professor Chamberlain today that request for 150 licenses to send gold to Norway? I would like him to get into that today.

Bell: Also the French navicert. We sent a letter to the State Department on those individual remittances. I suppose it will be the middle of August before we get a reply.

H.M.Jr: I am surprised at you, Danny. I am correct, am I not, that money orders still go to Germany?

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White: That is right. There is no restriction.

Bell: No restriction.

H.M.Jr: This is terrible. There are 150, as I understand it, American citizens who want to send their own money to Norway.

White: That is right, and it will mean most likely additional foreign exchange to Germany.

H.M.Jr: That means that that is going to increase for all the other countries involved, Denmark - you can't send a money order to Norway?

White: Not unless you get permission.

Foley: That is in the freeze.

H.M.Jr: But you can send a money order to Germany.

Foley: Sure. Germany and Italy aren't part of the freeze.

Here is a letter to Knudsen on that lease. We fixed up that clause and it is satisfactory all the way around.

H.M.Jr: What is this?

Foley: It was brought up the time he was here with Knudsen that the lease wasn't satisfactory to the Advisory Commission and it is, now, with that change.

H.M.Jr: Mrs. Klotz gets this now and then a copy goes to Phil Young so that he can advise Purvis. Will you (Young) service Purvis on this? If you want to find out what it is about, ask Foley. As long as it affects Purvis, you get the story and write him a letter and tell him what has happened.

Foley: Here is a memorandum for the diary. Here is your reply to Professor Brown.

H.M.Jr: Oh yes, I wondered where that was.

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White: Did you happen to read the article on gold in the Saturday Evening Post?

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

White: It isn't worth reading unless you care to see what - it is 25 percent sense and 75 percent nonsense. It adds to the prestige of gold.

H.M.Jr: Send it up to the house, will you please?

White: All right.

H.M.Jr: Now, if I could see Bell and then in a couple of minutes, if Foley and White will join the other group.

## TELEGRAM SENT

July 8, 1940

AMERICAN CONSUL

ZURICH (SWITZERLAND)

190, eighth.

Please telegraph summary existing restrictions on transactions in foreign exchange and transfer of funds abroad.

HULL  
(HG)

EU:LET:TNT

1 copy of paraphrase to TREASURY DEPT.

267

15991

Paraphrase of telegram No. 120 from Tientsin, July 8, 1940

Secretary of State,  
Washington.

The following information regarding exchange rates in Tientsin has been obtained.

There has been a rise since June 20th in the rate for Tientsin link exchange from U.S. \$.06-3/8 per Federal Reserve Bank dollar to a high of around 8 United States cents, and the nominal rate today is 7-7/8 cents to exporters and 7-5/16 cents to importers. Only small amounts of link exchange are available and these principally from importers who have not settled fully their exchange with exporters to cover outstanding contracts with the Yokohama Specie Bank. Link exchange rates varied by as much as seven percent in a single afternoon several days ago.

The open market in Tientsin for fapi is still operating and its operations are expected to continue at least until there is liquidated the business transacted before June 28th. Today's quotation for Tientsin fapi is 8-3/4 U.S. cents inter-bank rate on New York, at a discount of seven and a half percent against notes of the Federal Reserve Bank and ten percent against Shanghai dollars.

Commerce and Treasury should be given the foregoing.

FLETCHER

DOA:GHX:REK

## RE EXCESS-PROFITS TAX

July 8, 1940  
10:15 a.m.

Present: Mr. Bell  
Mr. Sullivan  
Mr. Magill  
Mr. Paul  
Mr. Blough  
Mr. Tarleau  
Mr. White  
Mr. Henderson  
Mr. McReynolds  
Mr. Biggers  
Mr. Foley

H.M.Jr: Dan, I want you and White to know about this. I am not going to take you to the White House. It doesn't make any difference, does it?

Bell: Not a bit.

H.M.Jr: I think we might as well have Tarleau and Blough.

Paul: Yes.

H.M.Jr: Just on the record, I suggested that Harrison and Doughton and Cooper be at this meeting this morning. I was turned down. That is just - I thought it would be a nice gesture, you know.

Magill: I suppose he wants to take a crack at it himself.

H.M.Jr: Incidentally, we are invited at 12:15 to the White House and I invited Biggers, Leon Henderson and McReynolds to come in here at 11:00 o'clock on the other thing.

"Memorandum to the President:

"Shall we adopt -

"(a) The war-profits, or emergency profits, principle, adopted in England and in part in Canada, and which takes profits above the pre-emergency level, or

"(b) The excess-profits principle, adopted in our 1918 Act, which taxes profits above a stated percentage of invested capital, 8% in our 1918 Act, or

"(c) A combination of both principles?

"Comment:

"(1) The trouble with the straight war-profits principle is that it will not reach corporations with a high level of profits; thus it will eventually exempt many of our largest business units which had immense pre-emergency profits, while heavily burdening their more unfortunate competitors which have not done so well in that period."

Let's take that sentence.

Sullivan: Well, a similar concern that had not been making large profits since 1935 --

H.W.Jr: I know what you mean, but --

"(1) The trouble with straight war-profits principle is that it will not reach corporations with a high level of profits; thus it will virtually exempt many of our largest business units which had immense pre-emergency profits, while heavily burdening their more unfortunate competitors which have not done so well in that period."

If you don't mind, I think that sentence is a little unwieldy and a little long. It is an awfully long sentence.

Faul: We can break it down easily.

H.W.Jr: Break it. I think it is a little bit unwieldy.

Bell: Put in a (1) and (2).

Magill: If you put in a period after that first "profit" there and then say, "It will at the same time heavily burden --"

H.W.Jr: Something like that. O. K., can I go ahead?

Magill: Yes.

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"(2) The trouble with the straight excess-profits principle is --"

"....while heavily burdening their more unfortunate competitors which have not done so well in that period."

Couldn't you say smaller competitors?

Paul: I don't think that is true.

H.M.Jr: O. K. Is Shoup here from Columbia today?

Tarleau: Shoup?

H.M.Jr: Yes.

Tarleau: I don't know, Mr. Secretary.

H.M.Jr: Tell McKay if he is here I would like him to sit in.

"(2) The trouble with the straight excess-profits principle is that where the invested capital is large, it will permit the escape of huge emergency profits. There are a good many companies which have not made much of a return on the investment for years, but whose profits will be greatly increased because of the defense program.

"(3) A combination of the two principles seems essential to a fair, workable tax - one which will on a broad base tap a maximum of emergency profits and excess-profits, with a minimum of disturbance to business incentive and emergency preparation."

Now, I just wonder when we go back to (1) in the case of a company with a large business, you don't think you want to give examples?

Paul: We had them in, Mr. Secretary. Our example under number one was General Motors, which would be virtually exempted by a war-profits tax, and under two, we had the American Car & Foundry.

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- H.M.Jr: I will tell you what you do, please. If you take this line, I would put here examples of some sort. Example A, and have it attached, you see, and then Example B, so the President can turn over and look at it if he wants to, as an appendix, and instead of having it like this, have it in a little black book for him and then if you have time, put tabs in so he can just look at the example and he can look at it and continue reading the thing.
- Sullivan: Yes, Randolph had some misgivings about naming a particular company and that is why they were removed, the examples.
- H.M.Jr: I think it is much more --
- Magill: It is much more - our only question was, of course any example we give is just one picked out of very many companies and if you give it to the President, he may think that it is a horrible example or something and use it in his conversation, and so forth, which I think would be undesirable, since we are not giving him this as a horrible example but just one out of a number.
- Bell: Do you give figures in this example?
- Magill: Of course, we can give figures.
- Paul: That would be a pretty difficult thing to do this morning.
- Bell: I was wondering if you couldn't call it "X" company instead of General Motors.
- H.M.Jr: He is going to ask which company. He is the President. Give him the name of the company and put it in. After all, we are doing it for him. I would like to know.
- Paul: I think we should check with Shoup, but my impression is quite clear that General Motors or the Penney Company are good examples.

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- White: It would be desirable if you could get several illustrations which would avoid that invidious comparison.
- Paul: The American Car & Foundry Company would be an excellent example, too.
- Magill: Yes.
- H.M.Jr: I will leave it to you people, but I do think this is something new and he is not going to give you his undivided attention. If you could have a few - those examples - he doesn't want to look at them - if he doesn't want to look at them, that is his business, but it would be very helpful to me. The Penney Company, because they rent all their stores, Dan, make about 30 to 35 percent a year on their invested capital.
- Paul: We have had this, Mr. Secretary, as the first one. For example, the General Motors will pay little or no tax, though urge that a high rate on invested capital be made. That is under number one.
- Under number two we had, for example, American Car & Foundry Company will pay little or no tax, though the profits by the emergency will substantially increase.
- H.M.Jr: I would leave it in.
- Sullivan: Just like that?
- H.M.Jr: Just like that, yes.
- White: I am kind of troubled about that number two, Mr. Secretary.
- Magill: Is Shoup here, Roy?
- Blough: Yes. I didn't know you wanted him. He will be right up.

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H.M.Jr: What is the troubles, Harry?

White: The second sentence, "The trouble with the straight excess-profits principle is that where the invested capital is large, it will permit the escape of huge emergency profits."

The President might take that sentence alone and say that after all profits have no significance independent of the capital invested and why shouldn't a large corporation make large profits in an absolute amount? In other words, I don't think the thought is quite clear there.

Paul: Then we could say - would this meet your point - where the invested capital is large and the present war earnings low.

Magill: We say that in the next sentence.

Paul: Yes.

White: Well, it isn't merely because you have --

Paul: It is intended for the case where, say, zero percentage or one or two percent has been the rate of return for a number of years and that company is going to benefit very materially by this period now. Why shouldn't they be included as well as the company that --

White: Well, isn't that the thought then, rather than the fact that they are large? It is the fact that they have been operating at low return on their capital for many years.

Paul: That is true, but --

Magill: You could meet your point, Harry, if I get - change this first sentence in this way, "... will permit the escape --" I think you could omit the huge - or emphasize a little more profits directly due to the emergency, to the defense program.

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- Paul: I think we ought to leave his point --
- White: That is independent of the size of the corporation, though.
- Magill: We are not concerned with the hugeness, really, but the escape of profits which are due to the emergency period.
- White: Neither are you concerned with the fact that the invested profit is large, unless you are making a distinction between small and large businesses, which should be pointed out there.
- Paul: We mean large in relationship to the present emergency profit.
- White: That is the profits and not the investment. It isn't the fact - in other words, the first sentence here is, "The trouble with the straight excess-profits principle is that where the invested capital is large --" It is also true where the invested capital is small.
- Magill: The sense is perfectly true, Harry, and the President is not going to raise the point you make unless I am greatly mistaken.
- Sullivan: As a matter of fact, we overruled both one and two before we got through, because we ended up in a combination of the two.
- White: I wouldn't want to hold this conversation up, but I think it is a point.
- H.M.Jr: Let's go through it.
- Paul: I think we can easily meet your point.
- Blough: I think it is the language.
- White: It is the language.
- H.M.Jr: These others are coming in at 11:15. I hope you fellows can get this thing rewritten and be back at 11:15 to meet with this --

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Paul: Do you want me here at 11:15?

H.M.Jr: Definitely. Why?

Paul: I didn't know whether you did or not.

H.M.Jr: Well, hell, you wrote this over there, so you might as well receive it over here.

Magill: You don't want me, do you?

H.M.Jr: Yes.

Magill: You do?

H.M.Jr: Yes.

Magill: I didn't write it.

H.M.Jr: We have got Alvord coming in at 11:15 to help.

Magill: Oh, boy!

Paul: That will be swell.

H.M.Jr: I called up Mac and said I heard he had every Washington attorney except Alvord, so I retained him to advise me. Mac isn't quite sure whether I am kidding him or not.

Well, Harry, you can have a chance.

White: That is all right.

H.M.Jr: Let me get on with this thing. I think I would leave it the way it is, see. This language, citing the companies, sounds good. Don't you like that, Ed?

Foley: Yes.

H.M.Jr: You like it? I do.

"(3) A combination of the two principles seems essential to a fair workable tax, -

- 9 -

one which will on a broad base tap a maximum of emergency profits and excess profits with a minimum of disturbance to business incentive and emergency preparation."

Are emergency profits and excess profits two distinct animals?

Sullivan: Yes. Emergency profits are based upon the increase over the previous average rate and the excess profits is based upon a percentage of profit to invested capital.

Foley: He defines that one and two on the first page.

H.M.Jr: I was just thinking --

"...with a minimum of disturbance to business incentive and emergency preparation."

I suppose that covers it in simple language.

"Proposals:

"It is therefore proposed (percentage figures merely illustrative) -

"Exempt on the basis of pre-emergency profits with a floor of exemption at, say four percent of invested capital and a ceiling of, say twelve percent, so that pre-emergency profits determine the exempt profits, but only between these two limits based upon invested capital."

Well my God, you have condensed that so I can't understand it.

Blough: I think the word "exempted" could be replaced by "allow the exemption of profits," or something like that.

White: I think it is definitely too elliptical. It needs --

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H.M.Jr.: You boiled that thing down too much.

Paul: We were very anxious to get it short.

H.M.Jr.: All right.

Sullivan: How is that this way?

Magill: You could do it this way. You could say start the tax upon profits in excess of, say four percent of invested capital.

White: Does that mean you are going to have a range of variation between four and twelve, or are you going to select some figure between them?

Magill: According to the size of the --

White: That isn't indicated here. It is a rather important point. It looks as though the small company may pay the small capital - pay as much as the large.

Paul: Supposing we go ahead and I will take a piece of paper while you are reading and try to --

H.M.Jr.: Here is some paper. It is too condensed.

"....make adjustments of pre-emergency invested capital."

I don't think that sentence is correct. It increases eight percent.

Paul: We could leave out paragraph two, as a matter of fact. It is a refinement.

Magill: I don't think he needs to go into that.

Tarleau: I think that is true.

Magill: That isn't really important for his purpose.

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H.M.Jr: Let me see how it reads.

"This scheme gives greater flexibility than the rigid 1918 Act scheme of 8% recently suggested by Senator LaFollette, and is closely allied in principle to the 7-9% scheme of the 1917 Act. It will obviate much criticism because invested capital is not the dominant factor, but merely the limitation factor upon the use of pre-emergency profits as a standard. By permitting a reasonable capitalization of pre-emergency earnings, it may to a certain extent aid pre-emergency high profit corporations, but by the same token it will save from undue hardship concerns which use invested capital, but which also depend largely upon individual enterprise and skill of management. It will also cause less economic dislocation because it more gradually transforms our tax system." Now, in this thing instead of using 8, if I have got to put my name to it, I want to use 6.

Paul: That was changed from 12.

H.M.Jr: What would that make that?

Tarleau: Why did that have to change, Randolph?

Magill: I don't think you can get much below 4.

Paul: No.

Sullivan: The 8% has no bearing at all except on new capital coming into the business.

H.M.Jr: Well, on new capital coming in he could make 8%.

Sullivan: That is right.

H.M.Jr: 8% on borrowed money?

Sullivan: 4%.

H.M.Jr: But the 8? How do you mean new capital?

Sullivan: New money invested in the business.

Magill: It means this: Suppose your company had ten million dollars in this pre-war period. Now, let's say they issued some more stock and they take in 2 million dollars more, add 2 million dollars more to their invested capital. Now, you have got to make some allowance for the fact they are now using more capital than they used in the base period, for the emergency. The question is, what rate are you going to use? Just for purposes of calculation, we were using 8.

White: The justification for a higher rate, Mr. Secretary, that might merit reconsideration is the fact that additional capital invested at this time bears more risk than ordinary capital by virtue of the fact that this is an emergency situation, that you want to induce as much expansion as possible, so that you are inclined to be a little more liberal, with additions to capital that are made now, whereas that same position --

Magill: If you wanted to make the point you had in mind by - I think what you probably really want to change is the 12 to 10.

H.M.Jr: There is no 12 to 10.

Bell: The 2.

Magill: The two rates - let me go back a little. The two rates which are really important are the two which are stated in here, the 4 and 12<sup>5</sup> rates. The 8<sup>5</sup> is not nearly so important. It is not so significant.

H.M.Jr: The 4 - if a fellow made 2% over the last 4 years, we don't guarantee the - the tax doesn't go into effect until he makes 4?

Magill: That is right.

H.M.Jr: What about the 12?

Magill: On the other hand, if he makes 5 or 6% you can tax whatever he makes in excess of that amount. Now, on the other hand, suppose you have a very prosperous company, like Penney, which has been

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making, say 20%. You would say as to those companies, you were going to allow them to make twelve before you tax them on any excess, so that as I say --

- H.M.Jr: Then I think that is the place to cut them.
- Magill: If you want to cut, that would be --
- Paul: That would be swell.
- Magill: You would cut your twelve to ten.
- H.M.Jr: Cut that to ten.
- White: The same criticism could not be leveled against that reduction.
- H.M.Jr: Make it four to ten.
- Magill: You could do that, but I think as far as your eight, the reasons that Harry gives that eight is probably right, the President may want to cut it.
- H.M.Jr: Well, on public utilities, they are limited to six, aren't they, by the Power Commission?
- Magill: Well, in a general way, yes.
- White: Would it be possible or feasible to make a distinction in this eight percent rate on new invested capital, to make it high on those industries which could be characterized as being necessary for defense and putting a smaller rate on the others?
- Magill: I am glad to see, Harry, that you are covering the same ground that we covered on Friday.
- White: I am sorry.
- H.M.Jr: The point is this, that they have been all over it and - we may not be right, but when

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we got all through and done, we came to the unanimous decision, and I used - in the case of my own farm, I got a dollar a bushel for MacIntoshes last year, but in the case of individuals who make fifteen or twenty dollars a year, they might pay five dollars a bushel for mine and I ought to be taxed just as much for that four dollars in excess due to the high earnings as the fellow who is making munitions.

White: I quite agree with that, but I am raising a different point.

H.M.Jr: What we are going to get on the other thing is, I am going to make concessions on the money that the Government puts in new plants when it is certified by the Secretary of War and the Secretary of Navy that this is only plant addition due to manufacturing for the Army and Navy, when it is certified by the Secretary of War and the Secretary of Navy. Then we are going to give them a special allowance on depreciation.

White: That meets the point, then.

H.M.Jr: Do you see? And also after reading Foley's memorandum, I am going to recommend doing away with the Vinson-Trammell Act entirely, but the thought, Harry, is the basic - and this is terribly important. I will take all the time necessary. If you think that anybody that is going to make abnormal profits from now on is going to be taxed --

White: I quite agree with that position.

H.M.Jr: Anybody who makes abnormal --

White: Whether directly or indirectly.

H.M.Jr: I am going on the assumption that this is a ten to fifteen year program.

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- Sullivan: You are now also going on the assumption that anything over ten percent of invested capital is an abnormal profit, although it hadn't been previously made.
- H.M.Jr: Well, what he makes in the future. The fact that he makes - Penney averaged 35 percent a year the last four years. He was very lucky. That was good management. But in the future, if he makes over ten percent, we figure that he should contribute toward the cost of Government. I would rather put it at ten. Maybe I am being a little politic now. I will cut you fellows down two percent.
- White: Then to meet the charge and the claim that this Administration is going to promote defense through encouraging all kinds of expansion for defense, you can meet their charge by this other measure where you say you are going to be exceptionally generous with depreciation charges. You think that will meet that?
- H.M.Jr: That is what we think and I think these three gentlemen all crossed that bridge.
- Paul: Well, I want to see a clearer philosophy about war profits first. I see no basis in my present thinking for differentiating between war profits arising out of contracts with the Government and any other profits that are attributable to the emergency. If anything, the direct contracts have a better standing.
- White: Isn't there another point that runs counter to that? That is quite true, as a general principle. That is what the Secretary expressed. I find myself completely in agreement with that. No distinction between indirect and direct profits arising from the emergency. There is a different point, namely, is this Administration going to do what it can to encourage the expansion of defense industries? Now, you see that runs counter to the first principle and it may be in the light of that second principle

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that expedience calls for setting a higher floor or some return which - some payment of tax which is lower, in order to provide greater incentive for expansion in those industries which contribute toward defense, either directly to the Army and Navy or possibly indirectly.

Paul: Of course, that might be done by allowing a larger percentage --

Foley: That is what the Secretary suggested. The formula here, in so far as the percentage of profit is concerned, would be the same but you would give the incentive to go ahead and put capital into plant expansion for national defense.

H.M.Jr: Harry is worrying - I said six percent new money. He said eight in order to make it interesting. I said I thought we had made it sufficiently interesting if the Secretary of War or Navy will certify that plant addition is necessary solely to supply the Army and Navy and in that case we will make a special depreciation allowance. Isn't that the idea?

Paul: Yes, that is the general idea I have had in mind.

H.M.Jr: Yes. Now, these gentlemen are coming over at 11:15 and we are going to listen to them and not say anything until we see the President, but we want these people to feel that this is of secondary importance, but we want to get the thing first. Do you get the idea, Dan?

Bell: Yes.

H.M.Jr: How does it sound to you?

Bell: O. K. I don't know much about the excess profits tax.

H.M.Jr: I didn't either until Saturday morning.

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"....make adjustments of pre-emergency invested capital --"

Incidentally, Harry, so you get the picture, the thought is this: Where the Government advances all the money for this plant expansion, the question of depreciation isn't going to come in at all.

Sullivan: Nor interest.

H.M.Jr: What do you mean, interest?

Sullivan: Whatever money they pay on the loan is not allowed as a deduction and we have - we three all agree that in those cases that particular borrowed capital should not be considered in the base at any percent.

H.M.Jr: Do you get that, Ed?

Foley: Yes.

Paul: Because it is not borrowed at any real risk.

H.M.Jr: The Government takes the risk all along. The Government takes the risk all along the line so when the fellow is through he pays back the money, but he owns the plant and the plant stands in his books at zero, but he has got the plant.

White: He has got the plant. If the Government wants to --

H.M.Jr: But I mean, he can't deduct a million dollar plant and if we accept the four year, which I have in principle, he takes off \$250,000 a year. We are not going to allow him to do that on the Government money. We are not going to allow him any deduction.

Sullivan: Except for income tax purposes.

H.M.Jr: No, you didn't say that.

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Sullivan: No, you mean where the RFC lends him the money?

H.M.Jr: Yes.

Sullivan: No, we don't allow him to take it on either, there.

Foley: That is all right. There is no problem where the Government loans the money, in so far as incentive is concerned. There is no risk.

White: I wouldn't quite say that. It isn't a risk of that invested capital. There are all kinds of risks of expansion of activities and dilution, and so on, but that is of secondary importance.

Sullivan: But at the time the emergency ends his obligation to repay the loan also ends, Harry.

White: That is right.

H.M.Jr: Have you got the thing there?

Magill: Want to take a look at it?

H.M.Jr: You read it.

Paul: Each of us have one.

H.M.Jr: Let me go through and come back again, may I?

Magill: Yes.

H.M.Jr: "...make adjustments of pre-emergency invested capital -

"(a) For increases - 8% (the average rate for concerns with net profits),

"(b) For decreases - the usually lower rate of pre-emergency earnings to invested capital.

"This scheme gives greater flexibility than the rigid 1918 Act scheme of 8% recently

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suggested by Senator LaFollette, and is closely allied in principle to the 7-9% scheme of the 1917 Act. It will obviate much criticism because invested capital is not the dominant factor, but merely the limitation factor upon the use of pre-emergency profits as a standard. By permitting a reasonable capitalization of pre-emergency earnings, it may to a certain extent aid pre-emergency high profit corporations, but by the same token it will save from undue hardship concerns which use invested capital, but which also depend largely upon individual enterprise and skill of management. It will also cause less economic dislocation because it more gradually transforms our tax system."

I am going to read through this.

"Avoid the taxation of individuals because they are subject to high surtaxes and cannot accumulate surplus not subject to individual taxation. If individuals must be taxed, tax them on the war-profits, and not the excess-profits, basis, because their invested capital cannot be satisfactorily determined."

Well now, John, for heaven's sake, have these new tables on taxes when you go over to see the President, so if he argues you can say, "Look what we have just done on the people between ten thousand and a hundred thousand."

Paul:

I might point out there, the point that made an impression on you Saturday, that these individuals have no way of keeping the profits from being individually taxed. They can't keep them in a corporation, withhold them from distribution.

Magill:

Their profits don't really have a great deal to do with the emergency. Here is Mr. Tarleau, a young lawyer just arrived at the age of 40. Last year he made ten thousand dollars. This year he is coming along and things are going good and he is a good man and he makes twenty thousand dollars. My God, your earnings have

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increased a hundred percent; therefore, sock the daylights out of him under a war-profits tax, and yet that is just human experience with any kind of successful individuals in war time or any other time.

- H.M. Jr: My thought on this thing, on the individuals, avoid the taxation of individuals because they are subject to higher surtaxes, and accumulate surpluses not subject to taxation. I would leave the next sentence off, if individuals must be taxed.
- Magill: Wouldn't it be, Mr. Secretary, a good idea if you want to - if you feel this way pretty strongly, to avoid the taxation of individuals because they are subject to - I would put in something like this - to much higher surtaxes than are currently applied to corporations.
- White: That is right, and leave that sentence out.
- H.M. Jr: And leave the second sentence off.
- Magill: And cannot accumulate.--
- H.M. Jr: Are we in agreement on that, John?
- Sullivan: Yes, sir.
- H.M. Jr: "Change previous concepts of invested capital by allowing about 50% of capital borrowed at real risk, because equity capital is entitled to a greater return where it is subject to a prior lien of borrowed capital."
- Borrowed at real risk?
- Sullivan: That real risk is to differentiate from the RFC loan.
- Paul: There is no risk on that. You don't allow any capital on account of the RFC loans because there is no risk there.
- H.M. Jr: But in this case - I don't get this.

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Bell: You are talking about RFC loans just for --

Paul: Let's put in after, "...borrowed at real risk --"

Bell: ....national defense.

Paul: ....parantheses, RFC loans.

Bell: RFC loans or just national defense.

Paul: That is right.

H.M.Jr: I still don't get it.

Blough: Why don't you say, "50% of capital borrowed (except RFC loans for defense)," or something like that.

White: I still don't get it in the reading. I am wondering whether the President would. You fellows have talked it over so much you are familiar with it.

H.M.Jr: You couldn't get it and if you don't mind, I don't think it is important. I think the number of ideas we bring to him ought to be really limited.

Blough: Just strike out, "...at real risk."

H.M.Jr: I wouldn't put in two at all. We are not going to have much time over there. I think we ought to get over the idea of one.

Paul: I think so, too.

H.M.Jr: I would leave out two.

Paul: All right.

H.M.Jr: I wouldn't bring up the question of consolidated returns at this time. It is presumptuous.

Magill: Just two, or three and two, both?

H.M.Jr: I would take out two and three. If we get over what I wanted - the President - if we get over

this idea of a combination of these two things, does he like this idea, and he says it is all right or okay, that he accepts this in principle --

Magill: We can get that, that is all.

Paul: And the individual.

H.M.Jr: And the individual, but get that over to him.

Magill: Let's see if you want - this is the substitute for the paragraph that you didn't like on page two under the proposal, Roman I. I wrote it and revamped it this way and Randolph has got a different one.

"The tax shall apply to all profits in excess of the rate of return on invested capital which the corporation actually realized in the pre-emergency period. But the corporation shall be allowed an earning rate before taxed of not less than, say four percent of the invested capital and not to exceed, say ten percent of invested capital."

White: But you don't have indicated there, and it seems necessary, what determines whether it shall be four or ten.

Paul: Well, see how you like this one.

Magill: Actually earned, the rate they actually earned.

H.M.Jr: Let's have a little competition.

Paul: "Start the tax at the level where the emergency profits exceed pre-emergency profits, but assume that the pre-emergency profits amount to at least four percent of invested capital. Give the taxpayer an exemption on the basis of pre-emergency profits between the floor of four percent and the ceiling of ten percent invested capital, according to the particular experience of the taxpayer."

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In no case may a taxpayer have exempt profits of more than ten percent of invested capital, even though it makes as much as twenty percent."

White: That is much clearer.

Magill: I lose?

H.M.Jr: I don't want to say.

Magill: Too bad.

H.M.Jr: You will have a little time between now - Sullivan and some of you boys could go out.

White: Mr. Secretary, do you want to make any distinction between small corporations and large corporations? Did you discuss that?

H.M.Jr: Not at this time.

Paul: We should.

White: I think you should definitely, because a small corporation places much more emphasis upon managerial ability.

H.M.Jr: Have the same exemptions you did before, starting at \$25,000.

White: I think there should be some graduated - I think it would be very popular and very just - exemption.

H.M.Jr: We start at \$25,000, don't we, Roy?

Blough: I don't think the income tax exemptions will work there. There will have to be some other type of exemption. I think all that needs to be said at this time is that consideration should be given to allowing higher rates of return for small corporations than for large ones.

White: That is right.

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H.M.Jr: If you put in that sentence, it is all right.

White: Then work out some arrangements.

Sullivan: Do you intend to show --

H.M.Jr: Do you want to make any comment?

Bell: No.

Sullivan: Did you intend to show this to that group coming in at 11:15?

H.M.Jr: No. If you do, with all due respect to them, if you do, you will see it in the paper tomorrow.

Sullivan: Here is their draft of the amortization provisions. I thought you might want to go over that before they get here.

H.M.Jr: Why doesn't somebody start this thing going?

Sullivan: Right.

H.M.Jr: Magill, why don't you start this - take whoever you want and then come back with it.

Magill: All right, if you will give me a stenographer.

Sullivan: Take mine.

H.M.Jr: Want to take anybody with you?

Magill: Tarleau.

H.M.Jr: Be back at 11:15, please.

Magill: Yes, sir.  
(Mr. Magill and Mr. Tarleau left the conference)

H.M.Jr: I don't want to discuss this with that group.  
"Amortization of Cost of Defense Facilities, etc:

"Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following:

"(t) Amortization of Cost of Defense Facilities, etc.

"(1) When used in this section, unless the context otherwise requires -

"(A) 'Emergency facilities' means buildings, machinery, equipment, or any other capital improvements.

"(B) 'Constructed' means constructed, erected, converted, installed, or acquired.

"(C) 'Advisory Commission' means the Advisory Commission to the Council of National Defense."

What the hell is this? Is this a bill they are going to send up?

Foley: Yes.

Paul: This is an actual proposed revision. This is an addition to Section 23 of the Code.

H.M.Jr: They are going to recommend to the Congress --

Paul: No, they are going to recommend it to you.

H.M.Jr: That is all right.

"(2) In the case of emergency facilities constructed on or after September 8, 1939, necessary or desirable in the interest of national defense, and during the continuance of the emergency declared by the President on September 8, 1939, the taxpayer may deduct for amortization of the cost of such emergency facilities an amount equal to the cost thereof, or of the cost of construction, as the Advisory Commission may determine, which amount the taxpayer may allocate over any period, commencing from the

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date of construction, which does not exceed the estimated normal useful life of such emergency facilities, at a rate not exceeding 25% of such cost for the first taxable year --"

That is out. They have no legal authority. As the Secretary of War or Secretary of Navy may determine. That is number one correction. Who the hell do they think they are?

White: Why is the date September? They have already built that.

Sullivan: The answer to that, I understand, is that they have already made commitments that this is going to be done.

White: How can they make commitments?

Sullivan: Of course, they can't.

White: It is almost a year, Mr. Secretary, since September 8.

Paul: I think the year period is pretty nearly enough but I understood there were some moral commitments with respect to tank production.

H.W.Jr: By whom?

Paul: I don't know what it was.

H.W.Jr: Wouldn't the normal thing, Ed, be this fiscal year or the calendar year?

White: June 30, this year. I don't understand how anybody could make a moral commitment except the President.

H.W.Jr: Say listen, in this room, Hugh Johnson told the airplane industry - what was it, two years ago? - that he guaranteed them 12% and on that basis he has gone forward and I think he said that publicly, didn't he?

Sullivan: Louie Johnson, you mean?

H.M.Jr: Yes.

Sullivan: He told us when they were talking about the allowable rate of profit on the Vinson-Trammell to please wait until these contracts were completed because he was under a moral obligation.

E.M.Jr: Morality begins at home.

White: I think it would be difficult to defend the September date.

H.M.Jr: Oh, I wouldn't. It's nuts.

"...the taxpayer may deduct for amortization of the cost of such emergency facilities an amount equal to the cost thereof, or of the cost of construction, as the Advisory Commission may determine --"

That is out.

"...which amount the taxpayer may allocate over any period, commencing from the date of construction, which does not exceed the estimated normal useful life of such emergency facilities, at a rate not exceeding 25% of such cost for the first taxable year, 50% for the first and second taxable years, and 75% for the first, second and third taxable years --"

How can he allocate, if you say it must be 50, 25 and 75%?

Paul: The way that is phrased --

H.M.Jr: I don't understand that.

Paul: The way that is phrased - or at least, it is intended that he may take 25% the first year, but he may accumulate that 25% over to the second year, as long as never can he get more than 25% per year according to the total number of years; for instance, if it has been

two years, he may deduct 50% partly in the first year but not more than 25% the first year.

Sullivan: Oh no, that isn't the explanation they gave you, Randolph. They talked to you about a long-term contract.

Paul: That was the reason for extending it over the four years, that they had a lot of people reporting on a completed contract basis and therefore it was necessary to give great flexibility in allocation over the four years because a man on the latter basis wouldn't have any income until the last of the four years.

H.M.Jr: Let's say we go on a four year basis. The first year I don't want to take it and I take 50% in the second year if I want to.

Paul: But not more than 50%.

H.M.Jr: And if I don't want to do that, I can take nothing in the first, nothing in the second, but 75% in the third year.

Paul: That is right.

Bell: He may have losses in the first and second years.

Paul: That is what that is for. I don't see any objection to that.

White: It allows them a great degree of flexibility in adjusting their tax exemptions so as to get the maximum --

H.M.Jr: Harry, this is where I kidded Randolph Paul and said I was going to get Alvord in to take my case against him when we heard about this on Saturday.

White: It sounds suspicious.

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H.M.Jr: Paul drew it and I am retaining Alvord against Paul.

White: Maybe I don't understand it.

H.M.Jr: Yes, you do. So do I.

Blough: May I suggest that if the emergency and big profits for excess profits tax purposes only occurred during the first or the second years and could be anticipated, we might have no excess profits from these people at all.

Paul: They can only take 25% the first year, Roy.

H.M.Jr: I won't go along on this cumulative business.

White: Why is that accumulation necessary? Was there justification?

Paul: Yes, because the whole idea of any amortization provision is to get the deduction against the income of the particular contract associated with the contract. Otherwise, it is absolutely useless to everybody. If you have a big amortization deduction in a year when you don't have any income and the years in which you will have income on these contracts is very problematical, the deduction does you no good whatever.

White: The years in which you will have deductions on profits is problematical?

Paul: Yes. You don't know how long it is going to take to construct your facilities, how fast your deduction is going to go. Your payments vary.

White: You mean it might take one man a year and the other man six months and therefore one man will have the profits in six months and the other won't have them at all in the first year?

H.M.Jr: I am not going to settle anything. I am very much interested in giving the fellow special depreciation allowances where he does not borrow the money from the RPC which he can juggle against his profits and losses.

Paul: This is not applicable at all, Mr. Morgenthau, except the capital put in by the taxpayer. It has no reference to RFC loans.

H.M.Jr: I still say - listen, I have listened to these fellows for I don't know how long. Let me give you a little background. Going back to all the troubles we had to try to get the Allied Purchasing Commission - to get these fellows to manufacture. I have listened to this thing for months and months and the argument always is, you want us to build a factory for special purposes and you won't let us depreciate on the basis of engineering experience. All right, I am going to make this concession, that if they build this thing at the request of the Secretary of War or the Secretary of the Navy, that he needs it, I am willing to say that he can depreciate this thing at the rate of 15 or 20% a year or even go in like we did with Curtiss-Wright and we will divide the depreciation in the number of years of the life of the contract. If it is eight years, he can depreciate it in eight years. If it is six years, six years.

White: You can meet his point, it seems to me, by also allowing the first year a lower rate of depreciation, assuming that it always takes some time to get going, and a flat rate thereafter.

H.M.Jr: Ed, I am not willing at this stage to allow the depreciation to be juggled or used as a deduction against profits.

Polay: In other words, you object to the carryover features. You think it ought to be taken so much a year over a period?

H.M.Jr: Yes.

Paul: I want to state one fundamental point of view I have about this thing. I am not so very much worried about it from this standpoint. The taxpayer who takes too much amortization is going to dig his own grave.

- Foley: I think that is true, because you are basing increased taxation.
- H.M.Jr: Let Paul finish.
- Paul: In other words, if somebody came to me and I were representing a taxpayer and this bill were on the books and he said, "Now, how shall I work this, shall I grab as much amortization as possible?" I would be very dubious about it. I would have to guess how long this period was going to last, because if it were going to last more than four years, at the end of four years he is in a very bad position, having no depreciation.
- White: That is why you can have a lower rate the first year and do justice to most of them and you don't need a flexible rate.
- H.M.Jr: That is all right, too, but let me get to - I don't see eye to eye with you. I am willing to say - it is unimportant - that the thing start the second year or it is over the life of the contract or it is four years or five years, but I am not willing to leave it up to the discretion of the manufacturer to juggle these depreciation allowances against his good or bad years. I don't think it is necessary and I don't think it is fair to give him the power. We can have a chance because --
- Paul: I think you can adjust that part.
- H.M.Jr: Do you get the difference between us?
- Paul: Between you and me, I understand it, yes.
- H.M.Jr: Well, it is not as important, again, as crossing the bridge, are we willing to give a munitions manufacturer a special depreciation rate. Then the refinements again, we can fight about.
- Paul: This is a refinement.
- H.M.Jr: I am willing to cross the bridge - I am not going to tell these men anything, but I am

willing to cross the bridge, to give the munitions manufacturer on private capital - on the certification of the Secretary of War and Navy - special depreciation allowances. As to refinements --

White: You don't mean only munitions, do you?

Foley: No, he means anything for national defense certified by the Secretary of War or the Secretary of Navy.

White: As necessary for --

Foley: Yes.

Paul: Not everything, only where the existing plant will not do the job.

White: Is not sufficient, yes. I think Mr. Randolph Paul has a point there, Mr. Secretary. Isn't it basically a bargaining position between what we want and making some compromise because what is the objective? The objective is to get these fellows to expand their plants. Therefore, it becomes a bargaining process.

H.M.Jr: There isn't a man, with the exception of McReynolds, who is coming into this room or Leon Henderson, who still doesn't own stock in their own companies.

White: You represent the Government and the people; they represent the manufacturers; and it is a clear question of bargaining. There is no objective --

H.M.Jr: There is not going to be any bargaining.

Paul: I say we ought to err in the direction of getting a provision through that will get the job on the way, because we are not going to lose in the long run. In the long run you are going to - the man who takes too much depreciation is going to suffer for it.

H.M.Jr: Well, again I am not any more - we will leave this thing as to a principle, Dan, and as to

the refinements, we can argue about, but you are going to have a hell of a time arguing with me on that leaving it with the taxpayer to decide when he is going to take the depreciation.

Foley: Sure. You must remember that they are going to trade, too, and they are asking for everything here and they are willing to take less.

H.M.Jr: I don't think Paul wrote it with that in mind.

Paul: Oh no, this represents a lot of trading. They wanted one year when we started.

Foley: I am not saying that is Randolph's product at all, I didn't think it was.

H.M.Jr: It is.

Foley: The whole thing?

Paul: It is basically my idea, that is all, the solution of the problem.

Sullivan: I very much prefer the one year rather than allowing them to juggle.

H.M.Jr: Let's get on.

"(3) This section shall not apply unless prior to the construction of such emergency facilities the taxpayer has obtained a certificate from the Advisory Commission that such emergency facilities are necessary or desirable in the interest of national defense during the emergency. If such emergency facilities have been constructed prior to the issuance of such certificates, the Advisory Commission, in its discretion, may certify that such emergency facilities shall be within the scope of this provision.

"(4) If the emergency declared by the President on September 8, 1939, shall be ended before the expiration of four taxable years, the taxpayer, at his option, shall be entitled to re-allocate the amortization of the cost of such emergency facilities over the period between the date of construction and the end of the emergency.

"(5) The amortization allowance herein provided shall be inclusive of depreciation but exclusive of any other allowable deductions provided for -- " what is that?

Paul: That is for the protection of the Government. They want to be sure they can't get both depreciation and amortization, double deduction.

H.M.Jr: Do they understand that this proposal is purely for private capital and not for RFC?

Paul: Yes.

H.M.Jr: Are you sure?

Paul: Yes, I am sure of that because they discussed the idea you had some other provisions for RFC capital and you will note, Mr. Morgenthau, one thing there, that this four year period is only at the option of the taxpayer. The taxpayer may use a longer period.

H.M.Jr: Excuse me a minute. Can you hold your thought a minute?

Foley: Sure.

H.M.Jr: Roy, if everybody is in agreement, I think you ought to go and see Magill and tell him to have a sentence in that last page that these suggestions supersede the Vinson-Trammell. All right, John?

Sullivan: Yes, that is all right.

H.M.Jr: I think Mr. Magill ought to put in a sentence there that if this excess profits thing goes through, that we recommend the Vinson-Trammell be rescinded.

Foley: Call it the Tobey Rider or the Tobey Amendment.

Sullivan: It is limiting the Vinson-Trammell. The Vinson-Trammell is nothing without the Tobey part.

H.M.Jr: What is it we would rescind?

- Sullivan: Repeal the whole Vinson-Trammell. There is nothing to it except a lot of words.
- Blough: Repeal the profit provisions of the Vinson-Trammell. You don't want anything in there about this amortization business.
- H.M.Jr: No, because Mr. Paul has asked me please not to fix this up today with the President until we get everything else, you see.
- Sullivan: If this Vinson-Trammell repeal is going to be there, don't you think our restrictions on a loan from RFC should also be in there?
- Paul: I should think it would be enough if you had a general statement that it was contemplated that this shall supersede the Vinson-Trammell.
- H.M.Jr: That is all right. That is sufficient.
- White: In order to do that, in order to justify that supersession, the rates have to be pretty deeply graded.
- Paul: Or you have to adopt a different rate for Government and private income.
- Sullivan: That is right.
- White: The first is more in line with the general philosophy which has been expressed here. Otherwise you are making much of the argument for the elimination of the Vinson-Trammell Act invalid.
- Sullivan: You are never going to recapture as Vinson-Trammell does.
- White: But one of the main justifications is that you are going to catch in a better way some of the very large profits that are made, and therefore it has to be fairly progressive.
- H.M.Jr: At the top. Are you satisfied as far as I have gone?
- Poley: Yes.

- H.M.Jr: I don't know whether you want to say anything, Dan, or not. It is not fair, really, to ask you.
- Bell: I take it what you are willing to do is to have the contractor write off this plant expansion over some period of years, certainly, write it off out of profits. He can't write it off any other way.
- H.M.Jr: I suppose that is correct. I didn't mean that. I am not so worried about it. I mean there is this whole thing - you see, these men were up Saturday and I spent all day with them. They were all day Friday together clearing this thing, but - I mean, I feel that the stuff that I have studied on this thing, that one excess profits tax law is enough and the Vinson-Trammell thing should go overboard if we are going to have any excess profits tax. You don't have to comment, but I want you to know.
- Bell: I think that is sound.
- H.M.Jr: You can't have the two things.
- White: The biggest justification for the imposition of special taxes against armaments was to remove the pressure of these armaments manufacturers on Government policy. We want to do the reverse now. We want to encourage them as much as possible and therefore the Vinson-Trammell Act has no justification for existing --
- H.M.Jr: I want to hear these boys when they come over.
- Bell: I have got to write that letter.
- H.M.Jr: All right, you had better write the letter.
- Bell: I think so.
- (Mr. Bell left the conference.)
- H.M.Jr: Excuse me a minute.
- (The Secretary left the conference.)

Paul: I think we ought to compare this provision in our minds with the provision in the old 1918 Act. The only essential difference is, really, that it allows a tentative amortization higher than it does that Act. The only difference in effect it has is to minimize refunds ultimately payable. There is no loss in money. It is a question of whether the money should be first paid into the Government and then paid back.

White: You mean in this question of relative amortization?

Paul: Yes.

White: They want flexibility, obviously, because the result would be that if they can have some flexibility they will pay less taxes. I mean, the essence of the problem is they want flexibility because they will pay less taxes.

Paul: I think that is true in this sense, they want flexibility so they won't get any benefit out of it.

White: That results itself and emerges in the form of lower tax payments.

Paul: In a fair way --

White: We are not questioning the fairness of it.

Paul: If you don't have flexibility, it may very well result that it does no good whatever. It just isn't against income.

White: But again, the problem is that on the flexibility they pay less taxes, and since their interest is primarily to pay as little taxes as possible, it becomes a bargain process. I should be inclined to be more generous than I would under other circumstances.

(Discussion off the record.)

(Mr. McReynolds, Mr. Biggers, Mr. Henderson, Mr. Magill, Mr. Blough, Mr. Tarleau, Mr. Bell, and the Secretary entered the conference.)

H.M.Jr: Well, Mao, who is the spokesman around here?

McReynolds: Biggers is the chairman of this committee. The problem when this question came up of getting people who had money and wanted to expand their plants for emergency construction, to spend their money on expanding their plants, rather than have the Government finance them, has been the problem that we have been working on. Of course, the arrangement, as you know, for the Government to construct plants, has been worked out, and the arrangement for the plants to be constructed where RFC loans the money has been worked out satisfactorily within the present legal structure, but the problem of getting people to spend millions of dollars to expand their plants for emergency construction where the expansion would be useful only or primarily for Government purposes, has not been worked out satisfactorily, so that these fellows are ready to go ahead and, of course, what the Commission is anxious to do - on armor plate for ships, they are actually waiting for some arrangement to be made where they can put in additional funds. That is just the problem, frankly stated, on general principles.

Biggers is the chairman, as I say, of this committee from the Commission and has a memorandum outlining the points involved and a draft of what the Commission feels - and it has been handled first by a sub-committee of the Commission and then by the entire Commission. He has what they believe would answer our purposes. Of course, I told them, as they recognized already, that since this involved taxes, it is a Treasury problem and if legislation is to be secured, it will have to be secured by the Treasury.

H.M.Jr: Okay. All right, Biggers.

Biggers: Mr. Secretary and gentlemen --

H.M.Jr: Excuse me. Is this the same thing I have got or have you got an amended thing?

Paul: I told the Secretary I had been working with you and he asked me for a copy of it.

Biggers: It is slightly amended, but the same principle. However you wish to proceed --

H.M.Jr: You proceed your way. I will listen.

McReynolds: Don't you want a copy? Give the Secretary the original and he can follow that.

Biggers: I have three copies. Would anybody else like to have one? Ed, you and John can have one.

We started in in some of our earlier conferences, as Mr. Foley and Mr. Kades particularly know, and we have run across not only, as Mr. McReynolds says, the problem of financing but in nearly every case where financing by Government isn't involved, the tax question is involved and the company whom we are asking to expand facilities, whether by erection of a new building or expansion of the present building or purchase of new equipment, is confronted with the fact that he doesn't need those facilities for present or prospective normal requirements and wonders what - over what period he might be permitted to charge those off to depreciate or amortize them for income tax purposes, and we recognize, Mr. Secretary, that it is an extremely difficult thing for anybody to try and sit down in advance and predetermine that question in each individual case, but we also recognized that the way it was handled in the World War resulted in many things that should be avoided if possible. One of them, of course, was the aftermath of litigation, some of which is still, I am informed, unsettled, but perhaps the national consequences of uncertainty during that period resulting in higher prices, resulting in sort of an attempt by the contractor to anticipate in his price what he - the worst that he thought might happen from a tax standpoint, the fact that that resulted in an inflation of prices and inflation of profits, the fictitious inflation of profits, led to some pretty serious national consequences that we were hoping to avoid, so we felt that four divisions of the Commission, Mr. Knudsen's division on production, Mr. Stettinius' on industrial materials, Mr. Henderson's on price stabilization, and Mr. Hillman's on labor, were all very vitally concerned with this. The others were also

concerned, but perhaps less directly.

We started in and those divisions worked as a unit in the study of this problem. Mr. Hillman's interest was largely represented by Mr. Henderson and it is associated - I think this has been the best example of how seven groups could work together on a common national problem with such rather splendid cooperation and eventual unanimity, and we were only working with this with the idea that it was our province to try to size up the problem we were wrestling with from day to day to see if we could get unanimity in our own Commission and if we did, then come to you with a concrete suggestion other than a generalized statement of a problem, and that is where we stand at the moment.

H.M.Jr:

Why don't the two of you withdraw, because I have got to rely on the three of you as soon as it goes to the White House.

Sullivan:

I will leave word for us to be called as soon as it is finished.

Magill:

I told them to send it in as soon as it is done.

H.M.Jr:

Then I would like you fellows all to take a look at it because I won't have a chance to read the damn thing. We are going to the White House at 12:15.

Biggers:

I think from this point on if you would like to have me read aloud --

H.M.Jr:

I think it would be very nice.

Biggers:

And other people follow, it is better than trying to summarize verbally what we have tried to condense in a written form.

H.M.Jr:

I think they picked you for your soothing voice.

Biggers:

Really, sir? I didn't know that I had that quality and I don't know what other qualifications I have, if any.

H.M.Jr: I think you would do very well on the radio.

Biggers: The memorandum starts in with propriety. The first sub-head is "Propriety of Rapid Amortization of Emergency Facilities.

"(1) Sound Accounting.

"Price, so far as possible within a competitive framework, includes a charge for the constant decrease in value of productive facilities. Tax policy recognizes this fact by permitting as a deduction from gross income the loss in value occasioned by ordinary wear and tear and obsolescence: a portion of total receipts is thus regarded as a return of capital rather than as profit or taxable income. The large depletion deductions allowed in extractive industries emphasize the same principle. Although the useful life of new facilities presently required will be largely determined not by the operation of physical forces and obsolescence but by the period of emergency, it nevertheless seems wholly appropriate to make similar provision for amortizing the cost of such facilities during the emergency years. If emergency facilities are denied full amortization an absurdity will result -- taxes, intended to be levied on profits, will be imposed on costs.

At this point I may say, Mr. Secretary, I raised the question as to whether the word "absurdity" was rather a strong word. Leon Henderson says that is his word and he likes it.

H.M.Jr: I take it it isn't for publication, but for my benefit.

Biggers: Yes.

H.M.Jr: If it is a Leon Henderson word, I say it is very mild.

Biggers: "(2) Price Stabilization.

"Refusal to make provision for this extraordinary obsolescence may affect the price structure in at least three ways:

"(a) Unless amortization rates are fixed before contracts are let, uncertainty will lead the producer to inflate price in order to cover the risk which such uncertainty entails. Thus an element of instability is added to the price structure.

"(b) If rapid amortization is denied, the producer will seek to inflate price to cover the amount of the tax. Thus the tax will add little or nothing to net revenue.

"(c) By refusing to allow deductions for amortizing cost, the Government will be lending its sanction to what may well be gross overstatement of profits and the spiraling of prices. As World War experience has shown, this in turn generally leads to over-expansion of plant, excessive accumulation of inventories, excessive dividends and particularly speculative excesses in stock and commodity prices. Thus the difficulties of the corrective period which must inevitably follow the emergency will be gravely, perhaps dangerously, accentuated.

"The effect of price instability on fiscal policy need not be emphasized.

"(3) World War Precedent.

"The need for emergency amortization was clearly recognized during the World War. Then the Treasury chose to operate through tax refunds after the War rather than through tax deductions during the War. Today Government and business are both eager to profit by our experience and, so far as possible, to avoid the costs, delays, and bitterness rooted in the uncertainties of our 1918 policy.

II

OPERATION OF PROPOSED STATUTE

"(1) Basic Principles.

If the precise period of the emergency could be determined, amortization of cost would offer no difficulty. It would be easy and fair to amortize

over the known useful life of the property. But the length of the emergency cannot be determined at this time, so a choice must be made between postponing the day of settlement and dealing with the problem now. In our view the latter course is preferable. Four years is our best judgment as to the period of emergency; we propose, therefore, 25% per annum as the maximum rate of amortization.

"(2) Readjustments.

"If the emergency ends before the expiration of the four-year period, the bill recommends that the taxpayer be permitted to reallocate the amortization of cost over the period between the date of construction and the end of the emergency. This is important because until capital is recovered there can be no profits or taxable income. If the emergency ends in less than four years, therefore, some readjustments may be required.

"(3) Flexibility.

"Within the four-year period the taxpayer is not forced to deduct 25% each year, but is permitted to allocate his deductions over the four-year period so that no more than 50% is taken during the first two years, and no more than 75% during the first three years. This measure of flexibility is accorded in order to permit the taxpayer to relate his deductions to his profits. The exigencies of production may prevent profits until the second or even the third year. A more rigid rule might penalize the producer for circumstances beyond his control.

"(4) Certificate of Advisory Commission.

"No taxpayer can avail himself of the benefits of the Act unless prior to the date of construction he has obtained a certificate from the Advisory Commission stating that the proposed facilities are necessary or desirable in the interests of national defense during the emergency. Discretion is lodged with the Commission to issue certificates with reference to facilities already constructed or in process."

I may say there that we considered very carefully as to whether the responsibility for issuance of certificates should be vested in the Commission or elsewhere, and we thought it should be vested in the War Department and Navy because in many cases, as you can think of right offhand, Mr. Foley, there are joint but separate participants in the placing of business which require the creation of new facilities, so neither one is fully aware of the problem as a whole, but the Advisory Commission, dealing with both those agencies, is presumably in a centralized position to correlate the facts, and know just what the War Department expects of this producer and what the Navy expects of this producer and the combined total of reasonable expectations. The other alternative we considered was whether the Treasury would choose to assume that responsibility.

- H.M.Jr: No, because we have been going - no, we definitely don't want it, but I wouldn't argue, but I think you will find when you get to drafting this thing it will have to be the Secretary of War and the Secretary of Navy who will have to certify.
- Foley: And if there is joint responsibility, it can be a joint certification.
- Biggers: We have no preference on that at all, as a Commission.
- Henderson: Well, I --
- H.M.Jr: Go ahead, Leon.
- Henderson: As a Commission, we don't. I certainly have a decided preference against the Army and Navy doing it.
- H.M.Jr: Well, let's get through this whole thing. That would be a question of bill drafting, I think, plus common sense.
- Biggers: We were advised, Mr. Foley, that the Congress could.

by statute, delegate this authority to any agency or individual that they choose.

Foley: I don't think there is any problem there insofar as legislation is concerned. It is just what is sound and what is practical from the Government's point of view.

Biggers: All right. The President, by Executive Order, or by letter, as you know, has delegated to Mr. Knudsen, the responsibility of approving contracts, of important contracts.

H.M.Jr: Important contracts.

Biggers: And that means that both the agencies bring to him for his okay, contracts before approval.

H.M.Jr: It seems to me that it would be an important decision, stepping out of the capacity of advice to the capacity of making a Commission something a good deal more than that.

Biggers: That is a matter of policy.

H.M.Jr: Major policy.

Biggers: Major Governmental policy, which somebody other than the Commission should determine.

H.M.Jr: That is a very important step.

Henderson: I would like to be heard on that.

H.M.Jr: Well, I am not decided.

Biggers: May I finish this, then, because I devoted a little bit to explain the reasons for this.

H.M.Jr: I wish you would. What I am interested in and the Treasury and my people with me is the question of how we are going to handle depreciation. That is my interest; who is going to certify has got to be decided by the President. Right?

Henderson: Yes.

Biggers:

The next heading is the title "Advantages.

"(1) It will get the emergency facilities built. On this point there can be no dispute.

"(2) It will enlist private capital, thereby conserving public credit.

"(3) It is logically related to the period of emergency. The only question can be as to our judgment regarding the length of this period."

May I amplify that question of private capital, Mr. Secretary? We feel that the - we find a tendency on the part of the producer with this important question undetermined to want to say, "Well, I believe I prefer to have the War Department or the RFC or some other Government agency provide the funds for the construction of this plant, and then I will undertake the design and equipment and operation of the plant on a management fee basis," as is the case with the smokeless powder plant projected for Memphis and certain other things that are contemplated and we thought that if we could work out a logical and thoroughly equitable plan that eliminated some of these uncertainties that stand in the way of private capital and induce private capital to come forward and finance these things with its own resources, it would place a lesser burden on Government finance and be desirable.

H.X.Jr:

Mr. Biggers, let's call a spade a spade. I think it is a lovely gesture, but you are a manufacturer and some Government agency asks you to increase your plant over and above what it is because you have got something that the Government wants you to make and let's say that that plant expansion is going to cost you a million dollars. Now, if you can go to the RFC and borrow that million dollars and have it so that any time that thing is canceled, the Government stands the loss, as opposed to getting it from some private sources and private capital taking the whole loss, where are you going to go?

Biggers: If it is just the way you started, you would go to RFC.

H.M.Jr: Sure.

Biggers: But we think the Government can take the responsibility of the loss in the event of cancelation without taking the responsibility of finance, if they wish to.

H.M.Jr: That hasn't been worked out yet, has it?

Biggers: That would be an evolution, we believe.

H.M.Jr: Is it in this memorandum?

Biggers: No, sir.

H.M.Jr: I think that is very important, because the way the thing stands now, if I am up to date - I don't know whether I am or not - I don't see why anybody - and I have told the bankers and I made no bones about it, when they came in here, that with the office of the Comptroller of the Currency in the Treasury, I don't want to see the national banks putting any money into any government - into these kind of contracts as long as they can get it from RFC, because I think it is too great a risk. The dividing line, as I told them, was this: If, on the other hand, the fellow has got his contract and the plant is financed and he has got to borrow money for his raw materials and pay roll, sure, that is okay for the national bank, but not in the plant. I consider it too risky.

Biggers: It seems to me, sir --

H.M.Jr: I drew that dividing line. You heard that, didn't you?

Nelson: Yes, I did.

H.M.Jr: You are in agreement with me on that, aren't you?

Nelson: Yes, on the borrowing of monies to build plant facilities.

H.M.Jr: As opposed to lending for payroll and raw materials.

Nelson: That is right.

Biggers: But I am not arguing as to which way it should be done because that is a question of national policy, but if the Government of the United States through the War or Navy Department writes into a contract an adequate protective cancellation clause, it is just as good as having the RFC assume that through a forgiveness basis.

H.M.Jr: But you haven't thought it through yet. Who is going to take the loss, the Treasury or the RFC?

Biggers: In my opinion, it should be the War Department or the Navy Department.

H.M.Jr: That means the Treasury.

Biggers: That would be the normal way.

H.M.Jr: It would come from the general fund.

Nelson: Of course, Mr. Secretary, if this covers that instance where the manufacturer wants to finance it out of his own capital, which seems to be quite an important consideration in the minds of the industry --

H.M.Jr: So far, if you don't mind - you fellows don't know me as well - I will go along with you, but I think we are kidding each other. So far, we are just kidding each other, but if you fellows want to do some window dressing so you can say, "We made it attractive for private capital," okay. I have done it before.

Nelson: I think that is a realistic way of looking at it.

H.M.Jr: We are just kidding each other, unless there is something in here, but if you fellows feel

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that we ought to go through all this rigmarole and say, "Sure, we did want private capital, and so forth and so on, and we have made it attractive," knowing all the time that our tongue is in our cheek and they are going to get it from the RFC, it is okay with me.

Biggers: If we are going to finance this whole project through RFC alone, then I think we are going to regret it when we are through.

H.M.Jr: The way you suggested, if the RFC makes a loss, it comes to me on a cancellation clause. If the Army and Navy have a cancellation clause, it comes to the Treasury. With private capital, it all ends up in the Treasury anyway.

Biggers: But it expands the burden of Government financing and the Government draws - as we see it, the Government draws its finance from somewhat different reservoirs or different compartments in the same reservoir from what private capital might.

H.M.Jr: That has never been proved.

Biggers: And then, sir, your statement applies very directly, I think, to cases where a new plant is built, to build as a primary supplier to the Government of anything like airplane motors or anything of that kind, but this reaches down to many, many suppliers and sub-suppliers and sub-sub-suppliers. In many cases, those people won't even have direct contact with the Government. They will be selling to a Government supplier or a Government sub-supplier and they, I think, will in more cases be able and willing to raise capital through their own resources than to go to the RFC. They won't have as direct a call on the Government.

Nelson: That is an important point, I think, Mr. Secretary, on the sub-suppliers. I think where

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there are small amounts involved, I think it is important.

- H.M.Jr: As I say, I am willing to go through the motions if you fellows all think it is important.
- Henderson: Put it this way, you would be agreeably surprised if you were wrong.
- H.M.Jr: Oh, I hope I am wrong. I hope you fellows are right and I will go through it with you. That is fair, isn't it?
- Biggers: Certainly.
- H.M.Jr: I think we are kidding each other.
- Biggers: I will hurry through this.

"The difference in unit cost of the ultimate product as between four years on the one hand, and three or five years on the other, will be slight. Where turn-over of capital takes place five times a year, the difference between 6 $\frac{1}{2}$ % depreciation and 25% depreciation and amortization will increase the cost of the product by about 4%. Therefore, if three years or five years should be used rather than four, there would be a variation in the selling price of only about 1%.

"4. It will operate swiftly. By this criterion any proposal which would permit amortization rates to be negotiated in each case as an element of the procurement contract is dangerously vulnerable.

"5. It is definite and certain, and will be so recognized by business. It will avoid the costly and protracted litigation which resulted from the post-emergency settlement policy during the World War. With amortization rates clearly determined, prices and price policies can be fixed and contracts closed.

"6. It will not encroach on Treasury revenues. Assuming a privately financed three billion dollar program over a four year period, annual income tax receipts during the emergency will be lessened by not more than \$125,000,000. But even this relatively small amount will not necessarily be lost to the Government:

"(a) Because the expenditure of three billion dollars will currently generate taxable income in other hands;

"(b) Because after these deductions are consumed, larger profits will be available for excess profits and other income taxation;

"(c) Because many will assume -- with good reason -- that tax rates are likely to be increased during and after the emergency, and for this reason will choose to amortize over a longer period than four years;

"(d) Because the impulse to pay larger dividends during the emergency may well be sufficiently strong to induce management to take smaller deductions, thus freeing larger sums for distribution to stockholders."

When we say privately financed, we mean whether the money would be borrowed from banks or RFG. It would be presumably as differentiated from the actual expenditure of War and Navy funds.

H.M.Jr: You didn't see my gesture, but we will go on because that is where it comes out. That is okay. It has got to; it can't come any other place.

Biggers: Well, Mr. Henderson will defend that.

H.M.Jr: It can't come any other place. If we are going to let him offset this against his profits, how can it?

Biggers: We contend that the Government is going to be in business permanently and all profit will eventually be depreciated and is relatively

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immaterial whether it is depreciated this year or five years from now and if there is an ascending tax rate, the fellow who depreciates it too rapidly may be the sufferer.

H.M.Jr: Well, we all agree with you on that.

Biggers: That is the only reason we say that.

Henderson: We took that from your own policy on motion picture people and others.

H.M.Jr: Could I stop here because I am fighting for time. We are going over to see the President on profits. In this thing, if he keeps this thing, we are recommending that the so-called Vinson-Trammell thing be rescinded and this takes it place, you see.

Biggers: Yes.

H.M.Jr: Now, as to principles, in order - I am going on two assumptions, two basic theories, when we go over there. One, we believe that all types of society or corporate types of society should be taxed if they make increased earnings due to this armament program. We don't distinguish at all. We also are just as much interested as anybody. We don't take second place to anybody. We are interested to see that this rearmament program immediately goes forward and we don't believe there is anything in this bill which will be a hindrance to the rearmament program.

Now, as to the question of interest - and I want to say this, which I don't think - we may want to adjust our formula on the RFC, that if a plant borrows money on certification from somebody, that this plant is necessary for Government work. The way we look at it now, the question of plant depreciation doesn't enter into it at all because he will pay back the money borrowed from the RFC on a per unit basis and when he is through, the plant is his and he has paid back the Government the

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money, so the question of depreciation doesn't enter into it.

Biggers: Doesn't the rate of amortization for income tax purposes enter into it even in that case? I think it does.

Foley: Yes, because the plant will be carried on the books at the cost less salvage, less the amount taken for amortization during the period in which it was in use.

H.M.Jr: Not the way we talked Saturday.

Sullivan: I guess I misunderstood the question, then.

H.M.Jr: We haven't had a chance --

Biggers: We are quite --

H.M.Jr: I will come back to that later.

Biggers: Yes, sir.

H.M.Jr: As to the particular thing you gentlemen are here for today, in the case of private monies, borrowed, I am willing to recognize the principle that on the certification from some Government agency that this plant is necessary for the rearmament program, that this man be given special consideration on depreciation. That is as far as I can go this morning, and I am willing to recognize this principle, but I have got to have time to sit down with my staff because the President said he would be ready to see us Wednesday and he sent for us at 12:15 today, and we have been working over the week-end on this thing. This fits into the other. It is all one thing, and it has got to be one bill. I take it from what McReynolds says you recognize that the Treasury should present this thing.

Now, when we get an agreement with the President, I am going to invite you gentlemen to sit in and we will lay all our cards on the table, the whole question of this excess profits and the

way we are going to present it to the President and his suggestions et cetera, et cetera, but I will tell you today that I am willing to accept the principle that you are talking about without going into the refinements, that a man who is asked to put in his money by a Government agency, that he be given special consideration on depreciation. All right?

Nelson: That is fine.

H.M.Jr: You don't want any more than that today, do you?

Biggers: No, except I would like you, if I may ask you, to consider the point that we think that that same principle applies, and perhaps should apply, whether he borrows his money from RFC or whether he borrows his money from the First National Bank of Boston. The same principle applies as respects deductions for income tax purposes.

Folay: Well, I think there is a difference, Mr. Biggers, because in the instance where he borrows the money from the RFC, the Government assumes all the risk, and in the other instance, the risk is borne by the manufacturer who puts up his own money or borrows from private sources. I think there is a difference.

Sullivan: And has to repay.

H.M.Jr: The point we are making, if you have got another formula - the point we are making is where the Government advances all the money and takes all the risk, we think that is enough and that he shouldn't also be permitted to offset Government money against his profits. Now, what you said this morning was that you are going to work out a formula where with private money that the Government should also take the risk. That enters a new thing in there.

Paul: Of course, to disallow any special amortization in the case of money borrowed from the RFC will tend - will be an incentive to private capital to go in, because they are going to get the -

H.M.Jr: Right. We recognize that.

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- Foley: And that can be handled by certification, you see.
- H.M.Jr: We hold this position. It ought to drive the money into private capital. But if you will be satisfied with my agreeing on the principle today and give me a breathing spell --
- Biggers: Certainly.
- H.M.Jr: Because these boys --
- Henderson: Give us one other rain check also, as to making it a separate bill, making it a separate bill to go down - so that it wouldn't have to wait on the hearings on the excess profits bill. I think, Mr. Secretary, there is something to be said for that.
- H.M.Jr: Let's think about it because this - maybe you are right, Leon, but give me a chance.
- Henderson: Yes, but I am asking you just for a rain check on that.
- H.M.Jr: From Saturday noon until Monday noon we have worked out an excess profits bill which is going --
- Henderson: I said rain check.
- H.M.Jr: Well, we will, and what I would like to do, if possible, in these discussions is keep them within the walls of our office and your office, and I think that is possible.
- Biggers: Thank you, sir.
- H.M.Jr: Thank you.

1-7 11-17 100  
July 8, 1940.

MEMORANDUM TO THE PRESIDENT

Question

Shall we adopt -

(a) The war-profits, or emergency-profits, principle, adopted in England and in part in Canada, and which taxes profits above the pre-emergency level, or

(b) The excess-profits principle, adopted in our 1918 Act, which taxes profits above a stated percentage of invested capital, 8% in our 1918 Act, or

(c) A combination of both principles?

Comment

(1) The trouble with the straight war-profits principle is that it will not reach corporations with a high level of profits, thus it will virtually exempt many of our largest business units which had immense pre-emergency profits, while heavily burdening their more unfortunate competitors which have not done so well in that period.

(2) The trouble with the straight excess-profits principle is that where the invested capital is large, it will permit the escape of huge emergency profits. There are a good many companies which have not made much of a return on the investment for years, but whose profits will be greatly increased because of the defense program.

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(3) A combination of the two principles seems essential to a fair workable tax, - one which will on a broad base tap a maximum of emergency profits and excess profits with a minimum of disturbance to business incentive and emergency preparation.

#### Proposal

It is therefore proposed (percentage figures merely illustrative) -

#### I

Exempt on the basis of pre-emergency profits with a floor of exemption at, say 4% of invested capital and a ceiling of, say 12%, so that pre-emergency profits determine the exempt profits, but only between these two limits based upon invested capital.

#### II

Make adjustments of pre-emergency invested capital -

(a) For increases - 8% (the average rate for concerns with net profits),

(b) For decreases - the usually lower rate of pre-emergency earnings to invested capital.

This scheme gives greater flexibility than the rigid 1918 Act scheme of 8% recently suggested by Senator LaFollette, and is closely allied in principle to the 7-9% scheme of the 1917 Act. It will obviate much criticism because invested capital is not the dominant factor, but merely the limitation factor upon the use of pre-emergency profits as a standard. By permitting a reasonable capitalization of pre-emergency earnings, it may to a

- 3 -

certain extent aid pre-emergency high profit corporations, but by the same token it will save from undue hardship concerns which use invested capital, but which also depend largely upon individual enterprise and skill of management. It will also cause less economic dislocation because it more gradually transforms our tax system.

Important Subsidiary Proposals

I

Avoid the taxation of individuals because they are subject to high surtaxes and cannot accumulate surplus not subject to individual taxation. If individuals must be taxed, tax them on the war-profits, and not the excess-profits, basis, because their invested capital cannot be satisfactorily determined.

II

Change previous concepts of invested capital by allowing about 50% of capital borrowed at real risk, because equity capital is entitled to a greater return where it is subject to a prior lien of borrowed capital.

III

For affiliated corporations (with a strict definition of affiliation) allow consolidated returns as a privilege subject to the acceptance of regulations issued by the Commissioner. Consider further the necessity of some compensating size exemption.

July 8, 1940.

MEMORANDUM TO THE PRESIDENT

Question

Shall we adopt -

(a) The ~~net~~-profits, or ~~gross~~-profits principle, adopted in England and in part in Canada, and which taxes profits above the pre-emergency level, or

(b) The ~~gross~~-profits principle, adopted in our 1918 Act, which taxes profits above a stated percentage of invested capital, 8% in our 1918 Act, or

(c) A combination of both principles?

Comment

(1) The trouble with the straight ~~net~~-profits principle is that it will not reach corporations with a high level of profits. It would virtually exempt many of our largest business units which had immense pre-emergency profits, and at the same time, it would burden heavily their more unfortunate competitors which have not done so well in that period. For example, J.C. Fanny Company is believed to have made a high return on its invested capital year after year.

(2) The trouble with the straight ~~gross~~-profits principle is that where the invested capital is large, it will permit the escape of huge emergency profits. For example, American Car and Foundry Company has a large invested capital, but a low rate of return. It would pay little or no tax even though its profits increased greatly. There are a good

many companies which have not made much of a return on the investment for years, but whose profits will be greatly increased because of the defense program.

(3) A combination of the two principles seems essential to a fair workable tax, - one which will tap a maximum of ~~emergency~~ profits and ~~gross~~ profits on a broad base with a minimum of disturbance to business initiative and emergency preparation.

#### Proposals

It is therefore proposed (percentage figures merely illustrative) -

The tax shall apply to all profits in excess of the rate of return on invested capital which the corporation has actually realized in the pre-emergency period, subject to two qualifications. (1) The company shall be allowed an exemption of not less than 4 percent of invested capital, and (2) in any case, it shall be subject to the tax on what it makes above 10 percent of invested capital. For example, (a) if the company made an average of 5 percent on invested capital in 1935-1939, its profits above 5 percent in 1940 will be subject to the tax. (b) If it made an average of only 2 percent in 1935-1939, any profits in 1940 above 4 percent will be subject to the tax. (c) If it made an average of 15 percent in 1935-1939, the tax shall apply to any profits in 1940 in excess of 10 percent.

This scheme gives greater flexibility than the rigid 1918 Act scheme of 8 percent recently suggested by Senator La Follette, and is closely allied in principle to the 7-9 percent scheme of the 1917 Act. It will obviate much criticism because invested capital is not the dominant factor, but merely the limitation factor upon the use of pre-emergency profits as a standard. By permitting a reasonable capitalization of pre-emergency earnings, it may to a certain extent aid pre-emergency high profit corporations, but by the same token it will save from undue hardship concerns which use invested capital, but which also depend largely upon individual enterprise and skill of management. It will also cause less economic dislocation because it more gradually transforms our tax system.

Excess-profits taxation of individuals should be avoided because they are already subject to much higher surtaxes than the taxes applied to corporations. Moreover individuals, unlike corporations, cannot accumulate surpluses free from individual taxation.

We are giving further study to the matter of differentiation between "small" corporations and "large" corporations.

If a general excess-profits tax is enacted, with the steeply graduated rates which you propose, the provisions of the Vinson-Trammell Act with respect to excess-profits should be repealed.

July 8, 1940.

MEMORANDUM TO THE PRESIDENT

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Memorandum for the Secretary's Diary

July 8, 1940

A conference was held at the White House at 12:20 today to consider excess profits tax proposals. There were present - Secretary Morgenthau, Assistant Secretary Sullivan, General Counsel Foley, Roswell Magill and Randolph Paul.

Secretary Morgenthau told the President that he had spent the week-end on the question of excess profit tax legislation and was prepared to report on general proposals.

The President said he wanted to point out why he had asked Secretary Morgenthau not to include Senator Harrison and Congressman Doughton in this meeting. The President said that the problem was so important he didn't want to be committed to any specific proposal, either by loose talking or by silence, until he had had a chance to think the problem through. The President asked to have 24 hours before he let the Secretary know where he stood. The President said, "After all, you have been working on this at some length, and I am taking it on cold."

Secretary Morgenthau handed the President a memorandum (copy attached) which the President proceeded to read aloud. Mr. Paul and Mr. Magill explained to the President the operation of the 4% - 10% formula, and after some questioning, the President said, "I understand, and I think you have hold of something pretty good here." The President asked if there were any loopholes such as personal trust companies that might have been overlooked. Mr. Paul pointed out that a trust doing business was presently taxed as a corporation. Mr. Magill said that a pretty good job had been done on personal trusts in 1937. The

President went into some discussion of the Roy Howard personal trust and the bitterness which flowed from the 1937 presentation by Secretary Morgenthau to the House Ways and Means Committee.

The President said that he was satisfied in principle with the scheme that had been worked out.

The President then read the last paragraph of the memorandum dealing with the repeal of the Vinson-Trammell Act. Secretary Morgenthau said that he had been a strong advocate of a vigorous administration of the Vinson-Trammell Act, but had been convinced by a memorandum prepared by Mr. Foley that the Act should be repealed at the time Congress enacted an excess profits tax. The President said that he was a little skeptical of the political implications of such a proposal and asked Mr. Foley to explain his reasons. Mr. Foley pointed out that the Vinson-Trammell Act was, in effect, an excess profits tax which, if left on the books, would discriminate against the very industries that were now most needed for the national defense program. Mr. Foley said that a uniform excess profits tax should be adequate and that the excess profits provisions of the Vinson-Trammell Act would no longer be needed. The President said that, if a case could be made out which showed that the excess profits tax would return as much money to the Government as the Vinson-Trammell Act, he would be satisfied. Secretary Morgenthau said that he was of the opinion that such a showing could be made and suggested to the President that he would send to him a copy of Mr. Foley's three-page memorandum.

Secretary Morgenthau then said that he had been waited upon this morning by a committee from the Advisory Commission of the Council of National Defense, who proposed that special treatment be given by way of depreciation

allowances to industries using private capital for plant expansion for national defense purposes and outlined the terms set forth in the memorandum and proposed draft of legislation submitted at the conference. He then stated that he had pointed out to Mr. Biggers that whether the cancellation refund was charged up to the War Department or to the Navy Department, it still came out of the Treasury. At this point the President interrupted and said the Government pays for these plants 100% in any event and he was not so sure it would not be better for us to go ahead and build these plants and lease them under management contracts and then we could have them where we wanted them. He referred specifically to the Armor Plate plant at Charleston, West Virginia, which is now leased to the Carnegie Steel Company and stated that records in the last war showed that it was much more economical and satisfactory for the Government to own these plants.

Secretary Morgenthau then spoke of the arrangement that he and Mr. Foley had worked out in the case of the Curtiss-Wright Company, and the President said that he was willing to go along with the scheme either way: i.e.— that the Government build the plants and give to the operating company an option up to 10 years to purchase the plant for cost less regular depreciation rates, or that the private company borrow money from the R.F.C. to construct a plant satisfactory to the Government from the proceeds and repay the loan from the orders for national defense which would be placed with the company by the Government, the Government to take title through mortgage foreclosure in the event of default.

Secretary Morgenthau remained behind after the others left to discuss

✦

financing. When he came out he said that the President wanted him to call in the legislative leaders tomorrow morning and explain the plan to them. Then if they wanted to talk to the President he would be glad to see them.

Ex 76.

JLS

July 8, 1940.

MEMORANDUM TO THE PRESIDENT

Question

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ATP

GRAY

(PARIS)  
La Bourboule

Dated July 8, 1940

Rec'd 10:25 p.m. 20th

Secretary of State,  
Washington.

35, July 8, 9 p.m.

Baudoin told us today with satisfaction that Ambassador Noel is proceeding this evening to Paris. He heads an economic delegation of French experts who will meet competent German authorities in Paris for a discussion of ways and means of resuming relatively normal economic acts with especial reference to transportation, food supply and refugees.

Baudoin said the French are pleased because the terms of the Armistice do not contemplate this procedure and he feels this concession by Germany augurs well for the future. We gathered from Baudoin and others with whom we talked that there is a widespread eagerness on the part of a great many in the Government to return to Paris as soon as the Germans will permit such action in manner compatible with what ever dignity the present French Government believes necessary. The procedure via the Wiesbaden Commission is painfully slow.

Baudoin



( COPY )

July 8, 1940.

My dear Mr. Secretary:

In connection with the administration of Executive Order No. 8389 of April 10, 1940, as amended, this Department is currently receiving a substantial number of applications for licenses which would permit the transfer to Norway, and in a few cases to the other countries covered by such Executive Order, of funds belonging to persons residing in this country, which funds are to be used for the support of relatives and friends in the countries covered by such Executive Order. In most of the cases the amount to be sent to any one person is not in excess of \$100 per month.

This Department would appreciate receiving the views of the Department of State with respect to the licensing of such transactions.

Very truly yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

The Honorable,

The Secretary of State.

JWP:ngt 7/5/40

CONFIDENTIAL

FOR YOUR INFORMATION

July 8, 1940

To: The Secretary

From: Mr. Young

On March 31st, the State Department issued an export license for 10,500,000 rounds of 9 mm Parabellum cartridges manufactured by Winchester for the Swedish Government. On June 7th, the State Department issued an export license for 12,600,000 additional rounds of the same cartridges manufactured by Winchester for the Swedish Government.

Of the 23,100,000 rounds ordered, 17,000,000 rounds have not yet been delivered. At the present time, there are 3,250,000 rounds, comprising 1625 cases, on Pier 24, Brooklyn, ready for loading on the Swedish ship Veli-Ragnar. This shipment is being loaded by the New York Dock Company and is addressed to the Government of Sweden. In addition, another load of approximately 1,500,000 rounds is already packed and awaiting shipment at the Winchester warehouse at New Haven.

This size ammunition is designed for Smith & Wesson 9 mm machine guns and for 9 mm pistols. It also fits the German Luger pistol. Although this ammunition is not used by the United States, it is used by the British, and the latter is very anxious to hold up or divert this shipment. In addition, it should be noted that this order for the Swedish Government, according to information furnished me by the Anglo-French Purchasing Board, is definitely slowing down production on British orders placed with Winchester.

In accordance with your instructions, Basil Harris has been asked to delay the loading of this ammunition pending further discussion of the matter.

*F.Y.*

ALLISON ENGINEERING COMPANY  
Deliveries of Airplane Engines

|                         | : Actual<br>: deliveries : | : Estimated deliveries on<br>: existing orders |
|-------------------------|----------------------------|--|
| <u>1940</u>             |                            |  |
| January.....            | 10                         |  |
| May 1 - 23.....         | 10                         |  |
| May 24 - June 1.....    | 5                          |  |
| June 2 - 8.....         | 4                          |  |
| June 9 - 15.....        | 8                          |  |
| June 16 - 22.....       | 11                         |  |
| June 23 - 30.....       | 8                          |  |
| ✓ June 30 - July 6..... | 6                          |  |
| July 6 - 31.....        |                            | 150  |
| August.....             |                            | 160  |
| September.....          |                            | 310  |
| October.....            |                            | 351  |
| November.....           |                            | 331  |
| December.....           |                            | 332  |
| <u>1941</u>             |                            |  |
| January.....            |                            | 362  |
| February.....           |                            | 416  |
| March.....              |                            | 416  |
| April.....              |                            | 414  |
| May.....                |                            | 408  |
| June.....               |                            | 437  |
| July.....               |                            | 320  |
| August.....             |                            | 294  |
| September.....          |                            | 431  |
| October.....            |                            | 45   |
| November.....           |                            | 45   |
| December.....           |                            | 45   |
| <u>1942</u>             |                            |  |
| January.....            |                            | 25   |
| February.....           |                            | 21   |

Office of the Secretary of the Treasury,  
Division of Research and Statistics.

July 8, 1940.

*Original given 34  
7/2/40*

July 7, 1940.

MEMORANDUM FOR THE SECRETARY'S DIARY.

At the request of Mr. David Ginsberg of the Securities and Exchange Commission, Mr. Kedes attended a meeting in Mr. Leon Henderson's office at the Federal Reserve Board Building from 3 P.M. to 4:30 P.M., Tuesday afternoon, July 2, 1940. There were present at the meeting Mr. Ginsberg, counsel to Commissioner Henderson, Mr. John Ham, assistant to Commissioner Henderson, Dr. Taggart, economist connected with the Securities and Exchange Commission, and Mr. Floyd Odium.

There was a general discussion of the law and regulations relative to depreciation and obsolescence deductions for income tax purposes. Mr. Kedes was asked whether the Treasury would consider a proposal for writing off the cost of new facilities in equal installments over a four-year period under the income tax law. He replied that this would not be possible under existing law but that the Secretary of the Treasury had announced at a press conference that the Treasury was studying an excess profits tax and in that connection would study all suggestions for extraordinary amortization allowances. He also called the attention of those present to the reports of the Couzens Committee and the Nye Committee which in general disapproved of special amortization allowances for war-time facilities and to the position on depreciation taken by the Fays and Means Committee in 1934.

The discussion then turned to the plan of financing the expansion of plant facilities approved in principle by Secretary Morgenthau, Mr. Knudsen and Mr. Jones. There was considerable misunderstanding concerning the nature and content of the plan. It was conceded by all present, however, that it was very attractive to private industry.

Mr. Odium stated that at least \$300,000,000 of stock issues could be floated by private underwriters for financing the expansion of facilities for the manufacture of aircraft if liberal amortization for tax purposes was allowed. He thought it might be advisable for the S.E.C. to participate in such equity financing with the underwriters (in effect, guaranteeing the underwriters against loss). Mr. Odium emphasized that he disapproved financing plant expansion on a loan basis, whether by the S.E.C. or private banking institutions, whenever stock issues could be floated on such a basis.

Throughout the conference it was assumed by the SEC representatives and Odium that the Tobey amendment to the Vinson-Trammell Act would be repealed in the near future and in this connection reference was made to

- 2 -

the President's message calling for a steeply graduated excess profits tax "without discrimination." On his return to the Treasury, Mr. Eades stated to Mr. Foley he feared either O'Brien or the SEC would jump the gun in calling for the repeal of the Tobey profit limitation law as their remarks concerning its effect in delaying the national defense program without preventing truly excess profits were very significant.

(Initialed) E. H. F., Jr.

CLK:akm 7-2-40

*1st suggestion*

Sec. \_\_\_\_\_ AMORTIZATION OF COST OF DEFENSE FACILITIES, etc.

Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following:

(t) Amortization of Cost of Defense Facilities, etc.

(1) When used in this section, unless the context otherwise requires —

(A) "Emergency facilities" means buildings, machinery, equipment, or any other capital improvements.

(B) "Constructed" means constructed, erected, converted, installed, or acquired.

(C) "Advisory Commission" means the Advisory Commission to the Council of National Defense.

(2) In the case of emergency facilities constructed on or after September 8, 1939, necessary or desirable in the interest of national defense, and during the continuance of the emergency declared by the President on September 8, 1939, the taxpayer may deduct for amortization of the cost of such emergency facilities an amount equal to the cost thereof, or of the cost of construction, as the Advisory Commission may determine, which amount the taxpayer may allocate over any period, commencing from the date of construction, which does not exceed the estimated normal useful life of such emergency facilities, at a rate not exceeding 25% of such cost for the first taxable year, 50% for the first and second taxable years, and 75% for the first, second and third taxable years; provided that any deduction so made shall not thereafter be revised by the taxpayer, except as provided in paragraph (4). Deductions made pursuant to this section shall be reflected in the taxpayer's books of account, in his reports to shareholders and in his reports to any governmental agency.

(3) This section shall not apply unless prior to the construction of such emergency facilities the taxpayer has obtained a certificate from the Advisory Commission that such emergency facilities are necessary or desirable in the interest of national defense during the emergency. If such emergency facilities have been constructed prior to the issuance of such certificate, the Advisory Commission, in its discretion, may certify that such emergency facilities shall be within the scope of this provision.

(4) If the emergency declared by the President on September 8, 1939, shall be ended before the expiration of four taxable years, the taxpayer, at his option, shall be entitled to re-allocate the amortization of the cost of such emergency facilities over the period between the date of construction and the end of the emergency.

(5) The amortization allowance herein provided shall be inclusive of depreciation but exclusive of any other allowable deductions provided for under the various Chapters and Subchapters of the Internal Revenue Code, and shall be allowed as a deduction in determining net income subject to income, excess-profits, and other taxes thereunder.



DEPARTMENT OF STATE  
WASHINGTON

July 8, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of telegram No. 1645 of July 6, 1940 (in paraphrase) to the American Embassy, London.

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: July 6, 1940, 4 p.m.

NO.: 1645.

FOR AMBASSADOR KENNEDY.

Reference is made to telegram of July 6, 3 p.m.,  
No. 2028 from the Embassy.

Consideration is being given to these matters and  
next week further communication will be telegraphed to  
you.

HULL.

EA:LWW

(Received at 2:50 p.m., July 8, 1940 under cover of a personal letter from Mr. Pinsent, Financial Counselor of the British Embassy, to Mr. Cochran in the Treasury.)

Telegram from London, dated 5th July 1940.

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Please inform Secretary of the Treasury that arrangements referred to in my telegram under reference are nearly complete. They envisage establishment with United Kingdom banks of "Registered Accounts" in sterling in the name of United States banks, through which for the future payments will pass at official rate; Bank of England will furnish dollars at that rate against sterling from registered accounts. Part of the scheme will be that after the establishment of these "registered accounts" we should make regulation to prevent any further sums being credited to free sterling accounts of American residents except insofar as is necessary to fulfil the existing commitments and except for transfers from free sterling account of one American to that of another American. Existing free sterling balances will be available for existing commitments, for payments within sterling area except for exports and for payments to countries with which we have no payment arrangements. After liquidation of such balances all payments will pass at official rate by purchase and sale to our control or through registered accounts. Sterling in registered accounts will be available to pay for goods from sterling area.

We propose to put the scheme into operation very shortly, and would be glad to know if he would like to make any observations on it.

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**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

DATE July 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

At 12:30 on Saturday July 6, I received from Vice President Sproul of the Federal Reserve Bank of New York the attached memorandum suggesting paragraphs for inclusion in the letter to be written by the British Ambassador to the Secretary of State regarding His Majesty's Government accounts with the Federal Reserve Bank of New York. Shortly before this hour, Mr. Pinsent had telephoned me that he had received a copy of this memorandum, in accordance with the arrangement which had been made the preceding evening by me with Mr. Sproul. I told Mr. Pinsent that I would read it over the weekend and that we could discuss the document today.

At 11:00 this morning Mr. Pinsent telephoned me and expressed his unhappiness over the memorandum. He had anticipated, following his conversation with me and also as result of a telephone call which Mr. Sproul had made direct to him on Friday, a very brief paragraph requiring no reference back to London.

Pinsent feels that the paragraphs as drafted by the Federal amount to a restatement of the message sent from London. Furthermore, the Embassy has no authority to make the statements envisaged in the draft. Pinsent still thinks the communication that has been received from London should be entirely adequate. He will recommend to his Ambassador against sending any letter of this type to the Department of State. Pinsent is prepared at once to send a letter to the State Department to the effect that the contents of the note quoted in the cablegram are in accordance with the instructions received by the Embassy from London, and the Embassy will ask that the note be sent to the Federal Reserve Bank.

Pinsent pointed out that two or three weeks have already been lost through the Federal's meticulous examination of the arrangements, and he considers that the Federal Reserve Bank will be responsible for further delay if it insists on pressing the point covered in the draft document. Pinsent hopes the Federal will go ahead and conclude the arrangements, seeking later any further elucidation which they may feel essential.

At 11:30 I telephoned Mr. Sproul, reporting Pinsent's remarks to me. I added that I was of the opinion that Pinsent would not incorporate the Federal's suggestions in an Embassy letter to the Department of State. If he failed to do this, the Federal would then presumably have to have the matter reopened with the British Government, either through diplomatic channels or the Bank of England, if it insists upon the further statements as drafted. While appreciating the desire of the Federal to use every safeguard, I expressed the hope that its Legal Department would exert every effort to facilitate the conclusion of arrangements. Sproul told me that he

would take the matter up again with his lawyers and would call me back. In closing, I added that I thought his lawyers had been entirely satisfied with the arrangements when they sent us some days ago a draft letter for use by the Department of State. Sproul agreed that this was a reopening of the matter.

Mr. Walter Logan called me at 4:30 this afternoon and referred to the conversation which Mr. Sproul had had with me earlier in the day. Mr. Logan pointed out that the memorandum under reference relates only to emergency authorities. It has nothing to do with the general question of transfer from the Bank of England to Government accounts. Consequently the Federal is in a position to go ahead with the early transfer itself and prefers to do this now, and work out later details in regard to the emergency authority. I asked him if I was free to tell Pinsent this decision, and was informed in the affirmative.

At 5:00 I spoke with Mr. Pinsent and gave him the above information. He said he would immediately proceed with the sending to the Department of State of the letter which he had already drafted, and would at the same time write directly to the Federal Reserve Bank at New York making a suggestion as to working out the subsequent details in regard to bringing to effect the emergency authority. Pinsent promised to send me a copy of his letter to the Department of State and of his communication to the Federal Reserve Bank at New York.

*S. M. S.*

STRICTLY CONFIDENTIAL

352  
July 5, 1940.

SUGGESTED PARAGRAPHS FOR INCLUSION IN LETTER  
FROM BRITISH AMBASSADOR TO SECRETARY OF STATE  
REGARDING HIS MAJESTY'S GOVERNMENT ACCOUNTS  
WITH FEDERAL RESERVE BANK OF NEW YORK.

Referring to and confirming paragraph (B) of the note from His Majesty's Government quoted in cable No. 1752 dated June 20, 1940, received by the Secretary of State from the American Ambassador at London, I am instructed by His Majesty's Government to advise you as follows:

The authority of the Bank of England to operate His Britannic Majesty's Government current account "F", His Britannic Majesty's Government current account "G", His Britannic Majesty's Government special account "A", and His Britannic Majesty's Government No. 3 account, may be canceled by His Majesty's Ambassador at Washington or by the Counselor to the British Embassy at Washington, or by either of them. Such cancellation may be effected by a notification addressed to the Federal Reserve Bank of New York or to the President thereof signed by His Majesty's Ambassador at Washington or by the Counselor to the British Embassy at Washington in substantially the following form:

"I have the honor to notify you that the authority of the Bank of England to operate the accounts with the Federal Reserve Bank of New York in the name of His Britannic Majesty's Government is canceled, and that the emergency signing procedure in favor of, and the power and authority granted to, His Majesty's Ambassador at Washington and J. A. C. Osborne, and any person or persons whom they or either of them may designate, to operate His Britannic Majesty's Government current account "F", His Britannic Majesty's Government current account "G", and His Britannic Majesty's Government No. 3 account, will come into force and effect upon the receipt of this notification. From and after the receipt of this notification by the Federal Reserve Bank of New York, the persons hereto-

fore authorized by the Bank of England to sign in its behalf, with respect to operations in His Britannic Majesty's Government Special account "A", are authorized by and in behalf of His Majesty's Government to operate said account."

Effective on and after the receipt by the Federal Reserve Bank of New York of a notification addressed to it or to its President signed by His Majesty's Ambassador in Washington or by the Counselor to the British Embassy at Washington in substantially the form quoted above, His Majesty's Government has granted to and conferred upon His Majesty's Ambassador in Washington and J. A. C. Osborne, acting jointly or singly, full power and authority in its behalf to make payments and withdrawals from, and otherwise to operate, His Britannic Majesty's Government current account "F", His Britannic Majesty's Government current account "G", and His Britannic Majesty's Government No. 3 account, and to delegate to any person or persons whom they or either of them may designate full power and authority to make payments and withdrawals from, and otherwise to operate, such accounts; and also effective upon receipt by the Federal Reserve Bank of New York of such notification, His Majesty's Government has granted to and conferred upon the persons theretofore authorized by the Bank of England to sign in its behalf, with respect to operations in His Britannic Majesty's Government Special account "A", full power and authority in behalf of His Majesty's Government to make payments and withdrawals from, and otherwise to operate, such account.

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July 8, 1940  
3:30 p.m.

H.M.Jr: Hello.

Sen. Pat  
Harrison: Hello, Henry.

H.M.Jr: How are you, Pat?

H: I'm all right. I got your message about  
a meeting in the morning.

H.M.Jr: Yeah.

H: Well, tell me, have they made any progress?

H.M.Jr: Yes, we have.

H: You have.

H.M.Jr: Well, we saw the President today and gave  
him a memorandum and he said that he thought  
it was along the line that he'd like to go  
along and he said to ask to see you and  
Doughton and Cooper and if you were satisfied  
or whatever suggestions that you made, that  
if you wished it, he'd be glad to meet with  
us at a time convenient to you and to Doughton.

H: Well, now, what about in the morning -- if  
you've got to that point?

H.M.Jr: Yeah.

H: Do you want me to bring anybody else up  
there from the Finance Committee?

H.M.Jr: Well, anybody that you'd like to. Who  
would you like to bring?

H: Well, what I would do, I'd -- King is next  
man to me and George -- of course, they're  
on this Joint Committee.

H.M.Jr: All right.

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H: So I think I'll ask them.

H.M.Jr: Well,  
Do you mind coming to my office or would  
you rather have it up at your place?

H: No, no. It's early in the morning and  
you've got them all there, haven't you?

H.M.Jr: Yes, that's right.

H: Huh?

H.M.Jr: Yeah, they'll be here.

H: Is Doughton going to be there?

H.M.Jr: Well, they've phoned him down to North  
Carolina.

H: I see.

H.M.Jr: And his office has phoned him, but Cooper .....

H: Because I'm leaving here Thursday to go to  
Chicago.

H.M.Jr: Well, Cooper will be here.

H: Uh-huh. Well, I'll ask George and tell him  
that you asked for us to come up there and  
King.

H.M.Jr: Right.

H: All right.

H.M.Jr: Thank you.

H: All right, Henry.

H.M.Jr: Thank you.

July 8, 1940  
3:32 p.m.

H.M.Jr: Hello.

Jere Cooper: Hello, Henry. How are you?

H.M.Jr: Oh, wonderful.

C: (Laughs). Well, that's good.

H.M.Jr: I've got a new slogan.

C: Well, fine.

H.M.Jr: A tax bill a day keeps the doctor away.

C: Well, all right, yes. That's a good slogan all right.

H.M.Jr: Jere, the reason I'm calling you -- I don't think Bob's going to be here tomorrow, see?

C: Uh-huh.

H.M.Jr: And Pat Harrison just called up and told me that he was bringing Senator King and Senator George tomorrow.

C: Uh-huh?

H.M.Jr: And if you were there, I didn't know but maybe you might want to bring somebody also.

C: Well, I just don't know, Henry.

H.M.Jr: Well, I don't know who's on your Committee but .....

C: I can hardly select one or two -- I've got more.

H.M.Jr: I -- how many?

C: I say, I can hardly pick out one or two without picking out some more of them or maybe all of them.

- 2 -

H.M.Jr: Well, I didn't want you to walk in here tomorrow and say, well, what the hell are King and George doing here -- why didn't Henry notify me. See?

C: Uh-huh.

H.M.Jr: And I'll leave it entirely in your good hands.

C: Well .....

H.M.Jr: I mean as far as I'm concerned, I don't want anybody but you.

C: Well, I don't -- I talked to Bob just before he left and he didn't expect to get back until about Wednesday or Thursday, I think.

H.M.Jr: Well, as far as I'm concerned, Jere Cooper is good enough for me. But I didn't want you to come in here and be surprised to find these other fellows sitting here.

C: Well, all right. Much obliged. I appreciate your calling me.

H.M.Jr: O. K.?

C: All right. Nine o'clock in the morning at your office.

H.M.Jr: Right.

C: Fine. Much obliged. Good-bye.

July 8, 1940  
3:44 p.m.

H.M.Jr: Will you have copies of the same thing we gave the President?

John Sullivan: Yes, sir. I will.

H.M.Jr: I think so.

S: Yes, sir.

H.M.Jr: Have you got your crowd in there now?

S: Yeah. Mr. Magill has left; the rest are all here.

H.M.Jr: That other group?

S: No. They were tied up and they're meeting with Mr. Paul and myself at my house at 8:00 o'clock tonight.

H.M.Jr: Oh, I see. O. K.

S: I thought you'd want them to meet before tomorrow morning so that .....

H.M.Jr: And keep a little record of what happens tonight, will you.

S: Yes, sir. I will.

H.M.Jr: O. K.

S: Right-o.

H.M.Jr: Right.

MEMORANDUM

July 9, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Conference at 8:55 a.m. in the Secretary's office. Present: Secretary Morgenthau, Senators Harrison, King and George, Congressman Cooper, Messrs. Foley, Stam and Sullivan.

The Secretary read a memorandum to the President dated July 8th on the subject of excess profits taxes. Copies of the memo were given to all present. There was a general discussion as to many of the provisions and apparently general acceptance of the proposals set forth in the amendment.

All of the Senators spoke about the amendment to the Vinson-Trammell Act, which was pending in the Senate today, and it was agreed that Messrs. Foley and Sullivan would consult with Senators Harrison and Walsh at noontime today and advise them as to whether or not the enactment of this amendment would be an obstacle to the proper administration of any excess profits taxes later enacted. (At noon Mr. Foley and I met with Senators Harrison and Walsh and they agreed that the enactment of this amendment would not present any great difficulties. Apparently, Senator Harrison definitely favors and Senator Walsh tentatively favors repeal of the Vinson-Trammell Act if an adequate excess profits tax is substituted therefor).

There was a discussion of the request of the National Defense Council for amortization provisions, and it was the unanimous opinion of the Congressional group that such a bill should not be sent up in advance of the excess profits bill. It was decided that the Treasury would be prepared to present a draft of the excess profits bill to the Sub-committee on Taxation on July 22nd.

JLS