

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 12, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£48,000
Purchased from commercial concerns	£12,000

Open market sterling held steady at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 5,000
Purchased from commercial concerns	-0-

The Argentine free peso had an easier tendency today. It closed at .2296, as compared with yesterday's final rate of .2303.

In New York, the closing rates for the foreign currencies listed below were as follows:

Canadian dollar	15-1/16% discount
Swiss franc (commercial)	.2322-1/2
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-1/2% discount

We sold \$998,000 in gold to the Central Bank of the Uruguayan Republic, which was added to its earmarked account.

No new gold engagements were reported.

In London, the prices fixed for spot and forward silver were both 1/16d higher, at 23-7/16d and 23-3/8d respectively. The U. S. equivalents were 42.56¢ and 42.44¢.

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 three purchases of silver totaling 150,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

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The Federal Reserve Bank's report of March 5, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$101,960,000, an increase of \$458,000 since February 26. Also reported were the Yokohama Specie Bank Agency's dollar liabilities to and dollar claims on Japanese banks in Asia, which stood as follows on March 5:

	<u>March 5</u>	<u>Change from February 26</u>
Liabilities: Deposits for Japan and Manchuria.....	\$56,812,000	+ \$440,000
Deposits for China.....	35,855,000	+ 267,000
" : U.S. Treas. Bills, comm. paper, etc....	23,655,000	- 75,000
Claims : Loans.....	\$60,753,000	+\$6,206,000
" : Other - mainly Jap. import bills.....	9,991,000	+ 346,000

Most of the \$6,206,000 additional funds received from Agency loans (made primarily to Japanese banks in Japan and Manchuria) were used for Japanese commitments in this country, it was reported.



CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D.C.

March 10th, 1941.

Personal and
Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely your,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

1. Naval. Norwegian loaded tanker (3000 tons) was sunk off the west coast yesterday and a British ship (6,400 tons) outward bound in convoy, with general cargo, was torpedoed in the North Western approaches early March 7th.
2. Military. British Somaliland. Ferfer 210 miles north of Mogadishu on Harer road has been occupied and Belet Ven aerodrome is fit for use; the roads and bridges are intact, water plentiful and large quantities of petrol and oil have been captured. Patrols have been sent forward to Oddur and Dolo (North West of Lugh Ferrandi). Among material captured at and on the way to Mogadishu are 345,000 gallons of M/T petrol and 8,000 gallons of aviation petrol.
3. Bulgaria. German reconnaissance detachments reached the vicinity of the Greek frontier on March 3rd and by March 5th the main concentrations were developing in Sliveno Yambol area, where heavy tanks are reported and in the Struma Valley near Gorna Djumaya and Petrich. Estimated that 8 divisions of German troops are in Bulgarian territory.
4. Bulgarian divisions appear to be disposed as follows: Yugoslav frontier 1 motorised, 2 infantry, 2 reserve infantry forming Turkish frontier, 2 motorised, 7 infantry, Macedonian frontier 4 infantry, Southern Dobrudja 1 infantry. Bulgaria general headquarters is reported at Stara Zagora.

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5. R.A.F. March 6th 1 medium bomber attacked railway targets at Ghent.

Night of March 6th/7th. Operations cancelled.

6. G.A.F. Night of March 6th/7th. 40 aircraft were operating over this country but only 5 came inland, the remainder were mine-laying.

7. Malta. Malta was attacked March 6th as reported yesterday by about 100 aircraft including 60 bombers. Damage was slight at one aerodrome but at Hal Far barracks and hangars considerably damaged; 4 aircraft were destroyed on the ground and all remaining aircraft on the aerodrome were rendered temporarily unserviceable. 11 of our fighters intercepted and shot down 7 enemy aircraft probably an eighth and damaged four more. Anti-aircraft destroyed a further nine and damaged four. One of our fighters is missing.

8. Aircraft casualties in operations over and from British Isles.

German destroyed one, damaged one. British nil.

9. Home Security. March 7th. Two R.A.F. aerodromes were attacked by; some damage to buildings but no serious casualties.

Telegram received from London dated March 8, 1941.

1. Naval. In the Suez Canal divers have located mines which were counter-mined. Believed 3 mines remain to be dealt with, expected Canal will be open March 7th. Twenty-three mines were exploded at various home ports on March 7th.
2. One enemy aircraft laid mines off Bayers p.m. of March 7th. L.L. sweepers detonated these the same afternoon. Between 14.30 and 16.30 hours March 7th six aircraft laid mines in the Humber entrance, fifteen were seen to drop.
3. On March 7th convoys were attacked by U-boat in the Western approaches and off the East Coast by aircraft, and during the night of March 7th-8th by E-boats. Of the nine ships torpedoed or damaged by aircraft four sinking or sunk. One aircraft shot down one damaged.
4. On March 7th off the Hook of Holland a 2500 ton merchant vessel was bombed and left sinking by coastal aircraft.
5. Ethiopia. In Goffam area patriot operations continue against retreating garrison of Burye. 300 prisoners and four guns have been captured and an aeroplane shot down. 1,700 deserters have surrendered.
6. Kenya Colony. Heavy rain has fallen on Ethiopian border and many roads are under water.
7. R.A.F. March 7th. During the day aircraft from the Coastal Command bombed an aerodrome in Holland hitting hangars also naval dockyard at Denhelder and left a 2,500 ton merchant vessel in a

sinking condition off the Dutch Coast.

8. Night of March 7th-March 8th. Operations cancelled.

9. German Air Force. March 7th about fifty enemy aircraft were operating overland in wide localities and forty more were working off East coast. One enemy aircraft was destroyed by anti-aircraft shore battery and one by a Navy trawler, a third hit the mast of a ship and crashed.

10. Night March 7-March 8th. Activity negligible.

11. Malta. Night of March 6th/March 7th. Twelve enemy aircraft made individual attacks on various objectives without causing serious damage or casualties.

12. March 7th. Four bombers escorted by 10 ME 109's damaged a Sunderland by machine-gun fire, shot down a Glen Martin and also one Hurricane out of seven which intercepted. Pilot saved. Two enemy aircraft were probably destroyed by anti-aircraft fire.

13. Aircraft casualties in operations over and from British Isles. German, three destroyed. British nil.

14. Home Security March 7th. A ball-bearing factory was hit and seriously damaged. Thirty-six persons were killed and forty-seven seriously injured; production has been stopped probably for seven days.

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15. Six Royal Air Force stations, a balloon barrage centre and an infantry training centre were attacked. Little damage and few casualties.

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Paraphrase of Code Radiogram
Received at the War Department
at 10:06, March 10, 1941.

London, filed 15:00, March 10, 1941.

1. On Sunday, March 9, adverse weather caused the cancellation of all flights of British planes. During the preceding night occupied airfields in northern France were bombed by British Bristol Blenheim but there were no planes of the Bomber Command over the Continent because of the bad weather.

2. During the night of March 9-10 German raids were carried out over the Midlands, Portsmouth, Liverpool Bay and Suffolk. In addition, there was a large scale attack on London. The extent of the damage done has not been determined. During the preceding day German aircraft patrols were maintained over the Dover Straits and only eight German planes penetrated beyond the coast line of England. British fighter planes were in the air during this day and the following night but were unable to intercept any of the attackers. During the night of March 8-9 ten German planes planted mines along the British coast. A total of 120 other German planes were plotted over south-east Britain, Portsmouth, Norfolk and Suffolk. During the same night London was attacked by 60 more German planes. Private property in London suffered heavy damage and the waterfront area was damaged some. On the Buckingham Palace grounds a lodge was wrecked. German bombs fell on one restaurant in which 26 individuals were killed and more than 60 were injured. British anti-aircraft fire brought down three of the German planes and damaged two others. During daylight hours of March 7 a British Infantry training center, a balloon barrage center and six Royal Air Force stations were bombed by German planes. A small number of casualties and some damage resulted.

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During the same day 36 laborers were killed and 47 were injured seriously during a German attack on a British ball bearing manufacturing plant. Production at this plant will have to be suspended for a period of one week.

3. British air activities in Middle Eastern theaters were as follows: the Albanian city of Topoloni was bombed by British planes based in Greece; in the Eritrean theater the Asmara-Keren area was attacked by Sudan-based British bombers; in the Libyan theater British bombers attacked the Tripoli harbor and dropped bombs on the airfield at Tamsi (Tad Hassan). It is known that planes of the German Air Force are based at this latter place which is about 25 miles west of Sirte.

4. German air activities in the Middle East consisted of a raid by five planes against Malta. British installations suffered no damage and one of the German planes was shot down.

5. The Suez Canal will probably be reopened to traffic by March 11. British divers have found all of the mines planted in the Canal by German planes and only three more are to be exploded before the canal is completely cleared.

6. A call has been made by the Ministry of Labor for 100,000 women to volunteer for service in munition and war industry factories. These volunteers will be used primarily in filling artillery shells.

7. During the day and night of March 7 a British merchant convoy made up of nine vessels was bombed or torpedoed in the North Sea. Two of the vessels were beached and three others sank. During the early morning hours of March 8 a German submarine attacked a British merchant convoy made up of 54 vessels 180 miles west of Cape Blanco, on the West Coast of Africa. Five of the cargo boats were lost.

8. Late in the afternoon of March 8 airplanes from British naval units located the two German 26,000-ton battleships, **GOEBEN** and **SCHNEIDER**, half-way between the Cape Verde Islands and the Canary Islands.

DETAILS

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
6-3

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RESTRICTED

G-2/2657-220
No. 335

M.I.D., W.D.
March 10, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. During daylight of the 8th and 9th there were normal operations against shipping at sea and scattering attacks over Great Britain. During the night of the 8th-9th a strong attack was launched against the London area. This was apparently the heaviest German night raid of 1941. Last night the attack was renewed in less force and Portsmouth also was systematically bombed.

British. Apparently no night operations. On the 9th fairly heavy daylight attacks were made over northern France.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. The Greeks report their offensive continues and new positions in the Tepelini sector were occupied despite strong Italian counter-attacks. The Italians admit Greek attacks in the sector of the Eleventh Army (southwest sector) but claim they were repulsed by counter-attacks.

Air: Albania. Considerable air activity on both sides in close support of the ground operations.

III. Mediterranean and African Theaters of War.

Ground: Italian Somaliland. British troops have occupied Gabredarre which is about 165 miles by road northwest Ferfer which was captured March 5, 1941.

Libya. The Italians report another attack on Giarabub Oasis by the British has been repulsed.

Eritrea. A successful counter-attack is claimed by the Italians in the Cheren sector.

Air: Axis. Pressure maintained in Libya. Malta was bombed again on the 9th.

British. No reports of activity.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1941.

TO Secretary Morgenthau
FROM Mr. Haas *[Signature]*

In accordance with your request of March 10, we are preparing a written analysis of the Gano Dunn report on steel capacity, which we expect to complete and submit to you on Thursday afternoon of this week. We disagree with the conclusions of Mr. Dunn's report and it has taken a little time to assemble and organize our refutation.

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See entry of 6/5/41 which states that
a copy of the President's memo of 3/10/41
was given to Mr. Hopkins by HM, Jr.

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This is referred to in H^m Jr's report
of luncheon meeting with the President on
3/10 which is filed in President's folder.

W.M.P.

Because of the general
financial picture can you
carry up

(a) R.F.C. taking over of
British payments made
for plants

(b) War Dept. taking over
of material payments
made by the British.

J.S.P.

at lunch March 10th 1941.

MAR 11 1941

Dear Jesse:

For your information I am transmitting herewith photostat copy of a memorandum which the President gave me yesterday at lunch, concerning the British financial picture. As I am now giving careful consideration to the British financial requirements for each month from now until the end of this calendar year, I would appreciate it if you will furnish Under Secretary Bell, at the earliest possible moment, the amount of funds that the Reconstruction Finance Corporation can make available each month during this period for payments on account of plant facilities which it may take over from the British.

Sincerely yours,

Honorable Jesse H. Jones,
Administrator,
Federal Loan Agency,
Washington, D. C.

DWB:ELS
March 11, 1941

Replied to by me
Jones 3/19/41

swB

STRICTLY CONFIDENTIAL

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MAR 11 1941

My dear Mr. Secretary:

For your information I am transmitting herewith photostat copy of a memorandum which the President gave me yesterday at lunch, concerning the British financial picture. As I am now giving careful consideration to the British financial requirements for each month from now until the end of this calendar year, I would appreciate it if you will furnish Under Secretary Bell, at the earliest possible moment, the amount of funds that the War Department can make available each month during this period for payments on account of contracts which it may take over from the British.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,
The Secretary of War.

DWB:NLE
March 11, 1941

Replied to by
Mr. McCloy
3/17/41

swB

Copy to Miss Edelin

By Messenger 2³⁰

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1941

TO For Miss Channing

Secretary Morgenthau

FROM Mr. Cochran

Mr. Genson Purcell telephoned me from the Securities and Exchange Commission at 12:35 yesterday noon. He told me that Chairman Frank had discussed with the other Commissioners the question of giving publicity to the meeting which was taking place at the Securities and Exchange Commission yesterday afternoon with representatives from the investment associations in New York to study a plan for liquidating British investments in this country. It had been the opinion of the Commissioners that no publicity should be given to this meeting, considering the exploratory character thereof. Chairman Frank desired this information to reach Secretary Morgenthau before the latter's press conference. I gave the Secretary the substance of this message at 3 o'clock yesterday afternoon.



March 11, 1941

Some time during the night I woke up and got the idea that if we were going to refund the \$500,000,000 June notes, we also ought to, at the same time, raise five or six hundred million cash, and make an issue of sufficient size and do it all at one time.

Strangely enough, I still remembered it when I woke up this morning, and I sent for Bell and gave him this idea, and asked him to speak to the people in New York and find out whether they have finished digesting the last issue.

March 11, 1941
10:20 a.m.

RE AID TO BRITAIN

Present: Mr. Foley
Mr. Bell
Mr. Cochran
Mr. Bernstein
Mr. White
Mr. Acheson

Foley: They wanted the same control you had over the four million eight hundred eighty million.

Bell: They will get around now to blaming me.

Foley: No, but you remember.

Bell: Sure. Well, that is the Budget's job. I am sympathetic. It is absolutely budgetary control. (Laughter)

Foley: Sure, there he comes.

H.M.Jr: All right. Now, Merle, will you state the case again, please?

Cochran: On Saturday morning we considered the memorandum which had been submitted by Mr. Pinsent on March 7. It was decided that we needed more data with respect to the paragraph headed "Final Result" on page four of this memorandum. This paragraph reads as follows:

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"To cover our shortage up to August 1941 and to provide a cash balance on lines proposed in assumption six, we need assistance before the end of August to the extent of three hundred sixty-five millions on the basis of the first alternative and one hundred eighty-five millions on the basis of the second alternative, subject to the fundamental point raised on assumption three. It is hoped that such assistance can be provided in the form of the taking over after the passage of the bill of our existing contracts by the United States Government to the extent necessary to cover the above amounts. The taking over of capital assets by the RFC will, of course, provide part of this assistance. For the rest, it should not be difficult to select suitable contracts up to the amount required. Speed of action is very desirable as deliveries are constantly reducing the outstanding value of existing contracts. Even after August, our deficit will still rise for a time. This should be automatically taken care of, since many of the contracts to be taken over are bound to have payments due after August as well as before, of which we shall be relieved. The months to August are the most difficult ones. The deficit of the early months will in part be currently met from gold borrowed by the U. K. Government; but, as this is only a temporary expedient and leaves a responsibility to repay in gold, no account has been taken of it in the calculations above."

H.M.Jr: Let me approach this thing in my own peculiar manner. As of January 1, their outstanding contracts were approximately a billion four?

Bell: That is given in Table 1.

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H.M.Jr: Just for my purposes, you see.

Bell: A billion three thirty.

H.M.Jr: All right, a billion three thirty. Now, this is the eleventh of March. We can use February 28.

Bell: Yes.

H.M.Jr: Now, from January 1 to February 28, I want two figures, I want, one, how many contracts have they paid for, you see. You can get that from - how much have they paid for during the month of January. That subtracted from a billion three thirty would give us the figure on March 1. Has anybody got the figure?

Bell: The billion three thirty, Mr. Secretary, is a February 28 figure.

H.M.Jr: No, I want the January 1 figure.

White: I haven't got the payments on those earlier contracts, but we have got the payments which are due on the first of each month.

H.M.Jr: Just let me put it this way. Let's say it is a billion four. This is the way I want to approach this thing. A billion four, January 1. Then so many contracts, so much - they took delivery of so much stuff during January. Let's just say for argument's sake they took care of three hundred million, which left them on the first of March outstanding one billion one of the contracts which were in existence prior to January 1, not the ones that they have written since. Now, of that three hundred million dollars that they have paid for during the month of January, where did that money come from? In other words, how much of it came

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from the sale of securities to the stock exchange, how much of it from gold, how did they pay for it? In other words, what I am groping for is this: I had mentally earmarked a billion four hundred million as of January 1 when I testified, you see. Now, I have said toward that there is nine hundred million of direct investments, there is six hundred million listed securities, and there is four hundred million dollars annual output of gold from South Africa, or a total of nine and six are fifteen and four are a billion nine. Now, what I want to know is, of this three hundred million how much of it came from those three sources. Now, is that assumption correct, Dan?

Bell: Your figures are about correct. It is a billion eleven, as I understood it, instead of a billion nine.

H.M., Jr: But my assumptions. So then we carry this thing along and I will tell you why I explained it. Is there any other place that they can get this - have it pledged to me and I in turn to Congress - the billion four hundred million contracts outstanding and then that their listed securities, their direct investments and their gold or anything else that we counted in should go toward payment. Now, for argument's sake they paid three hundred million dollars out. Now, where the hell did it come from?

Cochran: Well, they had gold which was sold on January 2 of a hundred and seventy-six million; January 30, twenty-six million; and on February - twenty-six million. That wouldn't count. You have a hundred million of gold there, a hundred ten of their securities and then some taken from the balances which they had on hand

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the first of January.

H.M.Jr: Well, do you see what I want, Harry?

White: I see what you want, yes. I am not sure that that--

H.M.Jr: You mean where it is going to?

White: No, those first three questions are fine. You want to know, A, they owed you a certain amount on commitments on January 1. How much did they pay on those commitments? You knew their assets. Where did that money come from? Presumably it came from those assets. If it did, then their present assets ought to be just the difference between the two as compared to their January 1 assets.

H.M.Jr: Then on the first of March - I mean, I don't know just how we will handle it. I am groping. I don't know just how we will handle the contracts they have signed since then, you see. I don't know what I am going to do with them. Let me just think out loud a minute. Now, they come in and say, between now and the first of August they need three hundred sixty million dollars. Is that what you have got?

Cochran: That is, if they pay Canada gold.

H.M.Jr: Well, they are going to pay that to us.

Cochran: Then it is only a hundred and eighty-five.

H.M.Jr: All right. They need a hundred and eighty-five million dollars. Now, I say before I am interested, see, "Gentlemen, I want to know where are you getting the cash to pay your bills today. In other words, are you taking

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some of the fat off the bone that we said we didn't want? Where is it coming from? You say you need a hundred and eighty million dollars." Now, let me just give you this picture. - Then they take on more contracts. I mean, it is like a going concern. They have got so much to pay out and they have so much of their assets. Which of their assets did they use and what is their position as of March 1?

Cochran: They have given us that.

White: They have given us that.

H.M.Jr: What?

Cochran: They have given you a statement of their credit position and debt position for the month of March to show how much they expect to use in gold, how much they expect to get from marketable securities.

H.M.Jr: This is for March?

Cochran: Yes, sir.

H.M.Jr: But I - I will come to that in a minute, but I want to know what happened in January. How did they finance themselves in January? Now, they ought to know now. I mean, I want - what did they do in January? Through the Federal Reserve we can quickly check up what did they pay out.

Cochran: That is just what I was reading.

H.M.Jr: Do you know how much they paid out in January?

Cochran: Yes.

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- H.M.Jr: You told me how much gold. How much did they pay out in January?
- Cochran: It isn't broken down by months here.
- H.M.Jr: Well, it should be.
- Cochran: Well, this comes in weekly, but I can figure it out.
- H.M.Jr: Well, give it to me rough. Can you give it to me roughly? Take your time.
- Cochran: January 2 to 29, total debits were a hundred and ninety-seven million, four, paid out of the account with the Federal.
- H.M.Jr: Well, that is roughly two hundred million dollars.
- Cochran: And that was raised by gold, one hundred million, securities about seventy-five, and the rest came out of the balance.
- H.M.Jr: Well, did it? Then they only ate into their balance by twenty-five million.
- Cochran: I mean, I can make it accurate but that is roughly.
- H.M.Jr: Well, I want it accurately now. What did they forecast for March?
- Cochran: For March they count their official dollar balances as eighty-two as of March 1.
- H.M.Jr: Read it, I will listen to it.
- Cochran: The official dollar balances as of March 1, eighty-two million dollars. Gold as of March 1, one hundred two million.

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- H.M.Jr: That is a hundred and eighty-four.
- Cochran: Newly mined African gold to come in during the month, forty million.
- H.M.Jr: That is two hundred twenty.
- Cochran: Sales of marketable securities and direct investments, seventy-five.
- H.M.Jr: Well, that is two ninety-five.
- Cochran: Two ninety-nine. That is forty in marketable securities and they just guess thirty-five for direct investments. That is the first time they have carried any item there. So that is two ninety-nine and ten under debits is an expenditure by British Purchasing Commission, two hundred fifteen million dollars. Now, the breakdown on contracts placed by March 1, one hundred seventy-five million; B, contracts to be placed in March, forty million; and second entry, balance of all other gold and dollar items, twenty-four million. Estimated balance at March 31, sixty million.
- H.M.Jr: Let me just see if I have got it. Roughly, they figure that expenditures for March will be three hundred million? Two hundred million?
- Cochran: Two hundred forty.
- H.M.Jr: Their total expenditures.
- Cochran: Two hundred forty.
- H.M.Jr: Two hundred forty and they figure they can pick up how much money?
- Cochran: Well, they would have a balance left of sixty

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million.

H.M.Jr: And they started the month with eighty-two?

Cochran: Eighty-two.

H.M.Jr: Well, I think we ought to take a careful look at what happened in January. What?

White: We ought to be able to go over the figures and see how close we can come to what you want. I didn't know the figures were available that would give us that monthly payment, but are those later figures than what we got last week?

Cochran: What do you mean?

White: Those that you are reading from.

Cochran: These aren't complete because it is just what is paid out of the Federal, you see.

White: Well, if you give us both a chance at that, we can come--

H.M.Jr: I am going to give you a chance and I will tell you why I am in no hurry. In the first place, they have got plenty of money for this month and in the second place, very much in this room, I can't overemphasize the confidential nature of it, I saw Lord Halifax last night after I got the President's approval and I said if by the end of this week they didn't show concrete evidence that they wanted to sell some of their factories, I suggested that they put somebody else in charge of these sales. Well, he was very much disturbed and Sir Edward Peacock is a great friend of the head of the Bank of England and the thing which always riles me in these times, he has

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got strong political backing, you see, so it would be a great to-do, to use his language, to sack Sir Edward Peacock. So he said he thought he would have after dinner - I don't know whether he said Purvis and Phillips or Purvis and Pinsent. So I said, "Well, you know, Mr. Ambassador, through Merle Cochran and Phillips and Pinsent I am sure you heard last week how I was distrubed about this, so this doesn't come like a bolt out of the blue," and I said, "I cannot go on the Hill and try to explain on this appropriation bill why the English Government has not been able to sell one of its many hundreds of factories in this country. I can't explain it! So he tried every way possible to make be back down. "Do you think it is wise to tell this to Purvis and the others?" I said, "I certainly do." I didn't give one single inch. Now, we will continue our studies, but until this English industrial crowd permits its government to sell some of these factories, I am not interested in their financial picture and I am not going to do a damn thing about it. Now, as I told Halifax last night, I said, "I don't have to tell you that I am friendly to the English cause. I even demonstrated it in the past," and he said that - could he come and see me at the house if he had something to say, and I said, "Yes." And I want you to know, Merle, because you are my mouthpiece on this thing, as far as I am concerned you can listen, see, but until these fellows come in and demonstrate conclusively to me that they are going to sell some factories, I am not going to see them any more. I am not going to see Phillips or anybody. I am not available and I just want you to know that, because I am not going to go up on the Hill and the first thing - "Well, Mr.

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- 12 -

Morgenthau, give us the report on what has happened," and the first thing they are going to ask is, "How many properties have they sold," and I say, "Zero." "Well, why?" I can't give any answer. I told Halifax last night - it was all very quiet but he used all his English tradition to get me to swerve. Make a partial sale - not a partial sale, I mean a sale with partial payment. I said, "There are lots of things that you can do." I read last night what they sent over to Hopkins on this Lend-Lease to hurry the thing up. We signed a contract to lend-lease them some cutters and then we decide afterward what the price is in order not to hold them up. That is our attitude. But I want a complete - I mean, it is one thing for Cochran when he gets his orders - whether he believes in them or not, he carries them out. He demonstrated that. As my representative with these people, I want you (Cochran) to know until they move, anything further on their financial problem just doesn't interest me, and I want you please to take that front because I have cleared it with the President, and you are representing the President and me on this, you understand, Merle.

- Cochran: This is new as of today, because Saturday we asked them for this and last night Phillips was in talking to me about this.
- H.M.Jr: No, you can see them. You listen. No, this is the follow-up of my time when I asked you to send for Phillips. How long ago was that?
- Cochran: That was Friday evening.
- H.M.Jr: Not last Friday?
- Cochran: Last Friday, yes.

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H.M.Jr: Oh, no, it must have been Friday a week ago that you put the heat on.

Cochran: Yes, I guess that was Friday the week before.

H.M.Jr: It is Friday a week ago. Do you want to check me?

Cochran: I will have to on that.

H.M.Jr: Do you mind, right now? I would like to know.

Cochran: They asked - that was when I had Playfair.

H.M.Jr: Just take a minute. I will wait until you come in. I told the Ambassador it was my impression that 10 days had passed.

Cochran: I will get it.

Bernstein: Is this it?

Cochran: Yes, this was on February 28.

H.M.Jr: I was right. Well, that is all right. It was over a week. Well, now we go ahead and get this stuff. Now, let me just get on this contract business so we understand that. The President - have you people seen this note that the President gave me to show the Army and--

Cochran: You read that little short memorandum yesterday.

H.M.Jr: Well, we will put all the pressure on them, and I don't know whether you have those figures and the money that they get from there, I am more than willing that they segregate that to be used for - if they want to earmark it for strictly English standard stuff, you see.

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- Foley: Well, suppose they want to use it to meet outstanding commitments?
- H.M.Jr: They can.
- Foley: Use it for any purpose they want?
- H.M.Jr: Any purpose that they want to, but that is why I want to study the January thing to find out exactly where they got the money from, you see, and more details of where it went to. I mean by classifications. I mean, how much of it went for food, how much of it went for armament, how much of it went for dividends. I don't know what, you see.
- Cochran: Do you want February, too?
- H.M.Jr: I think I would like to start with January. Of course, this is March.
- White: January and February.
- H.M.Jr: I am talking two months. Yes, I am confused. Yes, January and February. By classifications, I would like to get more familiar with how they spend it and raising it is the easy part. Yes, January and February. But, Dan--
- Bell: You just want a total? When you say classifications, you don't mean classify expenditures?
- H.M.Jr: Well, I was thinking - yes. No, I will tell you what I meant. In one classification, let's say munitions, and in another classification maybe food. Another classification may be paying dividends. I don't know what.
- White: Shouldn't one of the classifications be what they paid on their past commitments?

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H.M.Jr: Yes.

White: That should be one classification.

H.M.Jr: I would like to play with this thing, you see, and get so we know really more about it. We have it, but we have never examined their checks that they paid through the Federal Reserve in New York.

Bell: I take it, one item might very well be net on balance of payments.

White: I think if we could just put the questions that we would like to ask, what they paid on past commitments, what they paid on other expenditures that weren't listed in the past commitments, and let them fill in the figures, rather than if we examine their - unless they have given recently data to Merle which would answer that, the data which we have up to now would not enable us to answer that.

H.M.Jr: Well, keep after it.

Cochran: Well, I have passed on everything I have here to Harry.

White: Then we haven't got the data.

H.M.Jr: Well, you see what I mean.

White: I know.

H.M.Jr: After all, if we are going to finance these people, I want to know how much goes to food, how much goes to non-essentials.

White: I am wondering whether in order to enable you to know exactly each month what is happening,

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if you want that continued--

H.M.Jr: Yes, I do.

White: Whether we couldn't set up a statement - we will leave everything but the figures to be filled in, which they can fill in each month. You go over the statement to see that it contains everything that you want in the form in which you want it, and then each month they will fill in such figures as they have, and we will fill in such figures as we have and make it a current thing instead of having to come back and - we get the stuff in a different form each time and it is impossible to compare their figures.

H.M.Jr: You see, what I am thinking of, I am taking plenty of time. I have been operating differently. Yesterday, you know, we gave plenty of time to this thing. This morning I have got nothing but this, you see, this morning. I am practicing on you people, so you can practice on me. Up to this point, the President and I are together. He knows what we are doing. When they really run out of money I just don't know what we are going to do, but when we do, then all of this stuff that we are talking about now, why they run out of it, and what they have spent, it all helps, doesn't it? Now, of course what they are going to try to do is to put everything, including the kitchen stove, under the Lend-Lease and we have to be prepared to say yes or no, and it comes back always to two things, their question of their securities and the question of their direct investments and how much of that have they used up since the first of January. I ought to know so that the President - "Well, now, look, Henry, they say you are being awfully tough on them, and I

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just want to be sure that you are right. Now, can we take over some of these contracts, or can't we?" Which leads me to the thing - I mean, do you people know today how much the RFC has taken over and how much--

- Bell: There is a memorandum here that they haven't taken over any, but there are only a couple of them that are even close.
- Cochran: Even then they couldn't make the funds available until the latter half of the year, isn't that right?
- Bell: Yes.
- H.M.Jr: Do you have that picture?
- Bell: No, I haven't a very good picture on it. There is a memo here that isn't very good.
- H.M.Jr: From whom? Can't we go the other way around? Ask Jones and the Army for a memorandum? We will use the President's thing as a - you see? I will dictate a letter to the Secretary of War and Jones, with your help, you see, using the thing - saying, "Would you please inform me how much money can we expect the English to get from your taking over their contracts?" you see. "We are making our estimates from now until September, and we would like to know during this period of the hundred and thirty-four million, how much can you do," and the Army, "How much can you do?"
- White: And approximately when it will be available.
- H.M.Jr: And approximately when it will be available.
- Cochran: That will leave out that one thirty-four. We

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can't identify that unless Ed can tell us just what it is.

Foley: I have got a breakdown of it.

Bell: You can identify a hundred and five million here, but there is a difference between a hundred and five and a hundred and sixty-seven million; and, I take it, they have taken these contracts of a million over in one case and ten million over--

H.M.Jr: Are you handling that or are these fellows?

Bell: Well, we have all got it.

H.M.Jr: Who can write a letter for me to sign to War and Commerce?

Bell: We can, together. We can have it for you before noon.

H.M.Jr: All right. When I see Jesse I can hand it to him at lunch. Then one can go over to--

Bell: Yes, we will take care of it.

H.M.Jr: Don't you think that is the way to do it? And ask them what they want, you see. Well, this is a perfect thing from the President. Simply say, "I have got to know, gentlemen, Mr. War and Mr. Commerce, how much money are you going to make available to the English and how soon." I think we are beginning to tie the thing in you see.

Bell: I wonder if it would help you if you had every month a statement from the British just like our own giving cash position, giving the back figures--

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(Miss Chauncey entered the conference.)

H.M.Jr: Two photostats of what the President gave me at lunch for the Army and Navy. Mr. Bell needs them. He is going to prepare a letter for me to sign. Please.

Chauncey: All right, sir.

(Miss Chauncey left the conference.)

White: I think in the coming months you are going to be so concerned with problems of how much they are using that I think that something - not half but a good deal of your problem is in knowing what the situation is, not in making the decision but in knowing the facts.

H.M.Jr: Well, what we want is, first an analysis of what they have done through January and February and then a forecast like Bell makes through all the departments. I mean, our cash needs when we have a financing. Isn't that right, Dan?

Bell: I think that would give a pretty good picture.

White: Then each month or every two weeks there ought to be a statement which will be of a character such as will be most helpful to you, and it ought to be the same statement, and it ought to be comprehensive. I think if we spend a little time drafting that up ahead of time, and then they can adjust their bookkeeping to meet that need if necessary.

H.M.Jr: And you make up the forms. But what about the past stuff? The past stuff will have to conform with the form. Will you take that?

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- Bell: Yes. We will bring it from January 1. We don't need to go back of that, do we?
- White: No, but it will be a current form which - each month you will get a similar statement.
- H.M.Jr: Well, I think each week, Dan.
- Bell: That is a little difficult to change statements in the future on each week. You can get the actual figures up to date.
- H.M.Jr: I think once a month is all right.
- Bell: I think so, too.
- Cochran: Because we know their gold and security position daily.
- H.M.Jr: This is a good meeting. Don't you think so, Ed? I mean, we are getting somewhere. What?
- Foley: Sure.
- H.M.Jr: And then all of this - having this, putting it back, shows them how seriously we are taking the thing, and then as I say, I can go over and explain - now, I am just thinking of this. In order that I don't get the ground cut out from under me by the State Department, what would you think if I ask Dean Acheson if he could just drop over here for five minutes so I could tell him exactly what our position is?
- Bell: I don't get why they--
- H.M.Jr: Why? So that when Halifax goes to complain to Mr. Hull about how ruthless I am, they will have the whole picture, and they will appreciate it, they won't give him any sympathy.

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This is important, high policy, and Hull ought to know about it, and I am going to try to work through Acheson.

- Bell: Well, he ought to know about it, then, don't you think?
- H.M.Jr: Don't you think so?
- Foley: I don't know how much good it will do.
- White: I am wondering whether you might not tell Hull directly.
- H.M.Jr: Oh--
- Foley: Well, he could do both, Harry. I think if he is going to tell Hull directly he might better tell Acheson first and then tell Hull.
- Cochran: What is the alternative to Peacock, sending out some new man from London?
- H.M.Jr: I didn't make any suggestions.
- Cochran: It is a rather long process, we found out.
- H.M.Jr: I think I did drop a hint that they might let Gifford take it over.
- Cochran: Because he is working in there now.
- H.M.Jr: I did, I am quite sure. "Gifford has done well. Why not let him take this thing?"
- Cochran: Peacock should - now, I am not defending him, because I am not happy over his record any more than you are. He ought to know something about the security market here that Gifford doesn't. He was head of the Dominion Securities up in Canada for years, you see.

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H.M.Jr: How long ago?

Cochran: Well, that was some time back, before he went to London, but there he was head of Baring Brothers and has been in the Bank of England.

H.M.Jr: I said this. I said, "Peacock is inheriting the fact that the British Government didn't do anything with this beginning with last June." I said, "He is inheriting all of this, which is unfair to him, but the fact remains that somebody has to crack this thing."

Cochran: But with the pressure you have on Purvis and you have on Phillips now on holding this up, I think you may get some action. That is my guess.

H.M.Jr: Holding what up?

Cochran: I mean holding up any conversations with them on this matter of contracts, which concerns Phillips very much. I mean, he was in to see me last night?

Cochran: Well, he asked about the gold first, and I said, "Well, we have made commitments up on the Hill that the gold from South Africa and Australia will be sold to us," and he says, "Well, we have just got to build up some sort of reserve in so that we can take care of immediate needs--" he said, with the war centering for the moment down in the Near East, they ought to have gold available in South Africa to send up to Egypt and around those parts. He said they don't want dollar balances, they want gold there, and he said, "If they give us every bit from South Africa," he said, "we just haven't got it. We would like to build up a little reserve." He said,

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"We are going to be embarrassed now because I don't think we are getting the full production from the Bank of South Africa." I told him that Playfair had intimated that production had fallen off. He said, "I don't think it is that, I think South Africa isn't getting it."

H.M.Jr: Merle, it is your job to repeat this to me, see? Now, you have done it. I am not impressed with what Phillips is saying. It is your job to repeat to me what he says.

Cochran: That is right, because I can add to it. They are getting certain gold from Belgian Congo and Rhodesia and so on.

H.M.Jr: I am just not impressed. Merle, I personally, want a demonstration that the Bank of England and what they stand for, see, really want to sell these assets in this country. They have got to make me believe, see, and pick up today's Washington Herald and see the thing at the beginning - the story in the Washington Herald about how the American taxpayer is going to have to pay through the nose in order to give England this stuff. The campaign is started. It is in the Washington Herald, the tip-off. And I forecast this thing several weeks ago, that that was what would happen. Now, before I take the gaff, publicly and privately, for these people, I want them to prove that they want to win this war and that they are willing to do everything possible to make a billion dollars worth of assets - turn them into cash, and give up the control of the American thread business in this country, which they control, and the viscose, which they control, before we in turn turn over seven billion dollars to them. Now, I am not convinced. I am asking at this moment seven

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for one, and I don't know whether the Bank of England and that gang is running the British Government or whether Churchill is. I don't know. I told Berle last night - I didn't tell him much, but I told him a little of this. I didn't tell him about my conversation with Halifax. I said, "There is nobody in this town that has done more for the English than I have," and Berle says, "You are absolutely right." I need faith. Talk about Halifax being religious and all of that, I need faith, I need confidence. I think we are on the right track now, Dan, if you could get this thing up. I talked this way in this room, but what is going to happen when somebody from the Treasury goes up on the Hill?

Bell: Is there some indication--

H.M.Jr: Do you think I am overemphasizing this, Dan?

Bell: No, I don't think you are overemphasizing the importance of it. I am a little bit worried about his successor and the delay.

Foley: Dan--

White: That is the way to handle it.

Foley: Dan, if it isn't done, it is my judgment the first time you go before the committee and you tell the committee that not one damn cent has been realized from the sale of these assets, that the committee is going to force our hand and turn the whole works over to the RFC, lock, stock, and barrel, and that is what the British are up against, so you are being a friend to the British when you are telling them that they have got to show some results and giving them another opportunity on their own to do

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it, because it is the last call.

Bell: Well, do you help the situation by forcing the man in there now out when it may take months to replace him, weeks anyway?

Foley: But what other way, Dan, have you got of making them realize the significance of the situation?

Cochran: If we hold up on this contract business as the Secretary said, that is the thing that is worrying Phillips most; and I am convinced that Phillips has the idea of selling these and Purvis has the idea.

H.M.Jr: True.

Cochran: And I think that we can bring pressure on them to get that improved just as when you got Gifford here he admitted that he had instructions from the Treasury not to go ahead. You got that rectified. If you can get Gifford working in there with Peacock--

H.M.Jr: May I interrupt you? It wasn't until I got Gifford and Phillips sitting next to each other that I smoked out the fact that the Treasury had not given them the instructions, see.

Cochran: That is right.

H.M.Jr: Well, the same condition, Merle, may be true here. Maybe Sir Edward Peacock hasn't got the instructions.

Cochran: But my point is--

H.M.Jr: Maybe he hasn't got it. The two fellows sat there and I took my hat off to Gifford when he turned to this fellow and he said, "You

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never told me to sell more than two to three million a week."

- Cochran: You remember we were pretty well fed up with Gifford, we hoped we would get someone in his place, and now he has turned out to be a good man when he has the proper instructions.
- H.M.Jr: Instead of putting the pressure on Peacock, who is 69 years old and who has an expressionless face, I am putting the pressure on the representative of His Majesty, the King, who can take it. I am putting it - I asked you 10 days ago to do it on his two representatives and I got nowhere. I waited 10 days, and then I put it on the representative of the King instead of putting it on Peacock.
- Bell: I am not so sure that that isn't where the fault lies. It may not be Peacock. It may be just the other end, just like Gifford.
- Foley: There is only one way to find out.
- Bell: I agree to that, and I think the Secretary is right in putting the pressure on the Ambassador rather than Peacock.
- H.M.Jr: Just the way they sat here and kept telling us that they couldn't do it, they go back and - Merle, remind me. Then we developed that he never got the instructions. Now, how do I know that poor Peacock has got the instructions to sell? Maybe his instructions are to stall. I don't know.
- Bell: Well, the instructions were given out and were rather vague, you remember. He said he came over to look into the situation, not to dispose of them.

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- White: Well, the Secretary cannot impute the good faith of the British Government and the only position he can take is that his man is apparently not carrying out your instructions competently, and therefore he wants another man. That serves a dual purpose, it appears to me. In the first place, as he says, it smokes out the real orders; and, in the second place, I think, some publicity, both for the British public and to the American public, is called for at this point; and, if the Secretary can take the position in the future, if necessary, that he demanded the recall of this man because he didn't show action, he is in a much better position if no action is taken. If action is taken, then the man can stay here.
- Bernstein: Well, if this man is as important as the Ambassador says he is and--
- Foley: The pressure is on the Ambassador.
- Bernstein: They are not going to fire him.
- Cochran: They are not going to make a whipping boy out of Peacock.
- H.M.Jr: He is the second man in the Bank of England?
- Cochran: There is no ranking there. He is the man closest to the Governor. He is a senior. He hasn't any position other than--
- H.M.Jr: If he is as close as that to Montague Norman, then this fellow Peacock is never going to make a sale unless we build a bonfire under him and put a couple of sticks of dynamite in it, but I don't have any confidence in Montague Norman wanting to give up anything and really win this war. He typifies everything to me that is the worst in England.

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Cochran:

Did Walter Stewart speak to you the other day, Mr. Secretary, about the idea of having these competitors in steel and so on approach these people?

(Mr. Acheson entered the conference.)

H.M.Jr:

Dean, I want to tell you something that is important to us and I want Mr. Hull to know about it, but I would like it guarded as much as possible. Yesterday at lunch I had a chance to sketch to the President of the United States just what we were doing here in - in relation to the English financing, I mean how all of the English money is deposited with the Federal Reserve of New York as our fiscal agent and we know how much money they have put in and how much they have spent each week and how we have Phillips here representing the Treasury and how we are in constant touch with them and get the amount of their sales each day of their securities and now Sir Edward Peacock is here supposedly to sell their direct investments, so the thing all flows here.

Now, the Army is supposed to be in a process of taking over English contracts where they have made down payments, you see, and the RFC is supposedly in the process of taking over their contracts where they have created plants. As far as we can find out, the RFC hasn't consummated a single contract and if the Army has done anything, they have done five million dollars worth of it. We are trying to find out how much it all amounted to. The reason for this coming to a head is that Phillips, Sir Frederick Phillips came in last week and sat down and said, "What are you going to do about our financial situation?" and I said "What do you mean?" We have been trying to get a lot of information. Now, the situation

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on the first of January, roughly, was that they had commitments for about a billion four hundred million dollars of contracts in this country, and we are going to analyze just how much of those were for munitions and how much for other things than munitions, also how did they raise the money. We think we know, but we want more information. Then Bell is going to prepare for them a sheet just like we have as to the future needs, how much they are going to spend and how they are going to raise it, going through to their war year, which is September 1. Now, in my testimony on the Hill I pointed out as of January 1 they had outstanding about a billion four. To pay for this, they had somewhere around nine hundred million dollars worth of direct investments and six hundred million dollars worth of securities. We have been unable, or they have been unable, they claim, to sell a single factory in this country, although we have been after them since last June. Friday a week ago I had Cochran send for Phillips and Pinsent, the financial attache, and tell them that I was very much disturbed about this, it was most embarrassing, I might be asked any time on the Hill why they don't do it and so forth and so on, and that they just had to get busy and make good on this thing and never mind all the reasons why. They just had to produce and show that they were willing to sell some of these investments. Well, yesterday I asked - told the President if he approved that I would like to tell Halifax that unless by the end of this week they demonstrated they were going to sell some of their direct investments, they had better recall Sir Edward Peacock, who was in charge of these sales, and I got the President's approval to do it, and I told

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Halifax last night and he was very much disturbed and told me what great political backing Peacock has. It always irritates me when they talk about political backing but ask how they are going to win the war. Why am I so exercised? Well, somebody in the Treasury, when this appropriation goes up on the Hill, has to review the English financial situation before the Congress of the United States is going to vote "X" billions of dollars under the Lend-Lease Bill and particularly since the plan now is to put it all in one bill, and I pointed out this morning the campaign is open in the Washington Herald for all the increased taxes we are going to have to pay for what we are going to give to England. The position which I am taking is that until I get an answer from Halifax - I want to point out this. Several months ago I kept saying, "Why don't you sell more securities?" and they said they couldn't. They were selling from one to three million dollars. I got Gifford and Phillips sitting next to each other, and when I kept saying to Gifford, "I know you can sell more, that the American market will absorb it," he finally turned to Phillips with a flushed face - but he says, "My instructions from the British Treasury are not to sell any more," and then Phillips got flushed, as a result of which beginning with the next week they sold ten million dollars a week and I think every week after that they have done so.

Cochran: They have kept it up.

H.M.Jr: They have averaged ten million a week. Now, I don't know that Peacock has the instructions, really, to sell these businesses or not and until they do it, there is no reason, no

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matter how much Purvis, whom I have the greatest confidence in, tells me that they are his instructions - but he doesn't know any more than - until I made it so unpleasant for Gifford that in anger he turned on Phillips and says, "Well, I haven't got the instructions from the British Treasury." Now, what I am preparing to do is to sit tight here and do nothing after my notice to Halifax with the British on their financial situation until they make some move. Now, they are all right for the rest of the month. They admit they are all right, you see. They have got enough money. They are all right. So they are not going to default on any contracts. Nothing scandalous is going to happen. But somebody from the Treasury is going to have to go up within three or four days on the Hill and one of the first things they are going to ask is, "Well, what about their financial condition?" Now, the financial crowd in New York has been perfectly swell, because Peacock has treated them absolutely shamefully. Reputable people have gone in and said, "We would like to have a chance to figure on such and such a thing," and he treats them like dogs. I get this from the SEC all the time. Different people call them up, and he either can't see them or won't see them, people that have got the cash and want to buy these different businesses, and I just wanted to get the picture. We have it from the British. The Army is supposed to buy - pick up the contracts where they have made down payments and the RFC is in the process of picking up any plants that they own in this country, but pending hearing from these people, in order that I keep faith with Congress and they keep faith with me, they have got to keep my morale up and say that they mean to

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do what they say, never mind the difficulties. The President - I have his complete backing. Now, why do I send for you? In case they go to do the baby act over there and complain about me, I would like to feel that the State Department will say, "Well, this is a Treasury matter, it is a hundred percent finance," and either hands off or if you - I mean, I am not asking you. If Mr. Hull or whoever sees the English would say, "Well, we think until you have complied with what the Treasury is asking, that the position that they take of going on a sit-down strike is right," but the least I would like to have is hands-off, you see, because I am sure that Halifax is going to run to the State Department and try to get sympathetic hearing for this - whatever kind of treatment he calls it, I am giving it. Now, you can ask me questions because I am full of this and you are not, but I wanted you to get it.

- Acheson: The Army is to pick up the contracts on which they have already made down payments?
- Foley: British supply contracts.
- Acheson: And the RFC is to take over the financing of their plant buildings?
- Foley: Well, they own certain plants all over the country, powder plants and ordnance plants and airplane plants, title to which is in corporations wholly owned by the British Government.
- Acheson: And the RFC is going to buy those from them?
- Foley: Yes.

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- Acheson: Well now, what are the proceeds of these sales of private businesses going to be used for?
- H.M.Jr: Their own British standards, that was the understanding I had with Purvis. To be used for things of British specifications.
- White: He said - he wanted to know what the proceeds of the sale of the private businesses would be for.
- H.M.Jr: Let me go back first. The money that they get, I will come to that. The money that they get from the RFC and the Army would be, so to speak, free money that they could use for anything that they wished to. The thing that Peacock gets is pledged by me to the Congress against a billion four of contracts that they had outstanding on the first of January.
- Acheson: I see. The actual financing of the billion four is - so far as the American suppliers are concerned, is supposed to be taken care of, 1, by the Army, and 2, by what Jesse Jones produces, is that right?
- H.M.Jr: The billion four outstanding on the first of January, as I testified, would be taken care of, 1, by the six hundred million dollars worth of U.S. listed securities; 2, the nine hundred million of direct investments; and 3, the four hundred million dollars output of the South African gold mines.
- Acheson: Well, now, where do the Army and Jesse come in on this picture?
- H.M.Jr: The Army and Jesse come into the picture that they are in the process of picking up the factories that they have invested in, the

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advance payments in the case of the Army that they have made on contracts.

- Foley: That doesn't amount to so much.
- H.M.Jr: No, but anyway - and that money, my understanding with Purvis was that they could feel free to use that for anything they wished to.
- Acheson: On new orders?
- H.M.Jr: Anything.
- Foley: Under the Lease-Lend Bill, stuff that we couldn't use.
- H.M.Jr: Anything that these - it was free for them to use any way that they wished to. It wasn't obligated.
- Acheson: I see. That is a backflow to them?
- H.M.Jr: Yes.
- Acheson: And when the Army reimburses them for down payment that they have made, is the Army going on with further payments or are the further payments part of the one billion four?
- Foley: The Army will assume those contracts.
- Acheson: But the one billion four are some wholly different contracts?
- Foley: Yes, they would be different contracts.
- H.M.Jr: No, they are part of the same thing. They overlap.
- White: There are a few of those contracts which

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apparently the Army will be able to take over, but it will not amount to a great deal.

H.M.Jr: Fifty million dollars.

Bell: Won't it be largely these new contracts that have been entered into since January 1?

H.M.Jr: Now, since January 1 the thing that we have tried to keep very, very secret here, because I have risked my neck, I told Congress that for all ostensible purposes all buying had stopped. Instead of that, I let them average thirty-five million dollars a week new purchases and if I ever had been called up on the Hill I just never could have explained it.

Acheson: I think I have it clear.

H.M.Jr: Do you want to go over it again?

Acheson: The only thing I am not quite clear about is the Army and the RFC.

Foley: Maybe we can give him the amounts.

H.M.Jr: Give him everything.

Acheson: I see that the British have commitments of a billion four.

H.M.Jr: As of the first of January.

Acheson: Which they have got to take care of by the sale of their six hundred million dollars of direct investments, the nine hundred million or privately owned plants and things of that sort in this country, and four hundred million dollars of African gold. Now, the six hundred million is going ahead all right.

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The four hundred is presumably all right. But they are getting nowhere on the nine hundred.

H.M.Jr: That is right.

Acheson: And then I understand what you said about Peacock and that situation and what you would like the State Department to do. The thing that I am not quite clear about is where the RFC and the Army come in or whether it is important that they come in at all.

H.M.Jr: It is only important in this way. When we were worried about the money, everybody got their heads together and there were ~~to~~ kinds of contracts. There was one where, for instance, they made a twenty-five percent down payment and McCloy, in order to try to help this thing out, said, "Well now, we will pick up those," you see.

Acheson: That is, that our Army would take over those contracts?

H.M.Jr: Assume them. The only one they have done is Kelsey Wheel.

Acheson: That takes it right out of the billion four?

H.M.Jr: Yes.

Foley: If it was part of the billion four. Those contracts might be the ones that were entered into subsequent to January 1 in some instances.

Acheson: I see.

H.M.Jr: Now, the Army couldn't assume plants, so they went to the RFC and they said, "Jones, will you buy the powder plants that the English

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- 87 -

have built in this country?" and supposedly they amount to a hundred and thirty-four million dollars. If the information is correct, to date, although he has been on it for weeks and weeks, he has been unable to consummate a single British contract.

Acheson: That they could apply to the billion four?

H.M.Jr: Yes, or to anything else that they needed. But you can see what an impossible position - I told this to Halifax - I would be in to go up on the Hill and they say, "Well, all right, now, Mr. Morgenthau, how about these English factories? What has happened to them?" "Well, I am terribly sorry, but the English just haven't sold any." Now, there is no danger in this thing, because they are all right, certainly for another month and maybe another couple of months, but certainly we can see daylight and they admit they are for the rest of this month, so by sitting still and saying I won't do anything until they move on the direct investments, I am no endangering anything, you see, other than our relations with them, but I thought it was important enough that you ought to know about it and Hull ought to know about it, so whoever receives Halifax, if he brings it up, you would be posted, but it isn't the kind of thing that I would want to pick up in the papers and read, you know.

Acheson: Yes.

H.M.Jr: I needn't point that out.

Acheson: No, I can understand that. And the British did come down and start talking with you about this and then you discovered that they are not moving forward on the nine hundred

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million?

H.M. Jr: Oh, yes.

Acheson: And so in talking with the President you said what you wanted to say to Halifax, which was that if they don't make some headway by the end of the week they would have to recall Peacock?

H.M. Jr: That is right. And mind you, Friday a week ago, Cochran told the English financial representative how upset I was about it and so they have had ten days' notice and they just had to do something. He told them this Friday a week ago. And since Friday a week ago to yesterday, nothing happened. Now, there is one other thing. In the course of my putting this pressure on them, they came through with this letter which - who helped us on that?

Cochran: Livesey.

H.M. Jr: Which they said this pressure goes back to about a month ago. It is about a month, isn't it, roughly? And I have been putting this pressure on them steadily so they came back and said, "Well, that is all right. We will assign all of these properties to the President of the United States." Of course, I said the President didn't want to take this responsibility and I advised him not to. But we left the whole matter in suspense. We didn't turn it down and we didn't say yes. I want you to know that they have tried every way possible - I told Peacock it is very nice of him to give this to the President of the United States, but we have got to look to them to do this. We don't want the President of the United States to sell English holdings in

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this country. But the matter is so that we could always say, "All right, now we will take it over. You make out a deed to us and we will take over all of these properties."

Acheson: I think I have got it straight, and I will go right over now and see Mr. Hull.

H.M.Jr: If you want anything - Merle sees the financial people, Merle Cochran, so if you want to refresh yourself, I think if you want to call him to come over and see you, he will be glad to do it.

Acheson: All right, fine.

H.M.Jr: Merle Cochran.

Acheson: Yes.

H.M.Jr: Because he is on the State Department payroll on a lease-loan to us and we are very glad to have him, so if you want something or Mr. Hull wanted to get it word of mouth what did I say to Pinsent or Phillips, Cochran has all of that.

Acheson: I will speak to Mr. Hull right away and then if you want to say anything further, we will call Merle.

H.M.Jr: All right, fine. I appreciate your coming over. But this is the kind of thing that you can be useful on.

(Mr. Acheson left the conference.)

Bell: Give the Secretary of War and Jesse Jones a copy of this?

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- H.M.Jr: Yes. Well now, doesn't that finish that chapter? I think it is good to tell Dean. You know, he has come over here and he wants to help. Don't you think so?
- Bell: Dean is all right.
- H.M.Jr: Well, is there anything more on this?
- Cochran: There is just that one point, you asked for a letter on the gold. You remember, the British had raised the question of their negotiations with Canada? They had two points in there. One covered the lease-lend part, as far as parts and materials; and the other on the gold.
- H.M.Jr: Well, I want them to - excuse me, was it a letter to us about the gold?
- White: It was a memorandum.
- Cochran: It was a memorandum.
- Bell: You had asked for a reply, which Merle was preparing to go back.
- H.M.Jr: Where is that?
- Cochran: Have you one?
- White: We have three replies, one of which Bernie and I recommend. I haven't seen his, although we primarily recommend no written reply. Bernie and I definitely feel there should be no written reply, but we have written replies prepared.
- H.M.Jr: If I could go along with that and delegate Merle Cochran, the next time they come in, to simply say, "Gentlemen, we want the gold to come here rather than to Canada."

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White: I am wondering whether you would want to put it that way or maybe you would want to put it that you don't feel it appropriate for you to comment on what they do with their funds, indebtedness to foreign countries. All our concern is that they make their commitments here, because I am wondering whether they wouldn't use that information in Canada and make it a little difficult for us. Put it the other way around, Merle. If you take a note, simply say that we have been counting on it and all they have got to do is read the Secretary's testimony.

Cochran: I didn't get to talk with Harry and Bernie because they were working on it last night when Phillips was with me, so I have just drafted a note in which I quoted your testimony up on the Hill.

H.M.Jr: May I see it?

"Dear Sir Frederick:

"By memorandum dated March 5, 1941, you raised two questions. The first was an inquiry as to whether I would see any objection to Great Britain paying Canada in gold to the extent that you may have gold available for that purpose in the future. You explained that this would not cover more than a fraction of the adverse balance with Canada, and that gold so utilized would reach United States eventually in payment of Canada's adverse balance with the United States.

"It will be recalled that in the data prepared with your assistance and submitted to Congress by me, we estimated for the current calendar year Australian gold exports to the United States at \$75 millions and South African

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exports of gold at \$480 millions. (see page 11 of Part 1 of "Hearings before the Committee on Foreign Relations, United States Senate, on S. 275.")

"May I also invite your attention in this connection to the following extract from my testimony before the Committee on Foreign Affairs, House of Representatives, as reported on pages 64 and 65 of the volume of Lend-Lease Bill Hearings."

I think this, unless there is some good reason, Merle, that you think otherwise, I would show them this part of my testimony, you see. I mean, just lift my testimony out of this letter. I wouldn't send them the letter. And simply say, "This is what Mr. Morgenthau says and he hasn't changed his mind any since he has testified." What do you think about that?

- Bell: That is all right. Is it in there that this data that the Secretary gave to the committee is with the approval of the British Government?
- Cochran: I said prepared with their assistance.
- H.M.Jr: And you could add on there, "approved."
- White: Well, they gave it to us.
- Bernstein: Well, there is a point in the testimony where you make it perfectly explicit that you were submitting the information with the approval of the British Government.
- H.M.Jr: Let's just rehearse. Let me say it and you people disagree, if you wish to. I would send

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for these people and say, "We have considered this and I would like to show you a copy of Mr. Morgenthau's testimony and the position he took in regard to the disposition of the Australian and South African gold and his position hasn't changed any." Is that enough?

- Cochran: I prefer it that way.
- H.M.Jr: You prefer it that way?
- Cochran: Yes.
- H.M.Jr: Ed?
- Foley: Yes.
- H.M.Jr: Bernie?
- Bernstein: Quite all right.
- H.M.Jr: Harry?
- White: All right.
- H.M.Jr: It is unanimous.
- Cochran: Just that last paragraph. You know they raised in a memo two questions and I say, "As to your second question with respect to the application of the Lend-Lease Bill to American parts and materials entering into Canadian-manufactured munitions for Great Britain, I beg to inform you that this question is having the attention of the Treasury during its study of the general problem of operating under the Lend-Lease plan."
- H.M.Jr: I don't think I would say that.
- Cochran: I mean, they have raised that question.

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- White: I would just ignore that part of it.
- H.M.Jr: I would just answer him on the gold.
- White: There is just one question, in order not to make it possible for Canada to misunderstand or to raise any difficulties, if they do ask, "Well then, is it that the Secretary wants us to pay the gold to him?" I am wondering whether a statement to the effect that the question as to how the British Treasury shall meet its commitments to other countries is not a matter on which the Secretary feels he can appropriately express an opinion might not be made? Then they wouldn't be able to go to Canada and say--
- H.M.Jr: If you fellows could only see each other before you see me, you see. I don't know why it can't be done.
- White: Well, we were all tied up until the last minute.
- H.M.Jr: Well, just at this time - I am tired now and - I don't want to go any further just now. Show them that testimony.
- Cochran: All right, and I will tell them the consideration of anything else is deferred.
- H.M.Jr: But please, gentlemen, before you come in here, try to see each other and show each other your memoranda.
- White: It was just impossible. He (Cochran) was with Bell this morning and we were waiting in his office.
- H.M.Jr: He was what?
- Cochran: I was with Dan trying to get the corrections on

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this thing. We were going over this because there were errors in it which--

- White: There was a desire to get together.
- H.M.Jr: There was a desire?
- Cochran: Oh, yes, I should say so. But last night I was seeing Phillips when they were working.
- H.M.Jr: Just so that the intentions are good.
- Cochran: The very best.
- White: Then Merle Cochran will not tell them that you want all the gold to come here, rather than to Canada?
- H.M.Jr: What he is going to say is, there is my testimony in which I say that the gold should come here. I mean, "Mr. Morgenthau's position is as he testified." Isn't that what you understand?
- Cochran: Yes.
- H.M.Jr: Does anybody object to him saying this is my testimony and my position is just what it was then? Now, from that they could only draw one conclusion, that we wanted it to come here.
- White: But they won't be able to tell the Canadian Government that you want all their surplus dollars to go to you and not to the Canadian Government, and that is the only thing I wanted to avoid.
- H.M.Jr: They will put me in the wrong light whatever way you do it.
- Cochran: You would rather have it in writing, Harry?

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White: No, I think you should tell it to them orally.

Dear Sir Frederick:

By memorandum dated March 5, 1941, you raised two questions. The first was an inquiry as to whether I would see any objection to Great Britain paying Canada in gold to the extent that you may have gold available for that purpose in the future. You explained that this would not cover more than a fraction of the adverse balance with Canada, and that gold so utilized would reach United States eventually in payment of Canada's adverse balance with the United States.

It will be recalled that in the data prepared with your assistance and submitted to Congress by me we estimated for the current calendar year Australian gold exports to the United States at \$75 millions and South African exports of gold at \$480 millions. (See page 11 of Part 1 of "Hearings before the Committee on Foreign Relations, United States Senate, on S. 275.")

May I also invite your attention in this connection to the following extract from my testimony before the Committee on Foreign Affairs, House of Representatives, as reported on pages 64 and 65 of the volume of Lend-Lease Bill Hearings:

Sir Frederick Phillips, K.C.M.C.,
Under Secretary of the British Treasury,
Washington, D.C.

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"Mr. Tinkham. Every year Great Britain is receiving gold from South Africa where it is mined to an extent of \$700,000,000 to \$750,000,000. What reason is there, that you know of, why that gold in due course and under proper arrangements should not be transferred to us? I mean, of course, as security and collateral for what we may advance it which may be an unlimited amount.

"Mr. Morgenthau. Mr. Tinkham, under that section B(3) it says South African exports of gold, \$480,000,000, which they advise me is the amount which would flow to the United Kingdom. There is \$480,000,000. We have also listed in Australian gold \$75,000,000.

"Mr. Tinkham. We will not dispute about the amount. I have seen seven hundred to seven hundred fifty million dollars repeatedly stated as the amount of gold produced in the Rand in English publications, which I could submit to you. If they are submitting a larger amount and we have notices of approximately the amount of \$450,000,000 or \$750,000,000, or as I suggested, \$700,000,000, why should not they transfer it to us as collateral against such loans as we are making so the American taxpayer does not have to meet their bills as is proposed in this legislation?

"Mr. Morgenthau. You and I think alike on this point. I believe that any amount of South African gold that the United Kingdom receives during this year they should use to pay for merchandise which they buy in this country.

"Mr. Tinkham. Now, have they been doing that, do you know?

"Mr. Morgenthau. They have been paying their bills.

"Mr. Tinkham. But you do not know whether they have used that or whether they are segregating that, cacheing it, as it were, in London?

"Mr. Morgenthau. No.

"Mr. Tinkham. Or even selling it to us, of course, at a very heavy profit at the present prices you are paying for gold?

"Mr. Morgenthau. That is something else again. They have been selling us most of their South African gold and they propose to sell us all the South African gold that they produce.

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"Mr. Tinkham. Sell us! Yes; but do you not think that where we are to let them have an unlimited credit it should be given us as security and as collateral annually?

"Mr. Morgenthau. I do not think you really mean that.

"Mr. Tinkham. What did you say?

"Mr. Morgenthau. I do not think you really mean that.

"Mr. Tinkham. Certainly, I do, Mr. Morgenthau; I am always very serious.

"Mr. Morgenthau. These figures which I presented here today include, I believe, all of the gold that will be mined in South Africa and Australia within this coming year and they need all of that gold and all of the securities of their citizens and they need all of the investments they have in this country to raise sufficient dollars to pay for the orders already placed here."

The foregoing paragraphs indicate the commitments which I have given Congress insofar as current production of South African and Australian gold is concerned.

As to your second question, with respect to the application of the Lend-Lease Bill to American parts and materials entering into Canadian-manufactured munitions for Great Britain, I beg to inform you that this question is having the attention of the Treasury during its study of the general problem of operating under the Lend-Lease plan.

Sincerely yours,

Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1941

Miss
Cochran

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with the decision reached at this morning's group meeting on the British financial position, Under Secretary Bell, with a suggestion now and then on my part, drew up a list of forms which we contemplated submitting to the British Treasury representatives here with the view to obtaining from them regular and uniform monthly reports upon their financial position, both with respect to current assets and commitments and prospective receipts and disbursements.

At 3:15 I telephoned Sir Frederick Phillips that we had this plan under way and hoped that he would let his assistants meet with us this afternoon to see whether our forms were workable from the British standpoint, and to suggest any amendments. Phillips agreed with this and had Messrs. Playfair and Allen of his staff meet with Messrs. Bell, White and myself at 4:15 this afternoon. The forms which had been prepared in Mr. Bell's office were studied and some slight amendments thereto made. The British representatives took the forms away, with the understanding that they would study them and report back to us any new suggestions that might require consideration before the system is set into operation.



March 11, 1941
3:00 p.m.

RE TAX PROGRAM

Present: Mr. Gaston
Mr. Foley
Mr. Bell
Mr. Sullivan
Mr. Blough
Mr. Tarleau

H.M.Jr: Well, I see Tarleau and Blough. It smells like taxes.

Sullivan: Did you see the headlines in the afternoon paper?

H.M.Jr: No.

Sullivan: Seven billion for the Lend-Lease.

Gaston: Gone up?

Sullivan: Woodrum made the announcement coming out of the White House this morning. He said everybody in the conference except one was agreeable. Taber was there, and he spoke of his having been a severe administration critic, the inference being that he was the one who had protested.

H.M.Jr: Well, what do you Coast Guard fellows want today?

Sullivan: Well, we have a variety of schedules here,

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starting in with invested taxes that would yield a billion six --

H.M.Jr: Excuse me. Coast Guard is life-saving, isn't it? Take it all back.

Sullivan: Another schedule of two billion one, a third of two billion and a half, a fourth of three and a half and a fifth at just about four billion.

H.M.Jr: Well, this is the Roosevelt-Bernie Baruch plan, you see. The President doesn't know whether these figures are correct, but he thought invested business on the present schedule would give us two billion more taxes. Yes? No?

Sullivan: Well, there is an estimate in your report that an increase from - in national income from 90 to 100 million would give an increase in revenue of two billion two.

H.M.Jr: My report?

Sullivan: Yes, sir.

H.M.Jr: Well, do you expect it to be a hundred on the average in the next fiscal year? It is 78 now.

Sullivan: I think they are planning about 84.

Foley: When?

Bell: 1941.

Foley: June 30, '41?

Bell: Calendar year, which affects your 1942 revenues, materially.

Sullivan: That is right.

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Bell: 1942 calendar year hasn't been estimated, but it is assumed that on the present upper trend, it will go to 90 or better, possibly 95.

H.M.Jr: Calendar year, how much?

Bell: Eighty-five, I think. It is close to 80 now.

H.M.Jr: Seventy-eight was the last I heard.

Foley: Well, that is a jump of five since when?

Bell: Since last January.

Foley: Since January 1, '41?

Bell: 'Forty.

Foley: Oh, you mean in fourteen months?

Bell: No, the estimate in January, '41, was 79 and a half, and the estimate in January, 1940, was 74.

H.M.Jr: What we are talking about, isn't it, is how much business for the calendar year - let's see, six months of '41, isn't it?

Sullivan: Yes.

H.M.Jr: And twelve months in '42?

Sullivan: You mean on these taxes?

H.M.Jr: Yes.

Sullivan: Yes, except on the income taxes. They won't come in - there will be six months of fiscal '42.

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H.M.Jr: Well, have you struck a kind of an average for the year that we are talking a bout?

Sullivan: You mean --

H.M.Jr: In the calendar '40 year - how much will business be in the '42 calendar?

Bell: Forty-two or '41?

H.M.Jr: Forty-two.

Bell: In the '41 calendar year, I think our estimates were based on 85.

H.M.Jr: Yes, that is what you said, 84?

Bell: I don't know. We have no estimates for '42, but there has been talk that it might go up to 90 or 95. I don't know whether the capacity is there or not.

H.M.Jr: Let's just say we strike an average of 90. How much revenue will that produce on the present bill?

Sullivan: It would be well toward two billion dollars.

H.M.Jr: Then his figure of around two was right. You get two more. What he spoke about is two more and a billion and a half new taxes. Now, how much would that give us in revenue, gents?

Sullivan: Well --

Bell: About 12.

Sullivan: Not quite that.

Bell: Well, 11.7.

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Blough: You mean gross, or after Social Security is pulled out?

Bell: Net. Eight, two plus three, five would be eleven, seven. Just a little under twelve billion. That is net.

H.M.Jr: Twelve billion and how much are we going to spend?

Sullivan: Eighteen.

Bell: That is about right, 18 or 17.

H.M.Jr: Well, that is two-thirds.

Blough: That was before Lease-Lend.

H.M.Jr: Well, I know, but it is two-thirds. That would be perfect.

Bell: And if your capacity increases and your national income increases, your revenue will again go up to take care of the increased expenditures on the Lend-Lease Bill in 1943, if necessary.

Sullivan: I think the country --

Tarleau: That is good.

Sullivan:will take something more than that. I think you can take a lot more than that without in any way interfering with your borrowing plan.

Bell: God, he is driving us!

H.M.Jr: Well, what figure are you shooting for?

Sullivan: I have got them all the way up to four.

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- H.M.Jr: Do it the way friend Willkie does, throw a dart, and pick one.
- Sullivan: We think we could take four without throwing in a monkey wrench.
- H.M.Jr: You mean four on top of the two?
- Sullivan: The two isn't anything that anybody is giving us. That is something we are giving them.
- H.M.Jr: That is a volunteer offering.
- Sullivan: No, I mean because business is better, they are earning that much more. That isn't an increase in taxes.
- Gaston: I think John is right.
- Sullivan: I don't think we ought to talk at all about any additional yield because of improvement of business conditions.
- H.M.Jr: All right, we will just gracefully accept two billion more --
- Sullivan: When, as, and if we get it.
- H.M.Jr: And you want how many more taxes on top of that?
- Sullivan: I am willing to go the whole way, sir, and I think they will take it.
- H.M.Jr: I wondered why you invited Herbert.
- Gaston: I didn't know until now. I didn't know until now.
- H.M.Jr: You know what we call it up in Dutchess County? It is a horse shedding. S-h-e-d, for some of you boys who haven't lived in the country.

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- Bell: What is wrong with taking that much?
- Foley: It all depends on how you do it.
- Bell: We will take it out of the lower brackets.
(Laughter.)
- Foley: We are against that, aren't we, Dan?
- Bell: Yes, we certainly are. We have got to do something about the ones we have got on the books now.
- Gaston: It is a long time before we can foresee any reduction in Federal expenditures, a long time. If the war is suddenly over, we are going to have domestic expenditures on a much higher scale than we have ever had before.
- H.M.Jr: You are one of these spending boys, are you?
- Gaston: No, I am one of these --
- Bell: Realistic.
- Gaston: Yes, one of these "balance the budget" fellows.
(Laughter.)
I am quite serious about it. I think we have got to get down to business.
- H.M.Jr: Well, what would four billion do to whom and where and how?
- Foley: Yes, with which and to whom?
(Laughter.)
- H.M.Jr: I may like it, you know. Cheer up, Herbert.

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You might just as well smile while we are all operated on.

Gaston: I hardly can.

Sullivan: Of that four, half would come from income taxes, 353 million from estate and gift taxes, 645 from corporation taxes, 350 from liquor, 200 from tobacco, 200 from increased taxes on automobiles and gasoline, 132 and a half million on the "Bell" tax --

Bell: Is that all? A nickel a bottle?

H.M.Jr: We just fixed Pepsi-Cola up. Are you going to take it away from them?

Bell: It did all right last year. It earned \$24 a share.

Sullivan: John Burns is counsel for them, and he says their only worry is that the water rates will go up in New York City. That is, it is a very important item in the cost. I had the miscellaneous tax outfit working on your (Bell's) tax, and of course, we have to tax the drinks that are sold at the soda fountains, the flavoring and the --

Bell: Sure.

Sullivan: And the water, carbonated water, and in order to equalize the tax with the tax on bottled goods, we have to tax the goods three times as much as it sells for.

H.M.Jr: O.K.

Sullivan: Now, I have receipts for all of you of all of these different schedules.

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H.M.Jr: All right.

I don't like Herbert when he is so serious about this thing. This is a plan to raise additional --

Bell: Have you got anything here to raise income, salaries or anything?

Gaston: That is what we are trying to raise, salaries.

Bell: Or reduce our installment payments.

H.M.Jr: I told you the joke about the President, didn't I? I think it is the best joke I have heard yet. You can't repeat it. He says, "Now, Henry, when you get down to line 31 on the income tax, it says - say your net income is about \$5000. Then what I want you to do is -" I can't remember whether I did - but he says, "In line 32, we just add two per cent to the tax." So I said, "Mr. President, have you made out your income tax yet?"

He said, "No." And I said, "Well, when you get to line 32, you will find it is 10 per cent."

He said, "Well, I haven't got down that far yet."

Don't you love it? He had discovered something new.

Sullivan: Baruch may want to do that same thing over again, and that doesn't solve any problems at all.

H.M.Jr: That is what he wants. He wants line 32, you see --

Sullivan: Baruch has been giving Harrison a awful lot of stuff, and Harrison called me yesterday afternoon and wanted to know if I wanted to see him

- 10 -

on anything right away because he was leaving Wednesday for four or five weeks in Arkansas, and he sounded as though he was not at all well.

H.M.Jr:

Well, here is the thing that amused me. Bell and Jesse Jones and I had lunch together today, and I said, "How about the Baruch plan?"

Jones said he spent the last two weeks here, not lobbying, just visiting.

I said, "Have you heard about the Baruch plan?" He said, "Sure, it is all right for Bernie, he has only got tax-exempts. He likes to write the ticket. He has only got tax-exempts."

I don't see anything in here on apples.

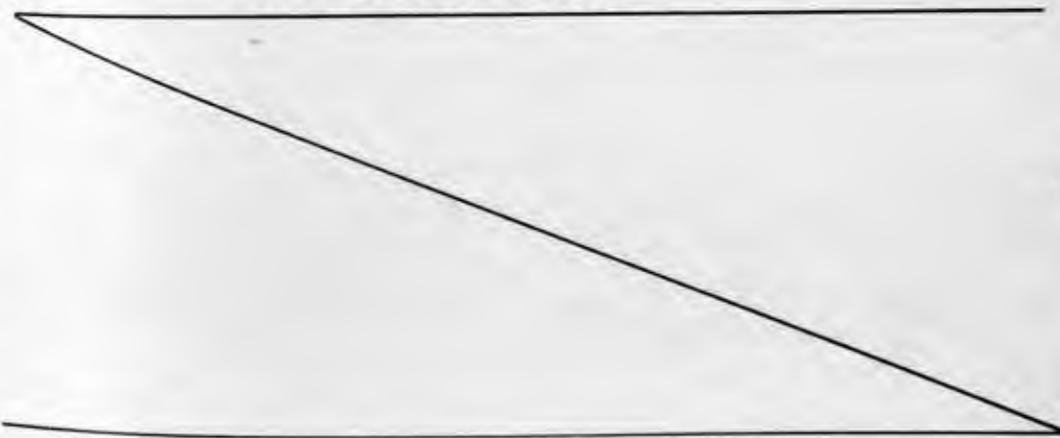
Sullivan:

No, we are saving that until after the war.

H.M.Jr:

You fellows are certainly full of pep and vinegar, aren't you?

(The Secretary held a telephone conversation with Mr. Harold Smith.)



- 11 -

- H.M.Jr: What you heard, gentlemen, is in the room, if you please. I was putting on a show for the benefit of Smith and not for you.
- Sullivan: Purvis was called down to the Embassy last night about 11:00 o'clock.
- H.M.Jr:- Was he?
- Sullivan: We were having dinner at Forrestal's, and I drove him down, I thought it must be important, or they wouldn't have called at that hour.
- H.M.Jr: He was sent for?
- Sullivan: Yes, he was.
- H.M.Jr: I happen to know what it was. It was as a result of a conversation that I had that they sent for him. He didn't know what it was, I know he didn't.
- Sullivan: Well, he wouldn't have told me anyway if he did.
- H.M.Jr: He didn't know what it was, but that is amusing, isn't it?
- Sullivan: We had a little game of poker in which he won most of the money, and Knudsen says, "This is Lease-Lend poker."
- H.M.Jr: Is Purvis a good poker player?
- Sullivan: He said he hadn't played. I hadn't played for fifteen years, and I was the only one who won any money, so I couldn't say.
- H.M.Jr: You and Knudsen and Forrestal, and who else?
- Sullivan: And Ralph Budd and Admiral Towers. Ingersoll was there and Blandy, the Speaker, and Vinson,

- 12 -

the Chairman of Naval Affairs. Dean Acheson was there.

H.M.Jr: Was it fun?

Sullivan: It was all right.

H.M.Jr: Well now, look, I don't see why I should waste your time. This is all very clear, and I am going to take this home tonight and study it. Tomorrow is Wednesday, isn't it?

Sullivan: That is right.

H.M.Jr: And --

Sullivan: The last ones, 5A and 5B are just alternative choices.

H.M.Jr: I will take this home and study it.

Sullivan: We have felt that this Excess Profits Tax is pretty unsatisfactory, and we are not hopeful of working out a fair and equitable tax at all. I think we can get the Undistributed Profits Tax back up there on a tray, and I think we can get as much money as we are going to get out of Excess Profits and not nearly half the expense or half the grief, or half the casualties to concerns we shouldn't want to penalize.

H.M.Jr: I am going to continue this discussion at 10:15 tomorrow morning.

Sullivan: Yes, sir.

H.M.Jr: You gentlemen are all invited. I would like to study this.

Bell: You probably won't be able to sleep.

- 13 -

- Tarleau: That is what I did. I didn't sleep. Now I feel a little better. When you assimilate it, you feel a little better. I feel much more cheerful today than at the first look at it.
- Sullivan: It only hurts for a little while. You will notice that there aren't any sales taxes.
- H.M.Jr: We gave - we had lunch with Jones. I said, "Well, Bell and I figured that before this show was through, we would have to spend 50 billion dollars for armament." Jones jumped back. That is what we figured.
- Gaston: I should say that the British will need pretty desperately around 12 billions, at a rate of a billion a month, as fast as we can get to it.

List of Estimates

	<u>Identifying number</u>	<u>Estimate (In millions)</u>	<u>Plan (In millions)</u>
<u>Individual income tax</u>	1	504.0	1,650
	2	992.3	2,150
	3	1,140.7	2,600
	4	1,700.0	3,600
	5	2,010.0	4,000
<u>State tax</u>	6	203.0	(1,650 (2,150 (2,600 (3,600 (4,000
	7	321.0	

Plan to raise an additional \$1,650 million of revenue 1/

Source	Estimated Increase (in millions)
Individual income taxes	\$ 974.8
Increase surtax rates by adopting attached rate schedule (1/7/42)	
Gifts and gift taxes	103.0
(1) Increase the estate tax rates by adopting the attached rate schedule; and (2) increase the gift tax rates to three-quarters the rates in the attached schedule (1/22/42)	
Corporation taxes	575.0
(1) Excess profits tax: Increase rates and revise base 500.0	
(2) Normal tax: Increase rate on all corporations 15 (Not an official estimate) 75.0	
Soft drinks	132.5
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/42)	
Check tax	56.0
Repeal the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/42)	
Admissions tax	55.0
Reduce the exemption under the admissions tax from 20 cents to 9 cents (1/22/42)	
Automobiles	40.0
Impose an additional 2 percent tax on the items covered in Sec. 3403(b) of the I. R. C. (1/2/42)	
Liquor	192.2
Distilled spirits: Additional \$1 per gallon 135.0	
Fermented malt liquors: Additional \$1 per barrel 55.0	
Wines, cordials and liqueurs: Increase of 16 2/3% 2.2	
Floor stock taxes (first year only)	
Distilled spirits, \$1 per gallon (29.0)	
Fermented malt liquors, \$1 per barrel (3.0)	
(11/29/40)	
	<hr/> 1,657.7

1/ Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

5/11/42

Plan to raise an additional \$2,150 million of revenue 1/

Source	Estimated Increase (in millions)
Individual income taxes	8 992.3
Increase surtax rates by adopting attached rate schedule, without defense tax (2/11/41)	
Estate and gift taxes	103.0
(1) Increase the estate tax rates by adopting the attached rate schedule; and (2) increase the gift tax rates to three-quarters the rates in the attached schedule (1/22/41)	
Corporation taxes	575.0
(1) Gross profits tax: Increase rates and revise base 500.0	
(2) Normal tax: Increase rate on all corporations 1% (Not an official estimate) 75.0	
Soft drinks	132.5
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/41)	
Check tax	56.0
Repeal the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)	
Admissions tax	55.0
Reduce the exemption under the admissions tax from 30 cents to 9 cents (1/22/41)	
Automobiles	10.0
Impose an additional 2 percent tax on the items covered in section 303(b) of the I. R. C. (1/2/41)	
Liquor	192.2
Distilled spirits: Additional \$1 per gallon 135.0	
Fermented malt liquors: Additional \$1 per barrel 55.0	
Wines, cordials and liqueurs: Increase of 16 2/3% 2.2	
Floor stock taxes (first year only)	(29.0)
Distilled spirits, \$1 per gallon (3.0)	
Fermented malt liquors, \$1 per barrel (11/29/40)	
	<hr/> 2,146.0

Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

4:184
3/12/42

Plan to raise an additional \$2,000 million of revenue 1/

Source	Estimated Increase in \$ millions
Individual income taxes	21,146.7
Increase certain taxes by adopting attached rate schedule, including defense tax (2/11/41)	
Estate and gift taxes	321.0
Estate tax changes: (1) Reduce exemption from \$40,000 to \$25,000; (2) adopt the attached estate tax rate schedule; (3) reduce inheritance exclusion from \$40,000 to \$25,000	
Gift tax changes: (1) Reduce the exemption from \$40,000 to \$25,000; (2) increase the gift tax rates to three- fourths the rates in the proposed estate tax schedule (1/27/41)	
Corporation taxes	575.0
(1) Excess profits tax: Increase rates and revise base	500.0
(2) Normal tax: Increase rate on all corporations 1% (Not an official estimate)	75.0
Soft drink	132.5
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/41)	
Check tax	95.0
Repeal the 3-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)	
Admissions tax	95.0
Reduce the exemption under the admissions tax from 20 cents to 9 cents (1/22/41)	
Intoxicants	40.0
Impose an additional 2 percent tax on the items covered in section 3403(b) of the I. R. C. (1/2/41)	
Liquor	198.2
Distilled spirits: Additional \$1 per gallon	135.0
Permitted malt liquors: Additional \$1 per barrel	25.0
Wine, cordials and liqueurs: Increase of 1% 2/3%	2.2
Flour alcohol taxes (first year only)	(29.0)
Distilled spirits, \$1 per gallon	(3.0)
Permitted malt liquors, \$1 per barrel (11/29/40)	
Tobacco	70.0
Manufacture of cigars, tobacco and snuff: Double rates (Not an official estimate)	2,922.4

V Estimates for individual income taxes are on basis of calendar year 1941 levels of
1939; all other estimates are at business levels estimated for the fiscal year
1940. The data when the estimate was made is given in parentheses after each source.

3/22/41

Source	Estimated Revenue (in millions)
Additional income taxes	\$1,700.0
Lower exemptions to \$500 for single persons and \$1,000 for a married person and increase surtax rates by adopting attached rate schedule, without defense tax (Not an official estimate)	
State and gift taxes	321.0
Estate tax changes: (1) Reduce specific exemption from \$40,000 to \$25,000; (2) adopt the attached estate tax rate schedule; (3) reduce insurance exclusion from \$40,000 to \$25,000	
Gift tax changes: (1) Reduce the specific exemption from \$40,000 to \$25,000; (2) increase the gift tax rates to those shown in the attached schedule in the proposed estate tax schedule (1/27/41)	
Excise taxes	575.0
(1) Amusements tax: Increase rates and revise base 500.0	
(2) Normal tax: Increase rate on all corporations 75.0 (Not an official estimate)	
Alcohol	350.0
Bottled spirits: Additional \$2 per gallon	
Fermented malt liquors: Additional \$2 per barrel	
Wine, cordons, and liquors: 33 1/3% increase (Not an official estimate)	
Tobacco	200.0
Cigarettes: Additional 75 cents per 1,000 130.	
Manufacture of cigars, tobacco and snuff: 70. (Not an official estimate)	
Motorable taxes, including gasoline	200.0
Taxes covered in Secs. 3403(b) and 3403(a) of Code: Double rates 80.	
Gasoline tax: Increase 1/2 cent per gallon 120. (Not an official estimate)	
Soft drinks	132.5
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on un-bottled drinks and fountain drinks (1/21/41)	
Check tax	56.0
Repeal the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)	
Amusement tax	55.0
Reduce the exemption under the admission tax from 20 cents to 9 cents (1/22/41)	
	<hr/> 3,589.5

Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

1/12/42

Source	Estimated Increase (in millions)
Individual Income Taxes	62,000.0
Lower exemption to \$700 for single person and \$1,000 for a married person and increase further rates by adopting attached rate schedule, with defense tax (Not an official estimate)	
Estate and Gift Taxes	353.0
Estate tax changes	
(1) Reduce specific exemption from \$40,000 to \$25,000	
(2) Adopt the attached estate tax rate schedule, with defense tax	
(3) Reduce insurance exclusion from \$40,000 to \$25,000	
Gift tax changes	
(1) Reduce the specific exemption from \$40,000 to \$25,000	
(2) Increase the gift tax rates to three-fourths the rates in the proposed estate tax schedule, with defense tax (Not an official estimate)	
Corporation Taxes	635.0
(1) Increase profits tax: Increase rates and revise base	300.0
(2) Normal tax: Increase rate on all corporations 1%	75.0
(3) Capital stock tax: Increase rate to \$1.50, including defense tax (Not an official estimate)	60.0
Alcohol	390.0
Bottled spirits: Additional \$2 per gallon	
Permitted malt liquors: Additional \$2 per barrel	
Wines, cordials, and liquors: 33 1/3% increase (Not an official estimate)	
Tobacco	200.0
Cigarettes: Additional 75 cents per 1,000	130
Manufacture of cigars, tobacco and snuff: Doubt rates (Not an official estimate)	70
Automobile taxes, including gasoline	100.0
Items covered in Secs. 3603(b) and 3603(c) of Code: Doubt rates	80
Gasoline tax: Increase 1/2 cent per gallon (Not an official estimate)	20
Soft Drinks	138.5
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/42)	
Bank Tax	24.0
Repeal the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/42)	
Excise Tax	75.0
Increase the exemption under the admissions tax from 20 cents to 9 cents (1/21/42)	
	<u>3,978.5</u>

Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

3/12/42

Source	Estimated Increase in Revenue
	(in millions)
Individual Income Taxes	\$2,000.0 <u>B</u>
Lower exemptions to \$500 for single persons and \$1,000 for a married person and increase surtax rates by carrying attached rate schedule, with deferral tax (Not an official estimate)	
Gifts and Gift Taxes	33.0
Gift Tax Changes	
(1) Reduce specific exemption from \$40,000 to \$25,000	
(2) Adopt the attached estate tax rate schedule, with deferral tax	
(3) Reduce insurance exclusion from \$40,000 to \$25,000	
Estate Tax Changes	
(1) Reduce the specific exemption from \$40,000 to \$25,000	
(2) Increase the gift tax rates to three-fourths the rates in the proposed estate tax schedule, with deferral tax (Not an official estimate)	
Corporate Taxes	65.0
(1) Capital stock tax: Increase rate to \$1.50, including deferral tax	60.0
(2) Normal tax: Increase rate 6%	360.0
(3) Undistributed profits tax: Revert to 1936 law (Not an official estimate)	225.0 <u>B</u>
Liquor	370.0
Distilled spirits: Additional \$2 per gallon	
Fermented malt liquors: Additional \$2 per barrel	
Wine, cordials, and liqueurs: 33 1/3% increase (Not an official estimate)	
Tobacco	200.0
Cigarettes: Additional 75 cents per 1,000	150
Manufacture of cigars, tobacco and snuff: Double rates (Not an official estimate)	70
Automobile Taxes, including gasoline	200.0
Taxes covered in Secs. 303(b) and 303(c) of Code: Double rates	80
Gasoline tax: Increase 1/2 cent per gallon (Not an official estimate)	120
Soft Drinks	150.0
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (2/21/41)	
Bank Tax	50.0
Revert the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/20/41)	
Administrative Tax	55.0
Reduce the exemption under the admission tax from 20 cents to 9 cents (1/22/41)	
	<u>\$3,991.0</u>

Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parentheses after each source. The indirect effect of the undistributed profits tax is taken into account in the estimate for the individual income tax.

24128
3/12/41

Individual surtax rate schedule
 1954 million, with defense tax
 (Estimated calendar 1941 income levels)

Surtax net income :		Bracket rate (Percent)	Total surtax cumulative
(in thousands of dollars)			
0 -	2	4	80
2 -	4	6	200
4 -	6	8	360
6 -	8	10	560
8 -	10	12	800
10 -	12	14	1,080
12 -	14	15	1,400
14 -	16	15	1,760
16 -	18	20	2,160
18 -	20	22	2,600
20 -	22	24	3,080
22 -	26	27	4,160
26 -	32	30	5,960
32 -	38	33	7,940
38 -	44	35	10,100
44 -	50	40	12,900
50 -	60	44	16,900
60 -	70	47	21,600
70 -	80	50	26,600
80 -	90	53	31,900
90 -	100	56	37,900
100 -	150	58	66,900
150 -	200	60	96,900
200 -	250	62	127,900
250 -	300	64	159,900
300 -	400	66	229,900
400 -	500	68	293,900
500 -	750	70	468,900
750 -	1,000	72	648,900
1,000 -	2,000	73	1,378,900
2,000 -	5,000	74	3,998,900
Over	5,000	75	-

Comparison of surtax rate schedules under present law and proposal

Surtax net income (\$000)	Surtax rate (percent)		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
0 - 2	-	4	-	80
2 - 4	-	6	-	200
4 - 6	4	8	80	360
6 - 8	6	10	200	560
8 - 10	8	12	360	800
10 - 12	10	14	560	1,080
12 - 14	12	16	800	1,400
14 - 16	15	18	1,100	1,760
16 - 18	18	20	1,460	2,160
18 - 20	21	22	1,880	2,600
20 - 22	24	24	2,360	3,080
22 - 26	27	27	3,440	4,160
26 - 32	32	30	5,240	5,960
32 - 38	38	33	7,280	7,940
38 - 44	44	36	9,380	10,100
44 - 50	50	40	11,780	12,500
50 - 60	54	44	16,180	16,900
60 - 70	57	47	20,880	21,600
70 - 80	60	50	25,880	26,600
80 - 90	63	53	31,180	31,900
90 - 100	66	56	36,780	37,900
100 - 150	68	58	69,780	66,500
150 - 200	69	60	95,780	96,900
200 - 250	69	62	126,780	127,900
250 - 300	69	64	158,780	159,900
300 - 400	66	66	224,780	225,900
400 - 500	66	68	292,780	293,900
500 - 750	70	70	467,780	468,900
750 - 1,000	72	72	647,780	648,900
1,000 - 2,000	73	73	1,377,780	1,378,900
2,000 - 5,000	74	74	3,997,780	3,998,900
Over 5,000	75	75	-	-

T:bfm
3/22/82

Comparison of present and proposed individual income taxes
on net incomes of selected sizes $\sqrt{}$

Married person - no dependents

Net income before personal exemption $\sqrt{}$	Amount of tax $\sqrt{}$		Effective rates		Increase in tax	
	Present law	Proposal	Present law	Proposal	Amount	Percent
\$ 2,500	\$ 11	\$ 33	.46	1.32	\$ 22	200.00
3,000	31	75	1.0	2.5	44	141.9
4,000	70	158	1.8	4.0	88	125.7
5,000	110	264	2.2	5.3	154	140.0
6,000	150	370	2.5	6.2	220	146.7
8,000	317	625	4.0	7.8	308	97.2
10,000	528	924	5.3	9.2	396	75.0
12,500	838	1,364	6.9	10.9	526	59.0
15,000	1,258	1,874	8.4	12.5	616	49.0
20,000	2,336	3,106	11.7	15.5	770	33.0
25,000	3,843	4,635	15.4	18.5	792	20.6
50,000	14,128	14,920	28.3	29.8	792	5.6
75,000	27,768	28,560	37.0	38.1	792	2.9
100,000	43,476	44,268	43.5	44.3	792	1.8
500,000	330,196	330,804	66.0	66.2	608	.2
1,000,000	717,584	718,232	71.8	71.8	648	.1
5,000,000	3,916,548	3,917,196	78.3	78.3	648	$\sqrt{}$

Under the proposal the attached surtax rate schedule is substituted for present schedule.

Maximum earned income assumed.

Includes 10% defense tax.

Less than .05 percent.

Individual surtax rate schedule

\$ 992.8 million, without defense tax
\$1,075.9 million, with defense tax

(Estimated calendar 1941 income levels)

Surtax net income (in thousands of dollars)	Bracket rate (percent)	Total surtax cumulative
\$ 0 - 4	6	\$ 240
4 - 6	8	400
6 - 8	12	640
8 - 10	15	940
10 - 12	20	1,340
12 - 14	25	1,840
14 - 16	30	2,440
16 - 18	35	3,140
18 - 20	40	3,940
20 - 22	45	4,840
22 - 25	50	6,340
25 - 30	55	9,080
30 - 50	60	21,080
50 - 100	61	31,580
100 - 150	62	42,580
150 - 200	63	54,080
200 - 250	64	66,080
250 - 300	66	79,080
300 - 400	68	94,080
400 - 500	70	111,080
500 - 1,000	72	139,080
1,000 - 2,000	73	1,407,080
2,000 - 5,000	74	2,627,080
Over 5,000	75	-

TZ-ar
5/11/41

Comparison of surtax schedules
under present law and proposed Schedule B

Surtax net income (\$000)	Bracket rates (Percent)		Total surtax cumulative	
	Present law	Proposed	Present law	Proposed
0 - 2	-	5	-	150
2 - 4	-	6	-	340
4 - 6	45	8	80	400
6 - 8	6	12	200	640
8 - 10	8	15	300	840
10 - 12	10	20	500	1,340
12 - 14	12	25	600	1,940
14 - 16	15	30	1,100	2,440
16 - 18	18	35	1,400	3,140
18 - 20	21	40	1,600	3,940
20 - 22	24	45	2,300	4,840
22 - 24	27	50	2,170	6,040
24 - 26	27	55	2,440	6,890
26 - 30	30	55	4,040	9,090
30 - 32	30	60	4,240	10,290
32 - 34	33	60	7,320	15,290
34 - 44	38	60	9,300	17,490
44 - 50	40	60	11,780	21,090
50 - 60	44	61	15,180	27,190
60 - 70	47	61	20,200	33,290
70 - 80	50	61	25,200	39,290
80 - 90	53	61	31,180	45,490
90 - 100	54	61	36,700	51,590
100 - 150	58	62	55,700	62,590
150 - 200	60	63	65,700	114,090
200 - 250	62	64	126,700	144,090
250 - 300	64	65	156,700	179,090
300 - 400	66	66	224,700	247,090
400 - 500	68	70	292,700	317,090
500 - 750	70	72	427,700	427,090
750 - 1,000	72	72	647,700	577,090
1,000 - 2,000	73	73	1,277,700	1,407,090
2,000 - 5,000	74	74	2,547,700	2,927,090
Over 5,000	75	75	-	-

TG-ar
3/11/41

Comparison of present and proposed individual income taxes on net incomes of selected sizes 1/

Married person - no dependents

Net income before personal exemption 2/	Amount of tax			Effective rates			Increase in tax			
	Proposal			Proposal			Amount			
	Present	Without law	With defense tax	Present	Without law	With defense tax	Proposal	Without defense tax	With defense tax	
\$ 2,500	11	40	44	1.4%	1.6%	1.8%	29	22	283.65	300.00
3,000	51	88	97	1.0	2.9	3.2	57	88	155.9	212.9
4,000	70	124	202	1.8	4.6	5.1	114	122	182.9	108.8
5,000	110	280	308	2.2	5.6	6.2	170	196	154.5	180.0
6,000	150	376	414	2.5	6.3	6.9	228	284	150.7	178.0
8,000	317	606	669	4.0	7.6	8.4	291	352	91.8	111.0
10,000	528	920	1,012	5.3	9.2	10.1	362	494	74.2	91.7
12,800	856	1,410	1,551	6.9	11.5	12.4	552	695	84.5	90.8
15,000	1,250	2,064	2,259	8.4	13.7	15.1	798	1,001	63.3	79.6
20,000	2,336	3,804	4,194	11.7	19.0	20.9	1,468	1,849	62.3	79.1
25,000	3,845	6,204	6,824	15.4	24.8	27.3	2,561	2,981	61.4	77.6
50,000	14,128	21,754	23,925	28.3	43.5	47.9	7,828	9,801	54.0	69.4
75,000	27,796	37,984	41,686	37.0	50.6	55.6	10,218	13,918	56.8	60.1
100,000	45,478	54,234	59,811	45.5	54.2	59.8	10,759	15,335	24.7	35.3
500,000	350,158	355,564	381,999	66.0	67.1	70.4	5,899	21,543	1.6	6.8
1,000,000	717,564	715,514	743,983	71.8	71.8	74.4	- 2,070	28,379	- .3	3.7
5,000,000	3,816,548	3,825,474	3,942,927	78.5	76.5	78.9	-91,074	28,379	-2.3	.7

1/ Under the proposal, the attached surtax rate schedule b is substituted for the present schedule.
 2/ Maximum earned income assumed.

Individual surtax rate schedule

\$1,071.1 million without defense tax

\$1,166.7 million with defense tax

(Estimated calendar 1961 income levels)

Surplus net income (in thousands of dollars)	Surtax rate (percent)	Total surtax cumulative
0		0
100		100
200		200
300		300
400		400
500		500
600		600
700		700
800		800
900		900
1,000		1,000
1,100	1	1,100
1,200	1	1,200
1,300	1	1,300
1,400	1	1,400
1,500	1	1,500
1,600	1	1,600
1,700	1	1,700
1,800	1	1,800
1,900	1	1,900
2,000	1	2,000
2,100	1	2,100
2,200	1	2,200
2,300	1	2,300
2,400	1	2,400
2,500	1	2,500
2,600	1	2,600
2,700	1	2,700
2,800	1	2,800
2,900	1	2,900
3,000	1	3,000
3,100	1	3,100
3,200	1	3,200
3,300	1	3,300
3,400	1	3,400
3,500	1	3,500
3,600	1	3,600
3,700	1	3,700
3,800	1	3,800
3,900	1	3,900
4,000	1	4,000
4,100	1	4,100
4,200	1	4,200
4,300	1	4,300
4,400	1	4,400
4,500	1	4,500
4,600	1	4,600
4,700	1	4,700
4,800	1	4,800
4,900	1	4,900
5,000	1	5,000
5,100	1	5,100
5,200	1	5,200
5,300	1	5,300
5,400	1	5,400
5,500	1	5,500
5,600	1	5,600
5,700	1	5,700
5,800	1	5,800
5,900	1	5,900
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6,100	1	6,100
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32,000	1	32,000
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36,000	1	36,000
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36,300	1	36,300
36,400	1	36,400
36,500	1	36,500
36,600	1	36,600
36,700	1	36,700
36,800	1	36,800
36,900	1	36,900
37,000	1	37,000
37,100	1	37,100
37,200	1	37,200
37,300	1	37,300
37,400	1	

Comparison of present and proposed individual income taxes
on net incomes of selected sizes $\sqrt{}$

Married person - no dependents

Net income before personal exemption $\sqrt{}$	Amount of tax			Effective rates			Increase in tax			
	Present law	Proposed		Present law	Proposed		Present		Proposed	
		Without defense tax	With defense tax		Without defense tax	With defense tax	Without defense tax	With defense tax	Without defense tax	With defense tax
2,500	11.2	8.0	8.0	.4	2.0	2.2	39	45	39.9	45.0
5,000	22.4	16.0	16.0	1.0	3.6	4.0	77	89	77.8	89.9
7,500	33.6	24.0	24.0	1.8	5.4	6.2	154	176	153.6	175.8
10,000	44.8	32.0	32.0	2.2	7.2	7.9	230	266	227.3	265.9
12,500	56.0	40.0	40.0	2.5	9.0	9.1	306	356	303.7	355.9
15,000	67.2	48.0	48.0	3.0	10.8	11.1	382	442	379.3	441.7
20,000	89.6	64.0	64.0	4.6	14.4	14.6	512	592	509.7	591.7
25,000	112.0	80.0	80.0	5.9	18.0	18.2	642	742	639.3	741.7
30,000	134.4	96.0	96.0	7.2	21.6	21.9	772	892	769.7	891.7
35,000	156.8	112.0	112.0	8.5	25.2	25.4	902	1,042	899.3	1,041.7
40,000	179.2	128.0	128.0	9.8	28.8	29.1	1,032	1,192	1,029.7	1,191.7
45,000	201.6	144.0	144.0	11.1	32.4	32.6	1,162	1,342	1,159.3	1,341.7
50,000	224.0	160.0	160.0	12.4	36.0	36.2	1,292	1,492	1,289.7	1,491.7
75,000	336.0	240.0	240.0	18.6	54.0	54.9	1,932	2,222	1,929.3	2,221.7
100,000	448.0	320.0	320.0	24.8	72.0	72.3	2,572	2,962	2,569.3	2,961.7
500,000	2,240.0	1,600.0	1,600.0	112.0	360.0	360.7	12,572	14,512	12,569.3	14,511.7
1,000,000	4,480.0	3,200.0	3,200.0	224.0	720.0	720.0	25,144	29,024	25,138.6	29,021.7
5,000,000	22,400.0	16,000.0	16,000.0	1,120.0	3,600.0	3,600.0	125,712	145,112	125,693.6	145,111.7

$\sqrt{}$ Under the proposal the attached earlier Schedule C is substituted for the present schedule.
Married couple income assumed.

Printed
3/12/61

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Individual surtax rate schedule ^{1/}

\$1,150.7 million, without defense tax
 \$1,261.3 million, with defense tax

(Estimated calendar 1961 income levels)

Surtax net income (in thousands of dollars)	Bracket rate (Percent)	Total surtax cumulative
0 - 2	10	\$ 200
2 - 5	12	440
5 - 6	14	720
6 - 8	16	1,040
8 - 10	18	1,400
10 - 12	20	1,800
12 - 14	22	2,240
14 - 16	24	2,720
16 - 18	26	3,240
18 - 20	28	3,800
20 - 22	30	4,400
22 - 26	33	5,720
26 - 32	36	7,580
32 - 38	39	10,220
38 - 44	42	12,740
44 - 50	45	15,440
50 - 60	49	20,340
60 - 70	52	25,540
70 - 80	55	31,040
80 - 90	58	36,840
90 - 100	61	42,940
100 - 150	62	73,940
150 - 200	63	105,440
200 - 250	64	137,440
250 - 300	66	170,440
300 - 400	68	238,440
400 - 500	70	308,440
500 - 1,000	72	668,440
1,000 - 2,000	73	1,398,440
2,000 - 3,000	74	3,618,440
Over - 3,000	75	-

^{1/} Combined with reduced exemptions of \$500 for a single person and \$1,000 for a married person, it is unofficially estimated that this schedule, without the defense tax, would yield approximately \$1,700 million.

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 3/12/41

Comparison of present and proposed individual income taxes
on net incomes of selected sizes ^{1/}

Married person - no dependents

Net income before personal exemption ^{2/}	Amount of tax ^{3/}		Effective rates		Increase in tax under proposal	
	Present law	Proposal	Present law	Proposal	Amount	Percent
\$ 1,500	\$ -	\$ 70	-	4.7%	\$ 70	
2,000	-	145	-	7.3	145	
2,500	11	220	.4%	8.8	209	1,900.0%
3,000	31	295	1.0	9.8	264	851.6
4,000	70	466	1.8	11.7	396	565.7
5,000	110	638	2.2	12.8	528	480.0
6,000	150	812	2.5	13.9	662	439.7
8,000	317	1,241	4.0	15.5	924	291.5
10,000	528	1,694	5.3	16.9	1,166	220.8
12,500	838	2,321	6.9	18.6	1,483	170.5
15,000	1,258	3,018	8.4	20.1	1,760	139.9
20,000	2,336	4,646	11.7	23.2	2,310	98.9
25,000	3,843	6,560	15.4	26.2	2,717	70.7
50,000	14,128	18,583	28.3	37.2	4,455	31.5
75,000	27,768	33,708	37.0	44.9	5,940	21.4
100,000	43,476	50,857	43.5	50.9	7,381	17.0
500,000	330,156	364,880	66.0	69.0	34,724	4.5
1,000,000	717,564	736,862	71.8	73.7	19,298	2.7
5,000,000	3,916,548	3,995,848	78.3	78.7	79,300	.5

^{1/} Under the proposal personal exemptions are reduced from \$800 to \$500 for a single person and from \$2,000 to \$1,000 for a married person, and the attached surtax rate schedule A is substituted for present schedule.

^{2/} Maximum earned income assumed.

^{3/} Includes 10 percent defense tax.

Comparison of surtax schedules
under present law and proposed Schedule A

Surtax net income (\$000)	Bracket rates (Percent)		Total surtax cumulative	
	Present	Proposed	Present	Proposed
	Law		Law	
0 - 2	-	10%	-	200
2 - 4	-	12	-	440
4 - 6	2%	14	80	720
6 - 8	6	16	200	1,040
8 - 10	8	18	360	1,400
10 - 12	10	20	560	1,800
12 - 14	12	22	800	2,240
14 - 16	15	24	1,100	2,720
16 - 18	18	26	1,460	3,240
18 - 20	21	28	1,880	3,800
20 - 22	24	30	2,360	4,400
22 - 25	27	33	3,170	5,050
25 - 26	27	33	3,440	5,720
26 - 30	30	36	4,640	7,160
30 - 32	30	36	5,240	7,860
32 - 36	33	39	7,220	10,220
36 - 42	36	42	9,380	12,740
42 - 45	40	45	11,780	15,440
45 - 49	44	49	16,180	20,940
49 - 55	47	52	20,680	25,940
55 - 60	50	55	25,680	31,040
60 - 70	53	58	31,180	36,940
70 - 80	56	62	36,780	42,940
80 - 100	58	65	45,780	51,940
100 - 150	60	68	59,780	63,940
150 - 200	62	70	75,780	77,940
200 - 250	64	72	92,780	92,940
250 - 300	66	74	110,780	108,940
300 - 400	68	76	130,780	125,940
400 - 500	68	76	152,780	143,940
500 - 750	70	78	197,780	188,940
750 - 1,000	72	78	247,780	238,940
1,000 - 2,000	73	73	5,577,780	1,998,940
2,000 - 5,000	74	74	3,997,780	3,618,940
Over - 5,000	75	75	-	-

T:106
3/12/41

Comparison of present and proposed individual income taxes on net income of collected class Married persons - no dependents

Net Income	Amount of tax	Effective rates	Increase or decrease in tax	Percent
Under present schedule <input checked="" type="checkbox"/>	Present Law ¹ Proposed <input checked="" type="checkbox"/>	Present Law ¹ Proposed <input checked="" type="checkbox"/>	Under present ¹ Proposed <input checked="" type="checkbox"/>	Percent
1,000	-	-	0	
2,000	11	12	12	1.18.24
3,000	21	20	19	78.5
4,000	30	26	27	67.5
5,000	40	34	38	76.0
6,000	50	42	47	78.3
8,000	70	58	66	82.0
10,000	110	75	81	83.8
12,000	150	92	101	84.2
15,000	220	110	129	86.3
20,000	320	140	180	88.0
25,000	420	170	250	89.6
30,000	520	200	320	90.4
40,000	720	260	460	91.5
50,000	920	320	600	92.3
75,000	1,280	460	820	93.0
100,000	1,640	600	1,040	93.3
200,000	2,400	840	1,560	93.3
300,000	2,880	960	1,920	93.3
400,000	3,000	1,000	2,000	93.3
500,000	3,000	1,000	2,000	93.3
1,000,000	3,000	1,000	2,000	93.3
3,000,000	3,000	1,000	2,000	93.3

Under the proposed present exemptions are reduced from \$200 to \$900 for a single person and from \$2,000 to \$1,000 for a married person, and the attached surplus rate schedule 9% is substituted for present schedule.

Surplus earned income exempt.

Without 10 percent defense tax.

Table
3/12/61

Individual surtax rate schedule

Surtax net income (in thousands of dollars)	Bracket rate (percent)	Total surtax cumulative
0 - 2	11	220
2 - 4	14	500
4 - 6	15	820
6 - 8	19	1,200
8 - 10	21	1,520
10 - 12	23	2,080
12 - 14	25	2,580
14 - 16	27	3,120
16 - 18	29	3,700
18 - 20	31	4,320
20 - 22	33	4,980
22 - 24	36	5,620
24 - 26	39	6,340
26 - 28	42	7,120
28 - 32	45	7,980
32 - 36	48	8,920
36 - 40	51	9,940
40 - 44	54	11,040
44 - 48	57	12,220
48 - 52	59	13,480
52 - 56	61	14,820
56 - 60	62	16,240
60 - 64	63	17,740
64 - 68	64	19,320
68 - 72	66	20,980
72 - 76	68	22,720
76 - 80	70	24,540
80 - 84	72	26,440
84 - 88	73	28,420
88 - 92	74	30,480
92 - 96	74	-
96 - 100	74	-
100 - 150	62	76,080
150 - 200	63	107,580
200 - 250	64	139,580
250 - 300	66	172,580
300 - 400	68	240,580
400 - 500	70	310,580
500 - 1,000	72	370,580
1,000 - 2,000	73	1,400,580
2,000 - 5,000	74	2,080,580
Over 5,000	74	-

Treasury Department, Division of Tax Research March 11, 1941

Comparison of surtax rate schedules under present law and proposal

Surtax net income (1000)	Bracket rate (normal)		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
0 - 2	-	11	-	220
2 - 4	-	14	-	500
4 - 6	4	16	80	820
6 - 8	6	19	200	1,200
8 - 10	8	21	360	1,620
10 - 12	10	23	560	2,080
12 - 14	12	25	800	2,580
14 - 16	15	27	1,100	3,120
16 - 18	18	29	1,460	3,700
18 - 20	21	31	1,880	4,320
20 - 22	24	33	2,360	4,980
22 - 26	27	36	3,440	5,420
26 - 32	30	39	5,240	6,760
32 - 38	33	42	7,820	11,280
38 - 44	36	45	9,380	17,980
44 - 50	40	48	11,780	18,860
50 - 60	44	51	16,180	21,960
60 - 70	47	54	20,880	27,360
70 - 80	50	57	25,880	33,060
80 - 90	53	59	31,180	38,960
90 - 100	56	61	36,780	45,060
100 - 150	58	62	65,780	76,060
150 - 200	60	63	95,780	107,560
200 - 250	62	64	126,780	139,560
250 - 300	64	66	158,780	172,560
300 - 400	65	68	224,780	240,560
400 - 500	68	70	292,780	310,560
500 - 750	70	72	467,780	490,560
750 - 1,000	72	72	647,780	670,560
1,000 - 2,000	73	73	1,377,780	1,400,560
2,000 - 5,000	74	74	3,997,780	3,620,560
Over - 5,000	75	75	-	-

T-132a
1/17/42

Comparison of present and proposed individual income taxes
on net incomes of selected sizes ^{1/}

Married person - no dependents

Net income before personal exemption ^{2/}	Amount of tax ^{3/}		Effective rates ^{4/}		Increase in tax under proposal	
	Present law	Proposal	Present law	Proposal	Amount	Percent
1,500	-	76	-	5.15	76	-
2,000	-	156	-	7.8	156	-
2,500	11	257	.45	9.8	226	2054.55
3,000	21	317	1.0	10.8	296	922.6
4,000	70	510	1.8	12.8	440	628.6
5,000	110	704	2.2	14.1	594	540.0
6,000	180	880	2.5	15.3	770	515.3
8,000	317	1,394	4.0	17.8	1,087	338.6
10,000	526	1,908	5.3	19.0	1,378	260.4
12,500	866	2,615	6.9	20.9	1,755	204.5
15,000	1,258	3,392	8.4	22.6	2,124	169.6
20,000	2,356	6,125	11.7	25.9	3,649	152.0
25,000	3,845	7,284	15.4	29.1	3,421	89.0
50,000	14,128	20,112	28.3	40.2	5,984	42.4
75,000	27,798	25,798	37.0	47.7	6,080	22.0
100,000	45,478	58,198	45.5	53.2	9,715	21.5
500,000	330,156	348,788	66.0	69.4	18,632	5.6
1,000,000	717,594	736,770	71.8	73.9	21,186	3.0
5,000,000	3,918,648	3,957,782	78.3	78.8	21,204	.5

Treasury Department, Division of Tax Research

- ^{1/} Under the proposal personal exemptions are reduced from 5000 to 2500 for a single person and from 12,000 to 51,000 for a married person, and the attached surtax rate schedule is substituted for present schedule.
- ^{2/} Maximum earned income assumed.
- ^{3/} Includes 10 percent defense tax.

JG-nr
3/12/41

Estate and Gift Tax Rate Schedule

\$100 million combined effect, without deferral tax, assuming gift tax rates are equal to three-quarters of estate tax rates

(estimated fiscal 1948 business law)

Net estate after specific exemption (in thousands)	Bracket rate (percent)	Cumulative tax on higher amount
0 - 5	3	150
5 - 10	6	450
10 - 20	9	1,250
20 - 30	12	2,500
30 - 40	15	4,000
40 - 50	18	5,800
50 - 60	21	7,900
60 - 100	25	17,100
100 - 200	28	34,000
200 - 300	29	102,100
300 - 400	30	134,000
400 - 500	31	172,100
500 - 1,000	32	204,000
1,000 - 1,500	33	242,100
1,500 - 2,000	34	280,100
2,000 - 2,500	35	317,100
2,500 - 3,000	36	357,100
3,000 - 3,500	37	397,100
3,500 - 4,000	38	442,100
4,000 - 5,000	39	492,100
5,000 - 6,000	40	542,100
6,000 - 7,000	41	592,100
7,000 - 8,000	42	642,100
8,000 - 9,000	43	692,100
9,000 - 10,000	44	742,100
10,000 - 20,000	47	11,612,100
20,000 - 50,000	50	22,612,100
Over 50,000	70	-

W: jow
3/12/41

Proposed estate tax rates under Schedule I compared
with present estate tax rates

Net estate after specific exemptions (in thousands of dollars)	Proposed rates 1/ Schedule I		Present rates 1/	
	Bracket rate (percent)	Cumulative tax on higher amount	Bracket rate (percent)	Cumulative tax on higher amount
0 - 5	5	\$ 100	2	\$ 100
5 - 10	6	400	3	200
10 - 20	9	1,300	4	600
20 - 30	12	2,300	6	1,200
30 - 40	15	4,000	8	2,000
40 - 50	18	5,900	10	3,000
50 - 60	21	7,900	12	4,200
60 - 100	23	17,100	13 - 14	9,000
100 - 200	25	34,600	17 - 20	26,000
200 - 300	27	122,100	20 - 23	69,000
300 - 400	29	184,600	25 - 26	151,000
400 - 500	31	272,100	28 - 29	233,000
500 - 1,000	33	394,600	32	322,000
1,000 - 1,500	35	542,100	32	382,000
1,500 - 2,000	38	682,100	35	507,000
2,000 - 2,500	41	857,100	38	757,000
2,500 - 3,000	44	1,097,100	41	982,000
3,000 - 3,500	47	1,392,100	44	1,172,000
3,500 - 4,000	50	1,742,100	47	1,497,000
4,000 - 5,000	53	2,072,100	50 - 53	1,922,000
5,000 - 6,000	56	2,632,100	56	2,432,000
6,000 - 7,000	59	3,232,100	59	3,072,000
7,000 - 8,000	61	3,832,100	61	3,632,000
8,000 - 9,000	63	4,432,100	63	4,212,000
9,000 - 10,000	65	5,112,100	65	4,912,000
10,000 - 20,000	67	11,812,100	67	11,632,000
20,000 - 50,000	69	22,812,100	69	22,262,000
Over 50,000	70	-	70	-

1/ Exclusive of temporary defense tax.

Comparison of proposed estate tax under Schedule I with present estate tax on net estates (before exemption) of selected sizes 1/

Net estate before exemption 2/ (000)	Amount of tax 3/		Effective rate		Increase in tax	
	Present law	Proposal Schedule I	Present law	Proposal Schedule I	Amount	Percent
50	380	435	0.4%	1.0%	\$ 575	178.4%
80	680	1,485	1.1	3.8	825	120.0
80	2,300	4,425	2.8	8.8	2,125	100.0
100	4,820	8,745	4.6	8.7	4,125	89.5
200	21,780	38,385	10.9	17.7	16,605	80.4
400	84,480	82,785	18.1	23.2	38,305	45.9
600	113,740	153,825	19.0	26.6	39,785	38.0
1,000	232,100	288,725	28.2	28.6	56,625	28.1
2,000	597,940	678,645	38.9	38.9	80,705	15.8
4,000	1,527,620	1,874,385	38.2	41.8	146,765	9.6
6,000	2,704,220	2,870,725	45.1	47.2	166,505	6.1
10,000	5,420,380	5,884,725	54.2	55.9	164,345	3.0
20,000	13,799,280	12,982,825	64.0	64.8	164,545	1.3
40,000	27,578,500	28,142,025	68.8	70.2	164,525	.6
60,000	43,268,080	43,422,825	72.1	72.4	164,745	.4
100,000	74,068,080	74,222,825	74.1	74.2	164,745	.2

Treasury Department, Division of Tax Research

- 1/ Under the proposal the attached rate schedule is substituted for the present schedule.
- 2/ The specific exemption of \$40,000 allowed under present law is retained under the proposal.
- 3/ Includes 10 percent defense tax.

Estate and gift tax rate schedule

\$321 million combined effect without defense tax
 \$268 million from estate tax and \$53 million from
 gift tax assuming gift tax rates are equal to
 three quarters of estate tax rates, the specific
 exemption under both taxes is reduced from \$40,000
 to \$25,000 and that the insurance exclusion under
 the estate tax is reduced from \$40,000 to \$25,000

(Estimated fiscal 1942 business levels)

Net estate after specific exemption (in thousands of dollars)	Bracket rate (Percent)	Cumulative tax on higher amount
\$ 0 - 5	0	\$ 200
5 - 10	2	600
10 - 20	4	1,800
20 - 30	6	3,600
30 - 40	8	5,400
40 - 50	10	10,000
50 - 60	12	15,800
60 - 80	15	21,000
80 - 100	18	27,000
100 - 150	22	34,500
150 - 200	25	43,500
200 - 250	28	54,000
250 - 300	30	66,000
300 - 500	35	102,000
500 - 1,000	40	177,000
1,000 - 2,000	45	307,000
2,000 - 3,000	50	447,000
3,000 - 4,000	55	597,000
4,000 - 5,000	60	757,000
5,000 - 6,000	65	927,000
6,000 - 7,000	70	1,107,000
7,000 - 8,000	75	1,297,000
8,000 - 9,000	80	1,497,000
9,000 - 10,000	85	1,707,000
10,000 - 20,000	90	2,927,000
20,000 - 50,000	95	5,947,000
Over - 50,000	100	-

TZ:led
3/12/41

**Proposed estate tax rates under Schedule II compared
with present estate tax rates**

Net estate after specific exemptions (in thousands of dollars)		Proposed rates 1/ Schedule II		Present rates 1/	
		Bracket rate (percent)	Cumulative tax on higher amount	Bracket rate (percent)	Cumulative tax on higher amount
0 - 5	4	0	200	2	100
5 - 10	8		600	2	200
10 - 20	12		1,200	4	600
20 - 30	16		3,400	6	1,200
30 - 40	20		5,400	8	2,000
40 - 60	24		10,000	10 - 12	3,200
60 - 80	26		15,200	12 - 14	6,800
80 - 100	28		21,000	14	9,600
100 - 150	32		37,000	17	18,100
150 - 200	35		54,900	17	25,600
200 - 250	38		73,900	20	36,600
250 - 300	41		94,000	20	46,600
300 - 500	44		142,000	20 - 23	57,600
500 - 1,000	47		217,000	23 - 25	72,600
1,000 - 2,000	49		307,000	28 - 33	97,600
2,000 - 3,000	51		417,000	34 - 41	122,600
3,000 - 4,000	53		547,000	44 - 47	1,407,600
4,000 - 5,000	55		697,000	50 - 53	1,822,600
5,000 - 6,000	57		867,000	56	2,422,600
6,000 - 7,000	59		1,057,000	59	3,072,600
7,000 - 8,000	61		1,267,000	61	3,622,600
8,000 - 9,000	63		1,497,000	63	4,112,600
9,000 - 10,000	65		1,747,000	65	4,552,600
10,000 - 20,000	67		2,217,000	67	11,642,600
20,000 - 50,000	69		3,947,000	69	32,322,600
Over 50,000	70		-	70	-

1/ Exclusive of temporary defense tax.

YCU:tdl
3/12/41

Comparison of proposed estate tax under Schedule II with present estate tax on net estates (before exemption) of selected sizes 1/

Net estate: before exemption 2/ (000)	Amount of tax 1/		Effective rate		Increase in tax	
	Present Law	Proposed Schedule II	Present law	Proposed Schedule II	Amount	Percent
50	\$ 220	\$ 660	0.45	1.35	\$ 440	200.0
50	660	1,980	1.1	3.3	1,320	200.0
80	2,900	5,980	2.8	7.6	3,080	170.0
100	4,680	11,000	4.6	11.0	6,320	136.1
200	21,780	44,990	10.9	22.3	23,210	106.5
400	64,460	132,640	16.1	33.1	68,180	105.5
600	113,740	231,220	19.0	38.5	117,480	103.3
1,000	232,100	432,080	23.2	43.8	200,000	86.7
2,000	597,360	976,140	29.9	48.8	378,780	63.2
4,000	1,527,680	2,118,380	38.2	53.0	590,700	38.7
6,000	2,706,220	3,348,620	45.1	55.8	642,400	23.7
10,000	5,430,260	6,073,100	54.3	60.7	642,840	11.8
100,000	74,064,060	74,710,900	74.1	74.1	646,840	.9

- 1/ Under the proposal the attached rate schedule is substituted for the present schedule.
 2/ The specific exemption of \$40,000 allowed under present law is retained under the proposal.
 3/ Includes 10 percent defense tax.

March 11, 1941
3:17 p.m.

H.M.Jr: Hello, Harold.

Harold
Smith: Yeah.

H.M.Jr: How are you feeling today?

S: Well, I don't know how I feel. I know we've got a job of putting all this stuff together. I just thought I'd give you a ring - you're probably way ahead of me, but I just wanted

H.M.Jr: No, I'm about a couple of blocks behind you today. No one tells me anything.

S: Is that so?

H.M.Jr: I wasn't at the meeting this morning. Were you?

S: Yeah. I was late - I was up on the Hill and they gave me a ring to come down to the White House. I didn't know what it was about until I got there and I found about fifteen Senators and Congressmen in.

H.M.Jr: I wasn't there so you're ahead of me. I don't know what

S: Now, here, he talked to you the other day, I understand, about the total amount, and he talked to me, and he talked to these people in terms of \$7 billion straight cash appropriation. Now, I didn't know what he was going to say aside from that; he was sort of letting the Congressional people take the lead on it; and they agreed that there oughtn't to be any contract authorization in it and it would be better if it were a straight out-and-out appropriation. But the President said - the thing that disturbed me was that he had been canvassing the situation around and that he was going to put it all in and instead of taking a couple of bites at the cherry, he was going to take one bite.

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H.M.Jr: Yeah.

S: Well, now, what I'm afraid of is here is the British request for about nine billion and they are being carried down by the Army and Navy to fit into the productive situation as best they can but this is really for '42.

H.M.Jr: Yeah.

S: And it/^{is}not the whole bite as I see it. Do you think it is?

H.M.Jr: Well, I don't know. I'm out in the cold till - I really don't know.

S: Well, you know more about it than I do. I mean I just saw the nine billion dollar figure I think yesterday for the first time. Hello -

H.M.Jr: Hello.

S: And there was another sheet, you know, that went well way beyond that - that I think you gave me.

H.M.Jr: Well, that's - from that which is about a week or ten days old, Harold, I haven't seen a thing and the President hasn't told me a thing and I don't know as much about it as the cop on the corner.

S: Well -

H.M.Jr: The President said he wanted me at the meeting this morning and then I didn't get any word so I didn't call up or anything.

S: I didn't know about the meeting except I saw something in the paper and I was down before the Civil Service Commission in the House and I got a call from the White House to come down and I didn't know what the hell it was either. The story - then they got mixed up on the one billion three versus the total of seven billion - whether the one three was to be reimbursed by the seven or not. They finally decided that it was to be reimbursed by the seven billion dollar amount which set us scurrying around then to change the whole set up. I sent somebody down to see Burns to see if we can get that appropriation language changed to fit that picture.

- H.M.Jr: Well, you had better know about it because I hear you're going up to testify on the bill.
- S: Where did you hear that?
- H.M.Jr: Oh, a little birdie.
- S: Ah - (laughs). Listen, I hear you are too.
- H.M.Jr: Oh no. I don't know anything about it.
- S: I don't know why the Director of the Budget should testify on this.
- H.M.Jr: Well, he's doing it - it's the President's bill. It's written the way you and he want it.
- S: Well -
- H.M.Jr: And I - they just dropped me at the first way station. I made all my offers about wanting to cooperate - what things are there - but I'm in no position to testify about anything.
- S: I don't think I am either because all the information we've got here is in the last 24 hours and very much second hand because this is the first time I've had anything to do with it - with this set up.
- H.M.Jr: Well, the last time I think was Saturday a week ago, and I sent you what I had. I haven't had anything on it since then.
- S: No, no.
- H.M.Jr: I don't know how the seven billion is arrived at or anything.
- S: Well - the Army and Navy apparently have processed those military sections of the British requests and have said that, "Well, they can only end with Knudsen." Now that's what they brought to us last night and have said, "Well, this is all we can put in to our productive machinery and probably more".
- H.M.Jr: Yeah.
- S: And the boss says, "You got to squeeze the whole thing down to seven billion". Well that means paring off of several of these items. What would you think - what would you think about, after we get this thing tentatively set up, of talking to Purvis about it? Do you think that would be appropriate? You've got

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the background on that, maybe I ought to bring the thing over to both of you.

H.M.Jr: Well, I don't know what Hopkins is doing.

S: Well, I don't know either. I mean only once has he contacted me.

H.M.Jr: Well, was he at the meeting this morning?

S: No, no. And I just heard this afternoon that they're worrying over in Agriculture about what can be transferred under the one billion three and somebody told me that the - well, Wickard said he understood the President was going to make an announcement tonight of what could be transferred. Well, I've never heard anything about that. I don't know whether - just what their problem is - whether it's a legal problem or what it is.

H.M.Jr: Well, as far as I know, Hopkins is supposed to be contacting Purvis. You see I'm not doing it anymore.

S: I see.

H.M.Jr: And I've asked to be relieved of that but I'd see him occasionally. Hello.

S: Yeah.

H.M.Jr: But I know that Hopkins sees him and Hopkins has said that he expects to contact the British Purchasing Mission. And - well, I'm very serious, Harold, as far as I'm concerned I'm in no position to testify about anything because I don't know this stuff and you can't - I'm not going to go up and display my ignorance publicly.

S: Well, I can't learn about it in 24 hours either. All I'm trying to do is to get an estimate together here for the boss which he says he wants to sign by tomorrow when he signs the bill and there are at least, apparently, two dozen people involved in the thing.

H.M.Jr: Well, if you're trying to find out if I'm in on it, I'm not.

S: (Laughs)

H.M.Jr: So you can just - there's just 23 people.

S: (Laughs) All right.

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- H.M.Jr: And if I've got anything I'll give you a ring but the last I knew is when I sent that sheet over to you.
- S: Yeah.
- H.M.Jr: And with that exception and the time we were in Hull's Office when you were there I know less than nothing.
- S: Apparently, this sheet that we got there is not the one that they're working from.
- H.M.Jr: Well -
- S: Well, I just thought I'd give you a ring. I told you -
- H.M.Jr: Well, I appreciate it. I appreciate it.
- S: I know the boss mentioned the seven million. I suggested that he be sure and talk to you about that.
- H.M.Jr: Well, he told me it was seven billion. He told me the seven billion and that's all. He said, "That's the figure."
- S: Yeah.
- H.M.Jr: But, if I knew anything and if I had anything I'd give it to you but I'm only repeating. I know less than nothing.
- S: Well, then I'd better check with Hopkins on whether it's appropriate to raise some questions with Purvis. I suppose that we ought not to process entirely in a vacuum. I don't know what all the implications of it are.
- H.M.Jr: Well, I think if you want to see Purvis, I think you better talk to Hopkins.
- S: Yeah. All right, sir, thank you.
- H.M.Jr: Thank you for calling.
- S: You bet. Bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 3 o'clock this afternoon the Secretary called me to his office and asked that Mr. White, who was with the Secretary, explain to me the result of the several meetings which had been held at the Securities and Exchange Commission with the view to evaluating suggestions to expedite the liquidation of British investments in this country.

Mr. White told me that the basic idea which had been discussed at the S. E. C. had been that of organizing a private corporation which would float a bond issue, presumably at a low rate of interest, to obtain funds which could be utilized in taking over the complete holdings of British vested securities. This plan was not considered feasible insofar as direct investments are concerned. The plan would be for this corporation to advance payment to the extent of 65 to 70 percent of the market value of the securities taken over. The percentage would be less if the securities were found to be below the average in marketability. It would be necessary that the British disclose to this group their complete holdings, and the group would only consider the proposition as a whole.

The group would proceed with the sale of securities and remit the balance of the proceeds obtained therefor, deducting only necessary expenses. If there should be any question of a difference between the group and the British Government as to the sale price, this should be settled by an arbiter.

It was explained that the S. E. C. had studied this plan, and had then invited to Washington yesterday afternoon Messrs. Fox and Connely (*) representing investment associations in New York. The two representatives from New York had not insisted that they be drawn into any private corporation which might be set up. They were available, however, for consultation if the British may desire to look into the plan or desire recommendations as to possible concerns and individuals to constitute the suggested group.

After receiving this explanation from Mr. White, I telephoned Mr. Gifford. I learned from his New York office that he was in Washington, and I reached him at the offices of the British Purchasing Commission at 3:15. He let me know that he had come to Washington this noon and added, confidentially for our ears, that he was here with Sir Edward Peacock. I told him that Mr. White had attended meetings at the S. E. C. and that the Secretary had authorized me to acquaint Mr. Gifford with the results thereof. I thereupon repeated Mr. White's recital to me. I added the word of explanation that the Secretary desired in no way to criticize Mr. Gifford's operations in the disposal of marketable securities. The plan which has been under study was originally conceived as of possible assistance in liquidating direct investments. It had now been considered difficult of application to this field, but readily adaptable to the marketable security field. I renewed the explanation made previously that the

* President Emmett P. Connely of the Investment Bankers Association of America.

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Treasury naturally desires to look into every possible means for assisting in the orderly liquidation of British assets, and that I was confident Mr. Gifford shared our interest toward this end. Mr. Gifford thanked us for bringing the foregoing information to his attention. He stated that the proposal was beyond any instructions which he has. He is, however, taking note of our report and will think it over. He would require completely new instructions before he could accept such a proposal, which would completely rearrange the plan for disposing of marketable securities in this country. His first reaction was that he would not feel justified in submitting such a plan to London with recommendations unless the Treasury urged it. I told him that the Secretary desired to bring to his attention the results of the study which had been made, but to leave action to Mr. Gifford's judgment.

B. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Acting upon the Secretary's instructions, I asked Sir Frederick Phillips to come to my office at 3:30 this afternoon. I recalled to Sir Frederick that when he had visited me yesterday evening he had emphasized his interest in learning the extent to which existing British contracts could be taken over under the Lend-Lease plan. Furthermore, I recalled our conversation on gold.

I let Sir Frederick know that the Secretary had held a group meeting this forenoon at which the British position had been studied. The Secretary had asked me to give an oral reply to Sir Frederick's memorandum of March 5 in which inquiry was made as to whether the Secretary would see any objection to Great Britain paying Canada in gold to the extent that it may have gold available for that purpose in the future. I permitted Phillips to note on page 11 of Part I of "Hearings before the Committee on Foreign Relations, United States Senate, on S. 275", the estimates which the Secretary had submitted to Congress (based upon figures supplied by the British Treasury) for the current calendar year Australian and South African gold exports. I also invited his attention to the testimony which the Secretary gave before the Committee on Foreign Affairs, House of Representatives, as reported on pages 64 and 65 of the volume of Lend-Lease Bill Hearings. I told Phillips that the Secretary's attitude toward South African and Australian gold remained the same as presented in this testimony. Phillips took note of the two references to the published testimony described above.

Phillips reminded me that the British had hoped to use certain of their gold in meeting payments due Canada. He asked if he was free now to tell the Canadians that the Treasury insisted upon all South African and Australian gold being sold for its benefit. He asked further if we had been in touch with Mr. Clark on this subject. I told Phillips that we had had no conversation with the Canadian Deputy Minister of Finance since he left here a few days ago. There was no reason, however, why Phillips should not continue his discussions with Mr. Clark, bearing in mind the testimony which the Secretary has given.

I told Phillips that a group of us had met with the Secretary on Saturday, Monday and Tuesday to study an operating plan for the Lend-Lease Bill, and that in these meetings the British position had been given particular attention. I let Phillips know that after receiving the British memorandum of yesterday which gave details as to outstanding contracts and negotiations with the R. F. C. and the Army and Navy on possible taking over of some of these engagements, we had written both the R. F. C. and the War Department requesting data from their side as to prospects for consummation of their negotiations with the British in the premises. I added that there is positively no use of our attempting to discuss the question of contracts further at present. I showed Phillips the ticker tape which reported the passing of the Bill and announced that the President anticipated asking for a \$7,000,000,000 appropriation

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

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- 2 -

to complement the Act. I told him that Treasury representatives would have to appear before Congress to support the appropriation measure. I stressed the embarrassment which such representatives, and particularly the Secretary, would experience if obliged to report to Congress that there had not yet been accomplished any progress in liquidating British direct investments. I made the point that our progress depends importantly upon something being accomplished along this line immediately. Phillips volunteered that Gifford and Peacock were in town for consultation.

I should add that when we were discussing gold, I let Phillips know that I had reported to the Secretary the information which Phillips had given me last evening, namely, that it appeared that gold production in South Africa was not falling off, but that recently the Bank of South Africa evidently had not turned over all current production to the British authorities. Phillips had also made the point that the British required a certain stock of gold in South Africa, because of the necessity of having some of this metal available for hurried despatch to Egypt or other centers in the Near Eastern war area. In our talk today, Phillips minimized the amount of gold that could be counted upon to come from Belgian Congo, Rhodesia and other scattered areas of production.

B.M.S.

March 11, 1941

4:30 p.m.

Present: Mr. Gaston
Mrs. Klotz

HM Jr: Herbert, please sit down. I thought that you could listen while I dictate this.

Harry Hopkins called me about 4:15 and said the President was going to take some action this afternoon under the Lend-Lease Bill. He had spoken to the President about the Coast Guard cutters and asked for permission to speak to me. He asked me whether I knew what the President had in mind and if the President had discussed it with me. I said, "No," and then I told him that he ought to know better than I what the President has in mind. So he said that he didn't.

I told Hopkins that if he asked me what I thought would be most useful to the British this Spring, it is the ten cutters that I wrote about in my first letter. Then I said that we could get them ready in two or three weeks if the English would tell us what kind of armaments they needed and if the Navy would equip them promptly. Hopkins asked me if we didn't usually get cooperation from the Navy, and I said, "No, not as far as the Coast Guard is concerned."

Then Hopkins asked me some more questions, and I said I never felt that I knew less than what I did right now about what was going on. He said that nothing was going on at this time. I then said that the President told me yesterday he was going to hold a meeting this morning and wanted me to come, but I never got word as to when it was going to be held. He said that he wasn't at the meeting either so he did not know what went on.

Hopkins told me then that Young was with him and had some message from the English saying how they wanted these ships equipped, but it was news to me.

- 2 -

Gaston: Waesche told me that the Navy had received word from the English that they would be very glad to have the cutters. That's all the message I got.

HM Jr: Did you tell that to Phil?

Gaston: No, I haven't seen Phil since I heard that. I haven't had a chance to tell him.

HM Jr: I don't know whether you agreed with me on that.

Gaston: That would be very useful - yes. If we are going to do anything, that's the thing to do.

HM Jr: Well, I'm glad to hear you say that.

Gaston: Yes, that's the thing to do.

Just when you called me, I was talking to Oscar Cox, who was asking me a lot of questions. He said that Harry Hopkins had been asked to do something about it for the President. He didn't say that you had talked to Hopkins. Evidently Harry Hopkins wants to get some information, and he's trying to have Cox get it for him.

HM Jr: Where was Cox when he called you?

Gaston: Why I think he was in his office. I was talking to him when they said you wanted me so I excused myself and hung up.

(At this point, HM Jr told the operator that she should find out whether Oscar Cox and Philip Young had returned to the Treasury.)

Gaston: I really don't know. He may not have been in his office.

HM Jr: How long ago was this, Herbert?

- 3 -

Gaston: Just before I walked in here. I hung up and came right in here.

HM Jr: Well, my call was about 10 minutes ago, so he must have asked Oscar to get the information on it.

(Operator reported that neither Oscar Cox nor Philip Young had returned to their offices.)

HM Jr: Well, they haven't come back yet. I think that I will walk around the block and by that time they probably will be here.

The British Supply Council in North America

March 11, 1941

Philip Young, Esq.
President's Liaison Committee,
Treasury Department,
Washington, D. C.

Dear Mr. Young,

The British Naval Attache has just received a reply to a cable to the British Admiralty with regard to the ten coast guard cutters which we hope will be released to us by the U. S. Treasury.

The Admiralty advise as follows:

1. That an offer of ten cutters would be cordially welcomed.
2. That the vessels would be acceptable in present condition with low angle armament only, high angle armament to be fitted in the United Kingdom.
3. Ammunition for 5" guns would be required from United States, both outfit and reserve, including practice.
4. That the newer type having a speed of 20 knots would be of considerably greater value than the older type which has a speed of 16-1/2 knots.

As the Navy Department has been pressing for this information, the British Naval Attache, through whom it was obtained, has given it to them direct.

Yours very truly,

(Sgd.) G. F. Ballantyne

C
O
P
Y

MAR 11 1941

My dear Mr. President:

I should like to bring to your attention the steady increase in prices of imported materials that has been under way for a month or more. The contrast, as compared with the rather flat trend of domestic commodity prices, is shown on the attached chart made from prices of the 11 imported materials and 17 domestic materials in the Bureau of Labor Statistics daily price index of 28 basic commodities. The price index of imported materials has gained 10 per cent since the end of January, as compared with a 2 per cent average gain in prices of domestic materials.

While the increased prices are attributed in the press to the tight ocean shipping situation, an increase of one-third in prices of cocoa and shalms within five weeks would also suggest that speculative buying has been a factor. I note that the value of trading in cocoa futures increased sharply last week. Increasing speculative activity in any group of commodities would tend to affect other groups, and would add to the difficulty of holding a general price rise in check.

Faithfully yours,

(Signed) H. Morganthau, Jr.

The President,

The White House.

Copy to Mr. Thompson

MK

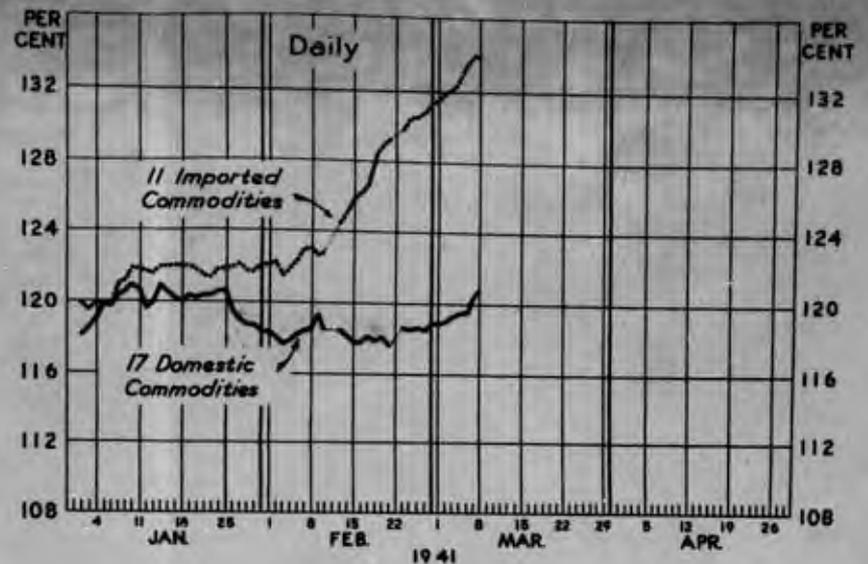
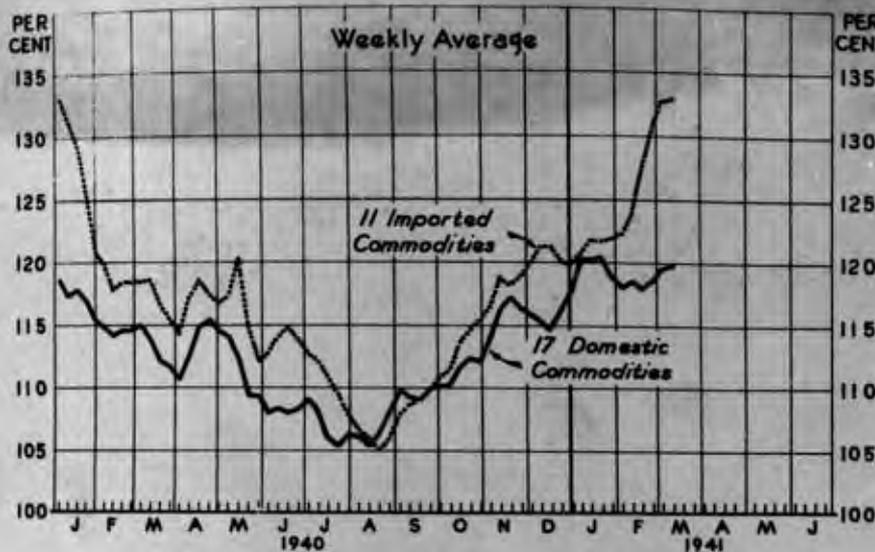
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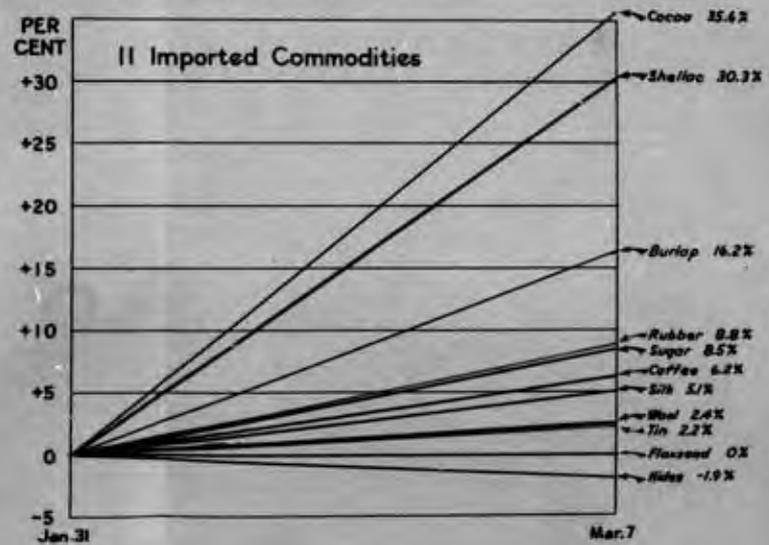
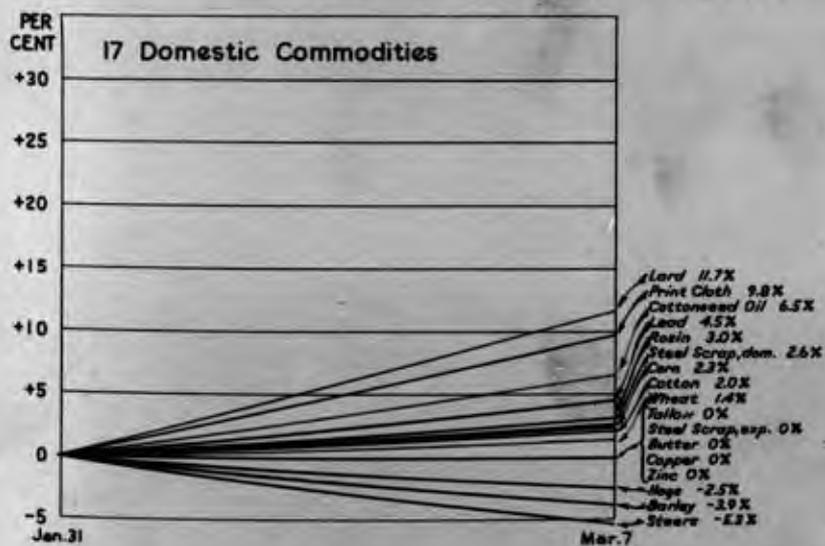
By Messrs. 1 19

MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported*

AUGUST 1939 = 100



Percentage Change for Individual Commodities, Jan. 31, 1941 to March 7, 1941



* B.L.S. Indexes

Seventy-seventh Congress of the United States of America;

in the first Session

Began and held at the City of Washington on Friday, the third day of January, one thousand nine hundred and forty-one.

AN ACT

Further to promote the defense of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "An Act to Promote the Defense of the United States".

Sec. 2. As used in this Act—

(a) The term "defense article" means—

- (1) Any weapon, munition, aircraft, vessel, or boat;
- (2) Any machinery, facility, tool, material, or supply necessary for the manufacture, production, processing, repair, servicing, or operation of any article described in this subsection;
- (3) Any component material or part of or equipment for any article described in this subsection;
- (4) Any agricultural, industrial or other commodity or article for defense.

Such term "defense article" includes any article described in this subsection: Manufactured or procured pursuant to section 3, or to which the United States or any foreign government has or hereafter acquires title, possession, or control.

(b) The term "defense information" means any plan, specification, design, prototype, or information pertaining to any defense article. Sec. 3. (a) Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government—

(1) To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defenses article for the government of any country whose defense the President deems vital to the defense of the United States.

(2) To sell, transfer title to, exchange, lease, lend, or otherwise dispose of, to any such government any defense articles, but no defense article not manufactured or procured under paragraph



(1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both. The value of defense articles disposed of in any way under authority of this paragraph, and procured from funds heretofore appropriated, shall not exceed \$1,500,000,000. The value of such defense articles shall be determined by the head of the department or agency concerned or such other department, agency or officer as shall be designated in the manner provided in the rules and regulations issued hereunder. Defense articles procured from funds hereafter appropriated to any department or agency of the Government, other than from funds authorized to be appropriated under this Act, shall not be disposed of in any way under authority of this paragraph except to the extent hereafter authorized by the Congress in the Acts appropriating such funds or otherwise.

(3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for any such government, or to procure any or all such services by private contract.

(4) To communicate to any such government any defense information, pertaining to any defense article furnished to such government under paragraph (2) of this subsection.

(b) To release for export any defense article disposed of in any way under this subsection to any such government.

(b) The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory.

(c) After June 30, 1943, or after the passage of a concurrent resolution by the two Houses before June 30, 1943, which declares that the powers conferred by or pursuant to subsection (a) are no longer necessary to promote the defense of the United States, neither the President nor the head of any department or agency shall exercise any of the powers conferred by or pursuant to subsection (a); except that until July 1, 1946, any of such powers may be exercised to the extent necessary to carry out a contract or agreement with such a foreign government made before July 1, 1943, or before the passage of such concurrent resolution, whichever is the earlier.

(d) Nothing in this Act shall be construed to authorize or to permit the authorization of convoying vessels by naval vessels of the United States.

(e) Nothing in this Act shall be construed to authorize or to permit the authorization of the entry of any American vessel into a combat area in violation of section 3 of the Neutrality Act of 1930.

SEC. 4. All contracts or agreements made for the disposition of any defense article or defense information pursuant to section 3 shall contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee, or agent of such foreign government.

SEC. 5. (a) The Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government involved shall, when any such defense article or defense information is exported, immediately inform the department or agency designated by the President to administer section 6 of the Act of July 2, 1940 (54 Stat. 714), of the quantities, character, value, terms of disposition, and destination of the article and information so exported.

(b) The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose. Reports provided for under this subsection shall be transmitted to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, if the Senate or the House of Representatives, as the case may be, is not in session.

SEC. 6. (a) There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act.

(b) All money and all property which is converted into money received under section 3 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended with respect to the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year; but in no event shall any funds so received be available for expenditure after June 30, 1946.

H. R. 1776-4

Sec. 7. The Secretary of War, the Secretary of the Navy, and the head of the department or agency shall in all contracts or agreements for the disposition of any defense article or defense information fully protect the rights of all citizens of the United States who have patent rights in and to any such article or information which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

Sec. 8. The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable, whenever the President deems such purchase or acquisition to be necessary in the interests of the defense of the United States.

Sec. 9. The President may, from time to time, promulgate such rules and regulations as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through such department, agency, or officer as he shall direct.

Sec. 10. Nothing in this Act shall be construed to change existing law relating to the use of the land and naval forces of the United States, except insofar as such use relates to the manufacture, procurement, and repair of defense articles, the communication of information and other noncombatant purposes enumerated in this Act.

Sec. 11. If any provision of this Act or the application of such provision to any circumstance shall be held invalid, the validity of the remainder of the Act and the applicability of such provision to other circumstances shall not be affected thereby.

Sam Rayburn
Speaker of the House of Representatives.

Henry A. Wallace
Vice President of the United States and
President of the Senate.

Approved
Franklin D. Roosevelt

March 11 - 1941

[PUBLIC LAW 11—77TH CONGRESS]

[CHAPTER 11—1ST SESSION]

[H. R. 1776]

AN ACT

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- (3) Any component material or part of or equipment for any article described in this subsection;
- (4) Any agricultural, industrial or other commodity or article for defense.

Such term "defense article" includes any article described in this subsection: Manufactured or procured pursuant to section 3, or to which the United States or any foreign government has or hereafter acquires title, possession, or control.

(b) The term "defense information" means any plan, specification, design, prototype, or information pertaining to any defense article.

SEC. 3. (a) Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government—

(1) To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for the government of any country whose defense the President deems vital to the defense of the United States.

(2) To sell, transfer title to, exchange, lease, lend, or otherwise dispose of, to any such government any defense article, but no defense article not manufactured or procured under paragraph (1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both. The value of defense articles disposed of in any way under authority of this paragraph, and procured from funds heretofore appropriated, shall not exceed \$1,300,000,000. The value of such defense articles

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(5) To release for export any defense article disposed of in any way under this subsection to any such government.

(b) The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory.

(c) After June 30, 1943, or after the passage of a concurrent resolution by the two Houses before June 30, 1943, which declares that the powers conferred by or pursuant to subsection (a) are no longer necessary to promote the defense of the United States, neither the President nor the head of any department or agency shall exercise any of the powers conferred by or pursuant to subsection (a); except that until July 1, 1946, any of such powers may be exercised to the extent necessary to carry out a contract or agreement with such a foreign government made before July 1, 1943, or before the passage of such concurrent resolution, whichever is the earlier.

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Approved, March 11, 1941.

MARCH 11, 1941

460

THE HOUSE APPROVED SENATE AMENDMENTS TO THE BRITISH AID BILL BY A
VOTE OF 317 TO 71 AND SENT THE BILL TO THE PRESIDENT. ONE MEMBER
VOTED PRESENT.

SPEAKER SAM RAYBURN SIGNED THE BILL IMMEDIATELY.

3/11--R244P

FLASH

PRESIDENT SIGNS BRITISH AID BILL

3/11--W0351P

PRESIDENT ROOSEVELT TODAY SIGNED THE LEND-LEASE BILL AND PREPARED TO ASK CONGRESS TO APPROPRIATE \$7,000,000,000 TO CARRY OUT ITS PROVISIONS FOR GIVING MATERIAL WAR AID TO BRITAIN AND OTHER NATIONS FIGHTING AGAINST THE AXIS.

3/11--W0353P

March 11, 1941

Dear Senator George:

Now that the Lend-Lease Bill is out of the way, I should like to send you my sincere thanks for all that you did to ensure its passage.

Looking back over the debate, I cannot help feeling that it was a good thing for our country that you were Chairman of the Foreign Relations Committee at this particular time. It is to your great credit that serious mistakes were avoided and that, from first to last, the debate was kept on a high democratic level.

It was a long, hard fight, and you gave it every ounce of your skill and energy, but I believe that the results will more than justify your efforts.

Please let me thank you also, on personal grounds, for the unfailing courtesy you showed me during the hearings and on all other occasions when we discussed this Bill together.

Sincerely yours,

(Signed) E. Morganthau, Jr.

Honorable Walter F. George,
United States Senate.

FK:nms

By Messenger 405

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FK:mas

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Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Walter F. George,
United States Senate.

FK:nmc

By Messenger

March 11, 1941

Dear Alben:

Now that the long debate is over,
I think that sincere thanks are due to
the pilot who brought the Lend-Lease Bill
safely into port.

You steered a straight course and
you did a perfectly grand job.

Sincerely yours,

/s/ Henry

Honorable Alben W. Barkley,
United States Senate.

FK: nmc

By Messenger 4⁰⁵

March 11, 1941

Dear Alben:

Now that the long debate is over,
I think that sincere thanks are due to
the pilot who brought the Lend-Lease Bill
safely into port.

You steered a straight course and
you did a perfectly grand job.

Sincerely yours,

/s/ Henry

Honorable Alben W. Barkley,
United States Senate.

7 K: m c

By Messenger

March 11, 1941

Dear Alben:

Now that the long debate is over,
I think that sincere thanks are due to
the pilot who brought the Lend-Lease Bill
safely into port.

You steered a straight course and
you did a perfectly grand job.

Sincerely yours,

(sgd) Henry

Honorable Alben W. Barkley,
United States Senate.

AK:mc.

By Messenger

March 11, 1941.

My dear Mr. Purvis:

The President has today authorized the Secretaries of War and Navy, pursuant to the Act of March 11, 1941, to dispose of the defense articles, set forth in the annexed schedules, to His Majesty's Government in the United Kingdom.

The President has also requested the Secretaries of War and Navy to communicate directly with you to arrange for the time, method, and other details of the disposition.

Very sincerely yours,

Harry L. Hopkins (sgd.)

HARRY L. HOPKINS

Honorable Arthur Purvis,
British Purchasing Commission,
Washington, D. C.

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER
BY THE SECRETARY OF WAR TO THE
UNITED KINGDOM

2322 Ground Signal Projectors

150 M 1916 - 75mm Gun, Hi speed American type

300 Field Howitzers - 155mm (not Hi speed)

435 Field Howitzers, 8" (no ammunition available)

500 Caissons, 75mm Howitzers

200 Limbers, 75mm Howitzers

116,100 Signal Cartridges

100,000 H. E. Shells, 75mm Normal Charge, Gun

60,000 H. E. Shells, 155mm Howitzers

15,000 W.P. Shells, 155mm Howitzers

60,000 Reduced Propelling Charges for 155mm Howitzers

15,000 Normal Propelling Charges for 155mm Howitzers

40 Tractors, Medium (track laying)

150 Scout Cars, M3A1 (less armament)

200 Scout Cars, Old Models

MARCH 11, 1941

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER
BY THE SECRETARY OF THE NAVY TO THE
UNITED KINGDOM

ORDNANCE

150 4"/50 L.A. Equipment - U. S. Type
300 3"/50 L.A. Equipment - U. S. Type
8000 4"/50 L.A. Projectiles
8000 4"/50 Complete Rounds - U. S. Type
18000 3"/50 Cal. Ammunition - U. S. Type, L.A.
1200 3"/23 Cal. Ammunition - U. S. Type
3000 Propelling Charges for "Y" Guns - U. S. Type

SHIPS

28 Motor Torpedo Boats

March 11, 1941

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER
BY THE SECRETARY OF WAR TO THE
ROYAL GREEK GOVERNMENT

50 M 1916 - 75mm Gun, Hi speed American type
150,000 H.E.Shells, 75mm Reduced Charge, Gun
30,000 H.E.Shells, 155mm Howitzers
30,000 Normal Propelling Charges for 155mm Howitzers

March 11, 1941

March 11, 1941.

My dear Mr. Secretary:

Consultation having been had with the Chief of Staff of the Army, I find that:

- (1) The defense of the United Kingdom is vital to the defense of the United States;
- (2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;
- (3) It would be in the interests of our national defense to transfer the defense articles set forth in the annexed schedule.

I therefore authorize you immediately to make the transfer to His Majesty's Government in the United Kingdom of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the Chairman of the British Supply Council in North America for the time, method, and other details of the disposition.

Very sincerely yours,

Franklin D. Roosevelt (sgd.)

The Honorable

The Secretary of War

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER
BY THE SECRETARY OF WAR TO THE
UNITED KINGDOM

2322 Ground Signal Projectors

150 M 1916 - 75mm Gun, Hi speed American type

300 Field Howitzers - 155mm (not Hi speed)

435 Field Howitzers, 8" (no ammunition available)

500 Caissons, 75mm Howitzers

200 Limbers, 75mm Howitzers

116,100 Signal Cartridges

100,000 H. E. Shells, 75mm Normal Charge, Gun

60,000 H. E. Shells, 155mm Howitzers

15,000 W.P. Shells, 155mm Howitzers

60,000 Reduced Propelling Charges for 155mm Howitzers

15,000 Normal Propelling Charges for 155mm Howitzers

40 Tractors, Medium (track laying)

150 Scout Cars, M3A1 (less armament)

200 Scout Cars, Old Models

MARCH 11, 1941

March 11, 1941.

My dear Mr. Secretary:

Consultation having been had with the Chief of Naval Operations of the Navy, I find that:

(1) The defense of the the United Kingdom is vital to the defense of the United States;

(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;

(3) It would be in the interests of our national defense to transfer the defense articles set forth in the annexed schedule.

I therefore authorize you immediately to make the transfer to His Majesty's Government in the United Kingdom of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the Chairman of the British Supply Council in North America for the time, method, and other details of the disposition.

Very sincerely yours,

(Signed) Franklin D. Roosevelt

The Honorable

The Secretary of the Navy.

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER
BY THE SECRETARY OF THE NAVY TO THE
UNITED KINGDOM

ORDNANCE

150 4"/50 L.A. Equipment - U. S. Type
300 3"/50 L.A. Equipment - U. S. Type
8000 4"/50 L.A. Projectiles
8000 4"/50 Complete Rounds - U. S. Type
18000 3"/50 Cal. Ammunition - U. S. Type, L.A.
1200 3"/23 Cal. Ammunition - U. S. Type
3000 Propelling Charges for "Y" Guns - U. S. Type

SHIPS

28 Motor Torpedo Boats

March 11, 1941

March 11, 1941.

My dear Mr. Secretary:

Consultation having been had with the Chief of Staff of the Army, I find that:

(1) The defense of the Royal Greek Government is vital to the defense of the United States;

(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of the Royal Greek Government;

(3) It would be in the interests of our national defense to transfer the defense articles set forth in the annexed schedule.

I therefore authorize you immediately to make the transfer to the Royal Greek Government of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the Minister of Greece for the time, method, and other details of the disposition.

Very sincerely yours,

(Signed) Franklin D. Roosevelt

The Honorable

The Secretary of War.

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER
BY THE SECRETARY OF WAR TO THE
ROYAL GREEK GOVERNMENT

50 M 1916 - 75mm Gun, Hi speed American type
150,000 H.E.Shells, 75mm Reduced Charge, Gun
30,000 H.E.Shells, 155mm Howitzers
30,000 Normal Propelling Charges for 155mm Howitzers

March 11, 1941

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860



Box 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

March 11, 1941

My dear Mr. President:

We represent on behalf of His Majesty's Government in the United Kingdom, pursuant to Sections 4 and 7 of the Act of March 11, 1941, that:

1) Every contract or agreement for the disposition of any defense article or defense information, pursuant to Section 3 of the Act of March 11, 1941, to His Majesty's Government in the United Kingdom shall be deemed to include a clause that His Majesty's Government will not, without your consent, or the consent of someone designated by you for that purpose, under the Act, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee or agent of His Majesty's Government; and

2) If, as a result of the transfer to His Majesty's Government of any defense articles or defense information, it is necessary, pursuant to Section 7 of the Act of March 11, 1941, fully to protect the rights of any citizen of the United States, who has patent rights in or to any such defense article or information, His Majesty's Government will do so, when so requested by you or your designee for that purpose.

Very truly yours,

The President of the United States
White House

Alfred Harmer
Director General of the
British Purchasing Commission

Approved:

Arthur R. Brown
Chairman of the British
Supply Council in North America

A. R. K. [Signature]
Director General of the
British Air Commission

ROYAL GREEK LEGATION
WASHINGTON

March 11, 1941.

My dear Mr. President:

I represent on behalf of the Royal Greek Government, pursuant to Sections 4 and 7 of the Act of March 11, 1941, that:

1) Every contract or agreement for the disposition of any defense article or defense information, pursuant to Section 5 of the Act of March 11, 1941, to the Royal Greek Government shall be deemed to include a clause that the Royal Greek Government will not, without your consent, or the consent of someone designated by you for that purpose, under the Act, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee or agent of the Royal Greek Government; and

2) If, as a result of the transfer to the Royal Greek Government of any defense articles or defense information, it is necessary, pursuant to Section 7 of the Act of March 11, 1941, fully to protect the rights of any citizen of the United States, who has patent rights in and to any such defense article or information, the Royal Greek Government will do so, when so requested by you or your designee for that purpose.

Very truly yours,



C. Diamantopoulos,
Minister of Greece.

The President of the United States,
White House.

I, Viscount Halifax, His Britannic Majesty's Ambassador to the United States of America, hereby certify that the Director General of the British Purchasing Commission, the Director General of the British Air Commission, and the Chairman of the British Supply Council in North America have the power necessary to make the commitments required of His Majesty's Government in the United Kingdom by Sections 4 and 7 of the Act of March 11th, 1941 as set forth in the annexed letter dated March 11th, 1941, signed by these officers of the British Government.

Done at Washington this 11th day of March,
1941.

Halifax



United States Senate

COMMITTEE ON FINANCE

March 11, 1941.

FAT HARRISON, MISS., CHAIRMAN
 WALTER F. GEORGE, GA.
 JAMES L. WALSH, MASS.
 JAMES W. BARKLEY, KY.
 J. CONNALLY, TEX.
 JIM W. BAILEY, N. C.
 LAWRETT CHAMP CLARK, MD.
 HENRY FLOOD BYRD, VA.
 PETER S. GERRY, N. I.
 JOSEPH F. GUFFEY, PA.
 PRENTISS M. BROWN, MICH.
 CLYDE L. HERRING, IOWA.
 EDWIN C. JOHNSON, COLO.
 BERNICE L. HADCLIFFE, MD.

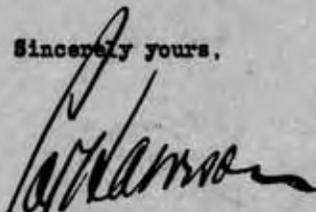
FELTON M. JOHNSTON, CLERK

Dear Henry:

It was good of you to write me as you did on the anniversary of my thirty years legislative service. One of the finest things about this job is the splendid associations I have enjoyed, and I am sure I need not tell you how much I appreciate your friendship and association.

With best wishes always, I am

Sincerely yours,



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



TELEPHONE NATIONAL 3342

WASHINGTON, D. C.

March 11, 1941

MEMORANDUM TO: SECRETARY MORGANTHAU

The statement presented to you by Senator Bankhead concerning S.935 mentions the "parity price loan" feature of his plan but does not go into any explanation of this feature of this bill. Most of the memorandum deals with the problem of adjusting the supply of cotton to meet current demands.

Briefly, Senator Bankhead's bill proposes:

1. A system of commodity loans at 100 per cent of parity for cotton, wheat, tobacco and rice conditioned on marketing quotas being in effect to control supplies. An 85 per cent loan rate on corn is provided because the representatives of the corn producers do not want a loan higher than 85 per cent of parity.

The American Farm Bureau Federation is recommending a loan rate of 85 per cent instead of 100 per cent for all five commodities. (See attached statement presented by President O'Neal to the Senate Committee on Agriculture for summary of Farm Bureau plan).

The commodity loan plan has this great advantage,—that it gives the farmers parity or very close to parity in the market-place. If a 100 per cent loan is made available, no appropriations are needed for parity payments; if an 85 per cent loan is made available, appropriations for parity payments would be needed to meet the 15 per cent deficiency. But careful estimates indicate that under this plan farmers could receive 100 per cent of parity with about the same appropriations as are now being made.

Under the Bankhead proposal of 100 per cent loans, as already pointed out, there would be no parity payments to farmers, as the farmers would get parity prices in the market-place for their entire crop. The buyers of cotton, for example, would either have to pay the farmers parity price or the farmers could put the cotton under the loan. In order to prevent cotton from piling up in the loan, this plan proposes first to maintain our fair share of the world market for cotton by selling cotton for export at the world price and reimbursing the Commodity Credit Corporation for any losses incurred by reason of such sales. Export payments to exporters could be made if necessary to prevent cotton from going into the loan. In addition, the Bankhead bill proposes to bring about an adjustment of production of cotton down to approximately

10,000,000 bales in 1941, which is the estimated amount needed for domestic consumption and exports.

2. A provision for payments to cotton farmers to reduce their production below their current allotments for the purpose of adjusting the supply of cotton to current requirements for domestic consumption and exports.

In his memorandum Senator Bankhead suggested two methods of securing a voluntary reduction in production of 2 to 2½ million bales below the allotments for 1941, which have already been announced and which total about 12 million bales. One of these methods consists of a payment in kind at the rate of one-half bale for each bale taken out of production; the other method proposes a payment in cash at the rate of so much per pound to take cotton out of production, utilizing the \$85,000,000 appropriated for parity payments for the purpose of making these payments for extra reduction in production.

The Farm Bureau has recommended a payment in kind at the rate of one-half bale for each bale taken out of production below the present allotment.


W. R. Ogg
Director of Research

Sen. Bankhead's plan
March 7/41 483

S. 935

For the purpose of indicating the objective of this bill and its probable effect, I beg to present the following as it applies to cotton:

Using round figures, the government owns 6,200,000 bales. It holds under loan 4,900,000 bales. There are two primary objectives involved; first is better income to farmers and second is better protection to the United States Treasury.

Distribution. Domestic consumption next year may amount to 9,000,000 bales. The export market is practically eliminated. From August 1 last until March 1 last, only 504,000 bales were exported in the channels of trade. There were total exports of approximately 700,000 bales but the balance of the cotton was exported under the rubber exchange with Great Britain. Assuming the same exports next year and a slight increase in domestic consumption, there will be a distribution of approximately 9,500,000 bales.

The cotton allotment, assuming normal weather, will produce 12,000,000 bales. To the cotton now under the government loan there will be added from next year's crop about 2,500,000 bales, thus increasing the government owned and loan cotton to 13,500,000 bales. It is evident that something must be done about the continued surplus production. The bill, while accepting the announced

-2-

allotments for this year of 12,000,000 bales, provides two methods of securing voluntary reduction in production of from 2,000,000 to 2,500,000 bales, as follows:

1. To pay in kind with Commodity Credit cotton one-half bale for each bale taken out of production up to a certain limit.
2. Use the parity payment appropriation of about \$86,000,000 allotted to cotton farmers to pay so much a pound to take cotton out of production.

If the parity price loan plan is put into operation, the appropriations for parity payments will not be required for that purpose and can be used to protect the price of cotton and the Treasury by adjusting the supply to a quantity that must be bought by domestic consumers plus a nominal amount to be exported.

The cotton under loan covers loans for the crop years '38-'39 and '40-'41. The bill provides that farmers who dispose of their equity in cotton loans after the day the bill was introduced cannot participate in the parity price loan. That is intended to enable the government to retire that cotton from the market and take it out of competition with this year's crop. The bill further provides that the farmers shall be paid the value of their equity in cotton the day the bill was introduced. There is no equity in the '38 loan because the loan price and the carrying charges exceed the present market value. There is a small equity

-3-

of from two to four dollars a bale on the '40 crop. The equity for that cotton can be paid with from five to seven or eight million dollars. With the loan cotton taken over by the government, as it must ultimately be done, and with the crop reduced to 9,500,000 to 10,000,000 bales, there will be practically no cotton going into the loan. Such amount as goes in must be taken out by the consumers before a new crop comes to market. This plan will increase the present totally inadequate income of cotton producers and will stop increasing the government stocks and may later be adjusted so as to gradually eliminate the government stocks.

TO:

Miss Chauncey

486

I mentioned the
O'Neal letter to
him - he glanced
at it - and said
he wouldn't need
it

From: LIEUT. STEPHENS

487

AMERICAN FARM BUREAU FEDERATION
Munsey Building
Washington, D. C.

March 11, 1941

Honorable Franklin D. Roosevelt
President of the United States
The White House
Washington, D. C.

My dear Mr. President:

We are all greatly distressed that Chester Davis is leaving the Federal Reserve Board. He has certainly been our good friend there.

May I respectfully present for your consideration to fill his place the following:

If you want someone from the midwest, I would suggest the name of Earl C. Smith, President, Illinois Agricultural Association and Vice President, American Farm Bureau Federation; if you want someone from the northeast, I would suggest W. I. Myers, Professor of Economics, Cornell University and former Governor, Farm Credit Administration; or if you want someone from the south, I would suggest the name of R. E. Short, President, Arkansas Farm Bureau Federation. I believe any of these men could ably fill this position and would have the confidence of our farmers.

Farmers feel very strongly that agriculture should be represented on this important Board.

Hoping these suggestions will have your earnest consideration and with warm personal regards, I am

Sincerely yours,

Edw. A. O'Neal - President

EAON:g

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RECEIVED
FEBRUARY 24 1941

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
March 3	19,080	1,442,474	81,000	60,348
4	218,632	11,408,484	160,000	125,498
5	24,449	793,163	31,000	31,950
6	126,017	3,581,120	291,000	296,108
7	36,912	1,433,373	117,000	120,123
8	<u>3,026</u>	<u>255,955</u>	<u>159,400</u>	<u>174,748</u>
	428,116	18,914,569	839,400	808,775
March 3				
Gift to Treasury	<u>4</u>	<u>7</u>		
	428,120	18,914,576		
Sales from 2/22/40 to 3/1/41	<u>5,595,088-1/2</u>	<u>172,222,599</u>	<u>19,483,700</u>	<u>18,664,818</u>
TOTAL 2/22/40 TO 3/8/41	6,023,208-1/2	191,137,175	20,323,100	19,473,593

Miss Poate reported sales of non-vested securities for the week ended March 1 totaled \$300,000.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 11, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£56,000
Purchased from commercial concerns	£22,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Co., and purchased £2,000 from Thos. Cook & Son.

Open market sterling remained at 4.03-1/2, and there were no reported transactions.

In New York, the closing rates for the foreign currencies listed below were as follows:

Canadian dollar	15% discount
Swiss franc (commercial)	.2322-1/2
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2303
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-5/8% discount

In Shanghai, the yuan in terms of our currency remained at 5-1/2¢, and sterling advanced 2¢ to 3.91.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Central Bank of the Colombian Republic shipped \$2,921,000 in gold from Colombia to the Federal for its own account, disposition unknown.

The prices fixed in London for spot and forward silver were unchanged at 23-3/8¢ and 23-5/16¢, respectively. The U.S. equivalents were 42.44¢ and 42.33¢.

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¢.

- 2 -

We made six purchases of silver totaling 500,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

The report of March 5 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$7,286,000, a decrease of \$322,000 in the short position. Net changes were as follows:

<u>Country</u>	<u>Short Position February 26</u>	<u>Short Position March 5</u>	<u>Change in Short Position*</u>
England**	\$ 263,000	\$ 515,000	+ \$252,000
Europe	3,292,000	3,207,000	- 85,000
Canada	109,000 (Long)	173,000 (Long)	- 64,000
Latin America	211,000	126,000	- 85,000
Japan	2,559,000	2,316,000	- 243,000
Other Asia	1,352,000	1,329,000	- 23,000
All others	40,000	34,000 (Long)	- 74,000
Total	<u>\$7,608,000</u>	<u>\$7,286,000</u>	<u>- \$322,000</u>

Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign(-) indicates decrease in short position, or increase in long position.

** Combined position in registered and open market sterling.

J. M. R.

CONFIDENTIAL

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE March 11, 1941

TO Secretary ~~Morgenthau~~

FROM Mr. Haas ~~HA~~

Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) Treasury securities have regained since February 15 about one-third of the price declines suffered between December 30, 1940 and February 15 (Charts I and II).
- (2) The increased issue of Treasury bills on March 5 was absorbed entirely by weekly reporting banks in the Chicago and St. Louis Federal Reserve districts. Bills are now in demand in these districts for the purpose of avoiding local property taxes.
- (3) High-grade corporate and municipal bonds have gained in price only moderately as compared with Treasury bonds during the past two weeks (Charts II and III).
- (4) Estimates of the yield differential between fully taxable and partially tax-exempt Treasury bonds vary from as low as 17 to as high as 57 basis points, depending upon the assumptions made with respect to the correct pricing of the new 2 percent Treasury bond (Chart IV).
- (5) The price of the new 2 percent bond offered on February 25 declined from an opening bid around 101-20/32 to a low of 100-21/32 at the close that day, but recovered somewhat, on balance, before the books closed the following day. As the result of the offering of a new note with the bond, the refunding was never in danger. The new note was worth at least 100-16/32, and if the price of the bond had fallen below that of the note, rights would have been converted into the new note. As it was, the bond never fell below the note, and when the books closed, it was substantially above it (Chart V).

Secretary Morgenthau - 2

I. Price and Yield Movements of
Government Securities

Prices of long-term Treasury bonds have enjoyed a net increase of over 2 points since February 15, when they reached a low for the year. Intermediate bonds have gained about 1 point during this time, while Treasury notes have gained, on the average, between 1/4 and 1/2 of a point (Chart I). This rise represents an average recovery of about one-third of the net decline from December 30, 1940 through February 15. Long bonds have shown the greatest strength, recovering about 54 percent of their losses between December 30 and February 15. The market for Government securities continues to be very thin, and hence subject to rather considerable price fluctuations. Price changes since December 30, 1940 are shown in the following table:

	Average price change	
	: Dec. 30, 1940 - Feb. 15, 1941 -	: Feb. 15, 1941 : Mar. 10, 1941
	(Decimals are thirty-seconds)	
<u>Notes</u>		
1 to 3 years	- .25	+ .09
3 to 5 years	-1.00	+ .11
<u>Bonds</u>		
5 to 15 years to call	-3.11	+1.02
15 years and over to call	-4.09	+2.10

The average yield of long-term Treasury bonds, moving inversely to prices, which increased by 29 basis points from December 30, 1940 through February 15, has decreased, on balance, by 15 basis points since February 15 (Chart II).

Secretary Morgenthau - 3

II. Absorption of New Treasury Bills

The issue of Treasury bills on March 5 amounted to about \$200 millions -- an increase of \$100 millions over previous weeks. This entire increase and \$20 millions more was absorbed by weekly reporting member banks in the Chicago and St. Louis Federal Reserve districts. Treasury bills are in demand in these districts at the present time for the purpose of avoiding local property taxes in Illinois and Missouri.

The March 5 issue of bills was also the first issue of taxable bills. The increased size of the issue and the special demand mentioned above, however, tend to obscure the effect of the tax feature upon the rates of discount at which they were awarded. The average rate on the last issue of tax-exempt bills -- dated February 26 -- was 0.043 percent, as compared with a rate of 0.086 percent on the first issue of taxable bills.

III. High-grade Corporate and Municipal Bonds

Unlike prices of long-term Treasury bonds which have risen markedly since February 15, prices of high-grade corporate bonds have fluctuated within a fairly narrow range and have improved very slightly (Chart II). High-grade municipal bonds have gained moderately in the last two weeks (Chart III).

New bond offerings to the public in the New York market were \$22.8 millions last week as compared with \$9.8 millions the week before. The largest of last week's offerings -- \$16.0 millions of Public Service Company of Oklahoma 30-year, 3-1/4 percent bonds (priced to yield 3.07 percent) -- is reported to be moving slowly. The principal demand is said to come from medium- and small-size insurance companies.

The RFC took the entire \$136 millions State of Arkansas refunding bonds on February 27 at a price to yield about 3.2 percent. A nation-wide banking group which had been prepared to bid for about two-thirds of the issue on about a 3-1/2 percent coupon basis withdrew at the last moment.

IV. Pricing and the Value of
Tax Exemption

Secondary distribution of the new 2 percent bonds of 1948-50 is still far from complete, and the market for Government securities as a whole remains thin as it has been since the first of the year. It is thus difficult to draw any valid conclusions as to the yield differential being established in the market between fully taxable and partially tax-exempt Treasury bonds. Chart IV compares the yield of the new bonds with the yields of outstanding Treasury bonds. Two curves are shown for the outstanding issues: an optimistic one based on low coupon bonds with 2-year call periods, such as was used by Mr. Piser of the Board of Governors in pricing the new issue, and a very conservative one based on the bonds in this area with the highest yields, irrespective of coupon or call period, such as was used by the Division of Research and Statistics in pricing the issue. Inasmuch as the opinion is widely expressed in the market that the new bond should be regarded as a 1950 maturity (on the ground that partially tax-exempt bonds will be called before maturity, but that taxable bonds will be allowed to run their full term) yields both to earliest call date and to final maturity are shown for the new 2's.

On the basis of yields to earliest call date the spread between the new bonds and partially tax-exempt bonds of comparable term is about 57 basis points when the optimistic curve is used, and about 38 basis points measured from the conservative curve. On the assumption that the new bond should be figured to maturity (other issues continuing to be computed to call) the corresponding spreads are 35 and 17 basis points, respectively.

The spread which may be attributed to the taxability of the new bond thus varies from as low as 17 to as high as 57 basis points, depending upon various assumptions which may be made — all with some authority — with respect to the proper pricing of the new bond as a partially tax-exempt security.*

* It should be noted, however, that the supposed necessity for pricing the new issue to maturity rather than to call is itself attributed to the tax factor, and thus creates a sort of "quasi-tax-differential" consisting of pricing the new issue as a 9-year rather than as a 7-year security.

Secretary Morgenthau - 5

When these differentials are expressed as equivalents of a tax on the coupon they vary from a low of 8 percent (or only one-third of the corporation tax) to a high of 28 percent (or more than the whole amount of the corporation tax) as shown in the following table:

Probable redemption date assumed for new bonds	Curve used in pricing	
	Optimistic	Conservative
	(Percent of coupon)	
1948 (Call)	28	19
1950 (Maturity)	17	8

The truth doubtless lies somewhere within these extremes, but the wide range makes it very difficult to say exactly how much allowance the market is now making for the taxability of the new bond.

V. Refunding of the March Maturities

The pricing of the new securities to be offered in exchange for the maturing 1-1/2 percent note of March 1941, and the 3-3/8 percent bond called for redemption at the same time, presented a special problem because of the difficulty in estimating the allowance to be made for the taxability of the new issues. The problem was met by your offering an intermediate-term bond, and — as a "backstop" to insure the success of the refunding — a 2-year note.

Opening bids on Tuesday, February 25, were about 101-20/32 for the new 2 percent, 7-9 year Treasury bond, and about 100-11/32 for the new 3/4 percent 2 year note. From the opening the price of the bond declined steadily, while the price of the note rose. At the close on Tuesday the prices of the new bond and the new note were the same (Chart V). On Wednesday the new securities gained, on balance, the bond

Secretary Morgenthau - 6

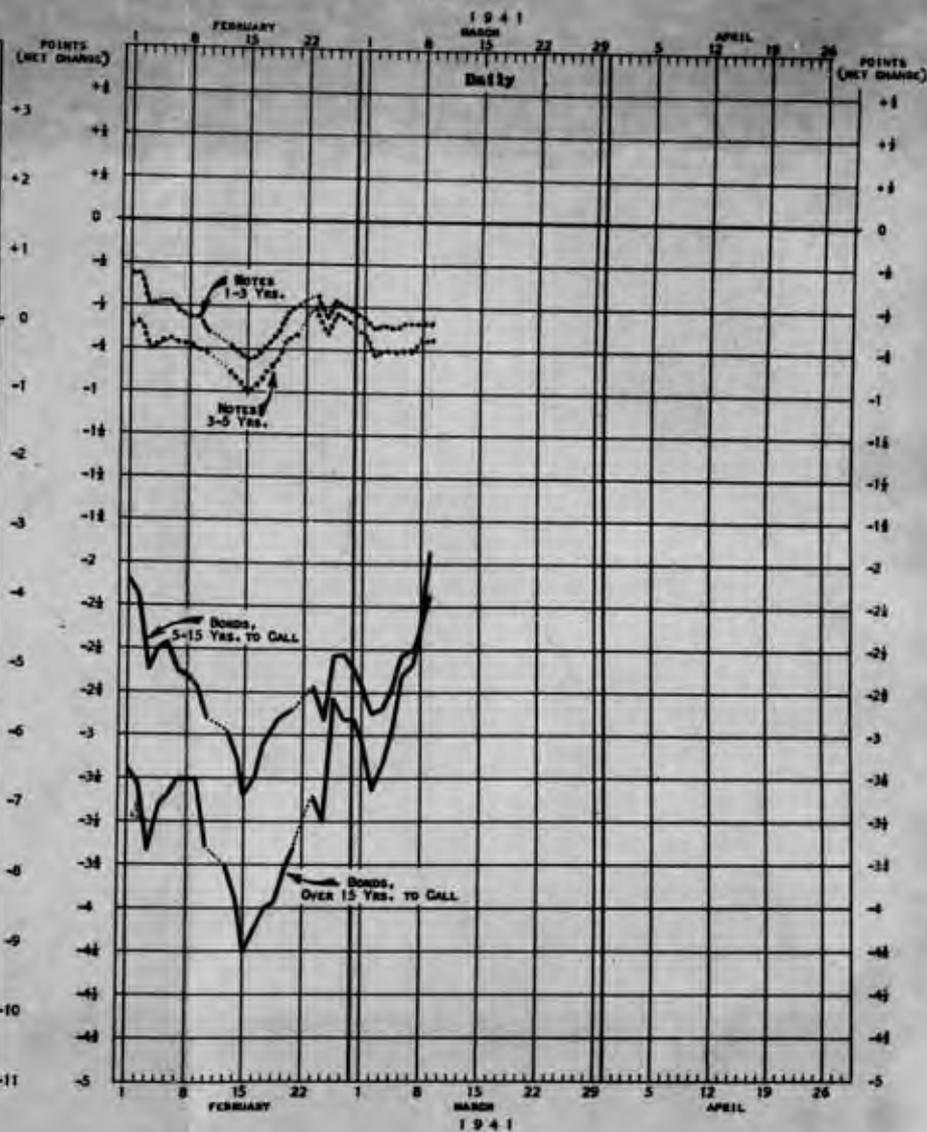
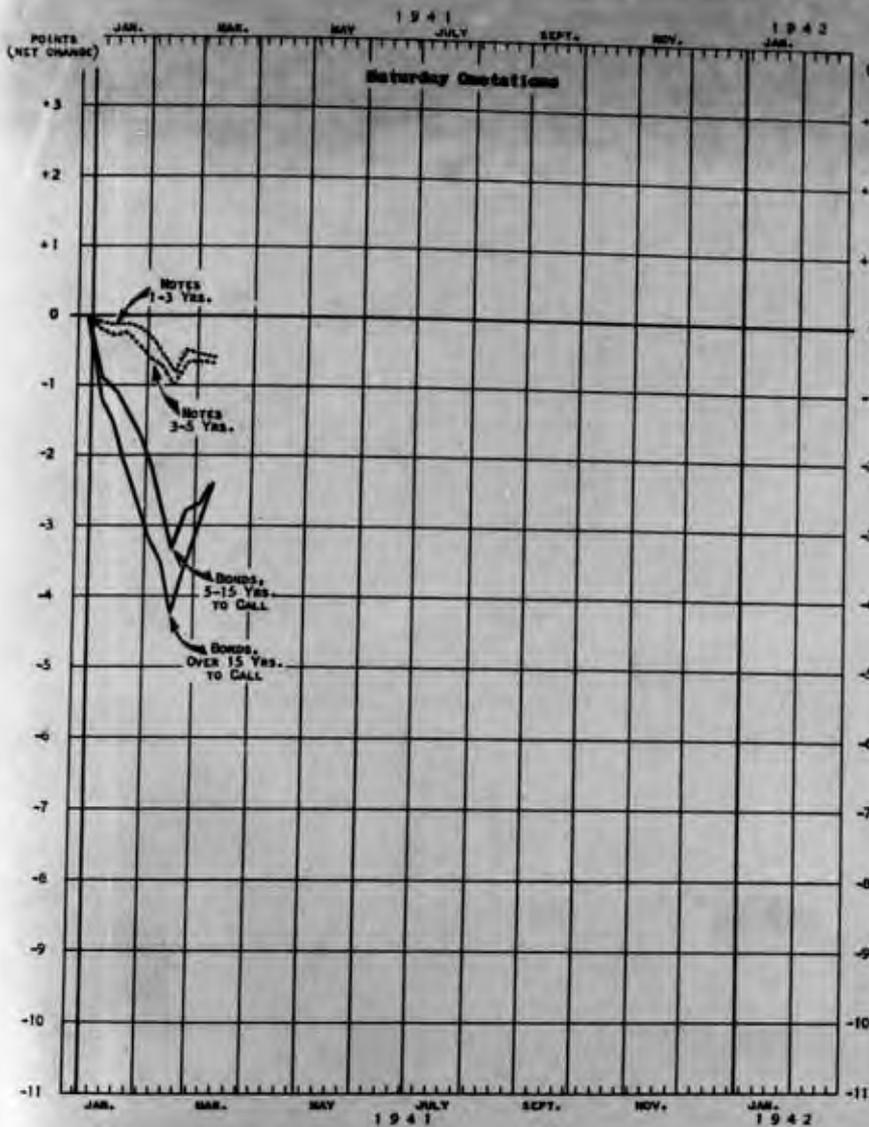
showing the greater strength, although at one point during the day its price fell back again to that of the note.

As a result of the offering of a note together with the bond, the refunding was at no time in danger. After the first two hours of trading, as the chart suggests, the note was always worth a minimum price of about 100-16/32. If the price of the bond had fallen below this price, rights would have been converted into the note rather than the bond. As it happened the price of the bond twice ricocheted upward from the price of the note, but never fell below it (Chart V).

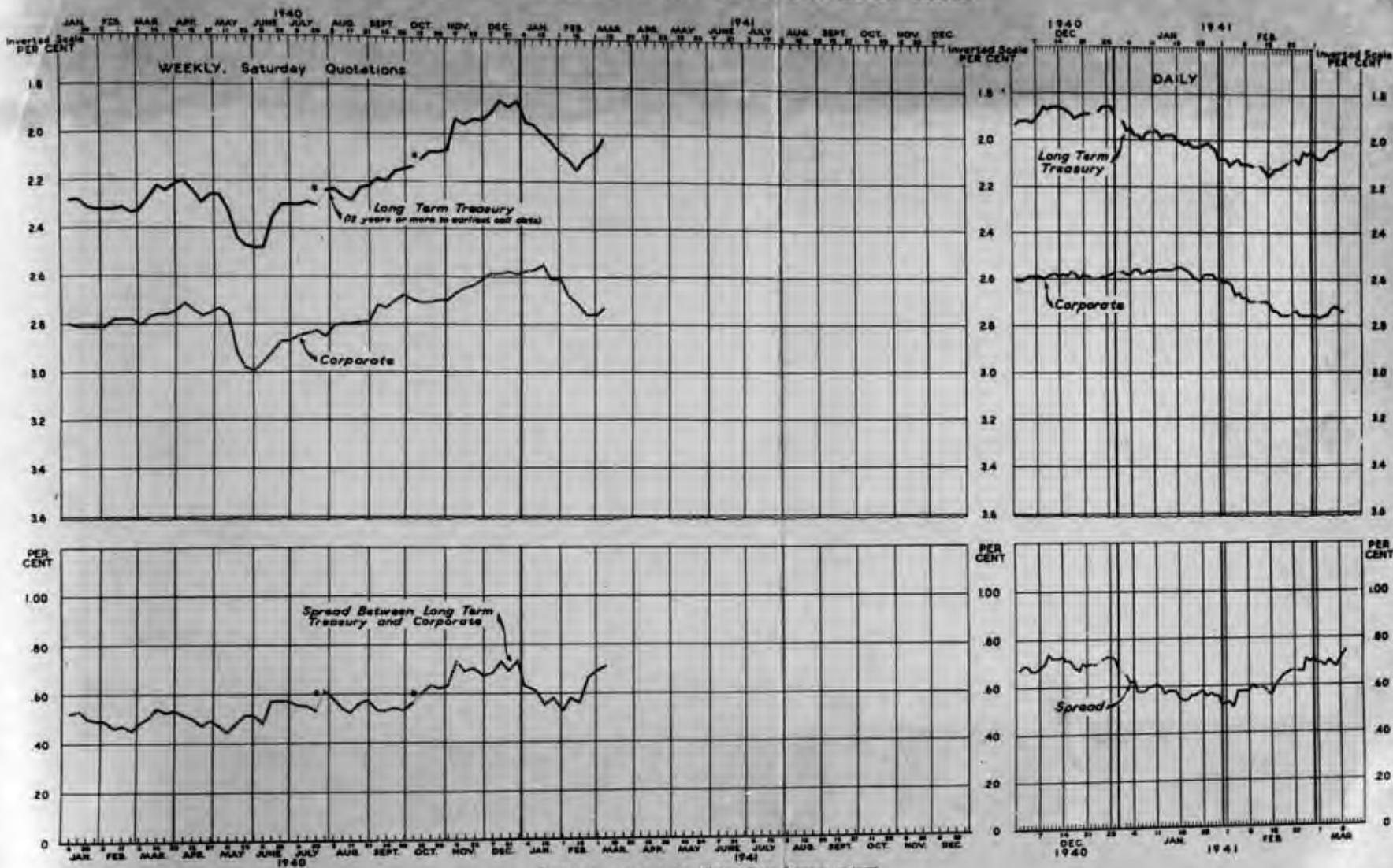
Attachments

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from December 30, 1940 Price of Each Maturity Class



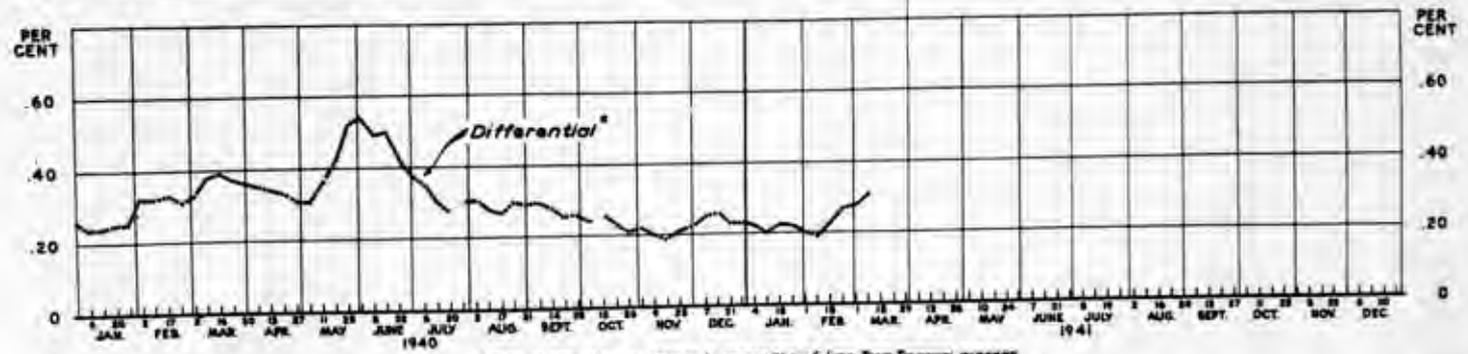
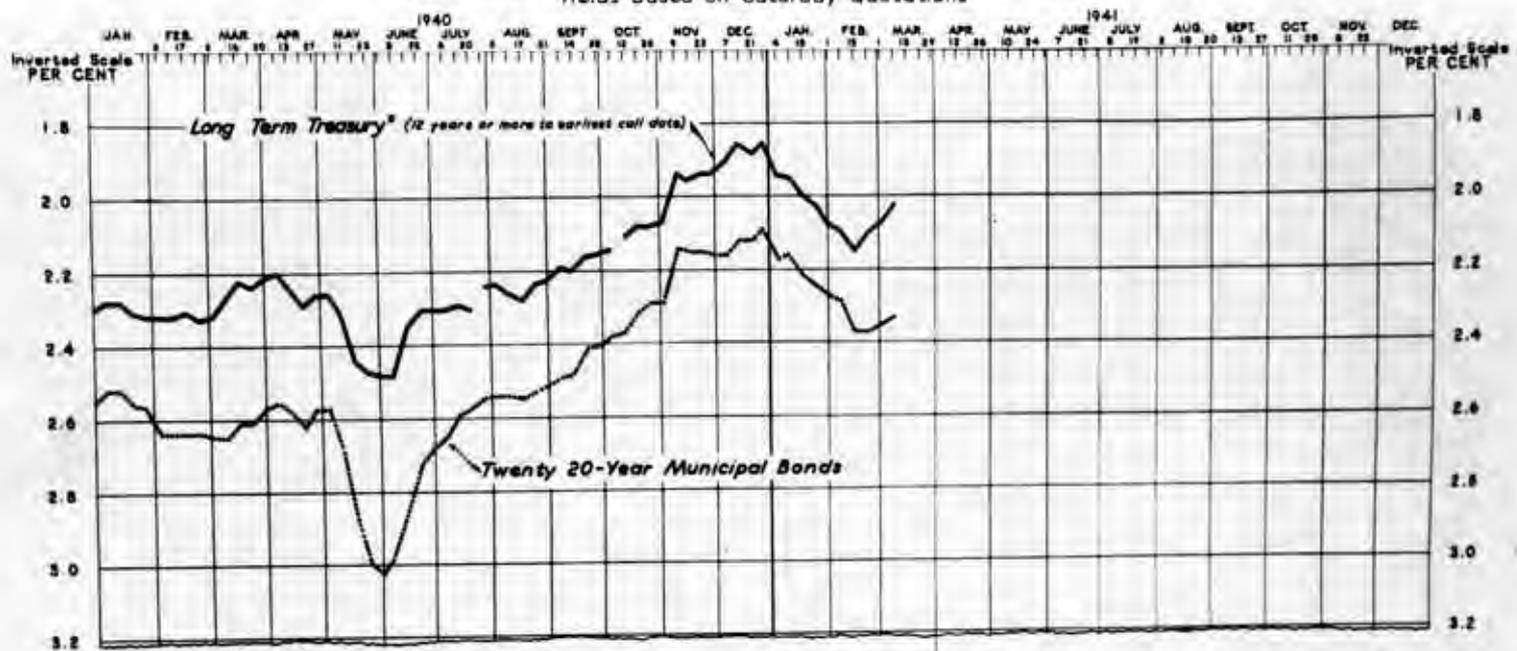
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



* Change in composition of Long Term Treasury average

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

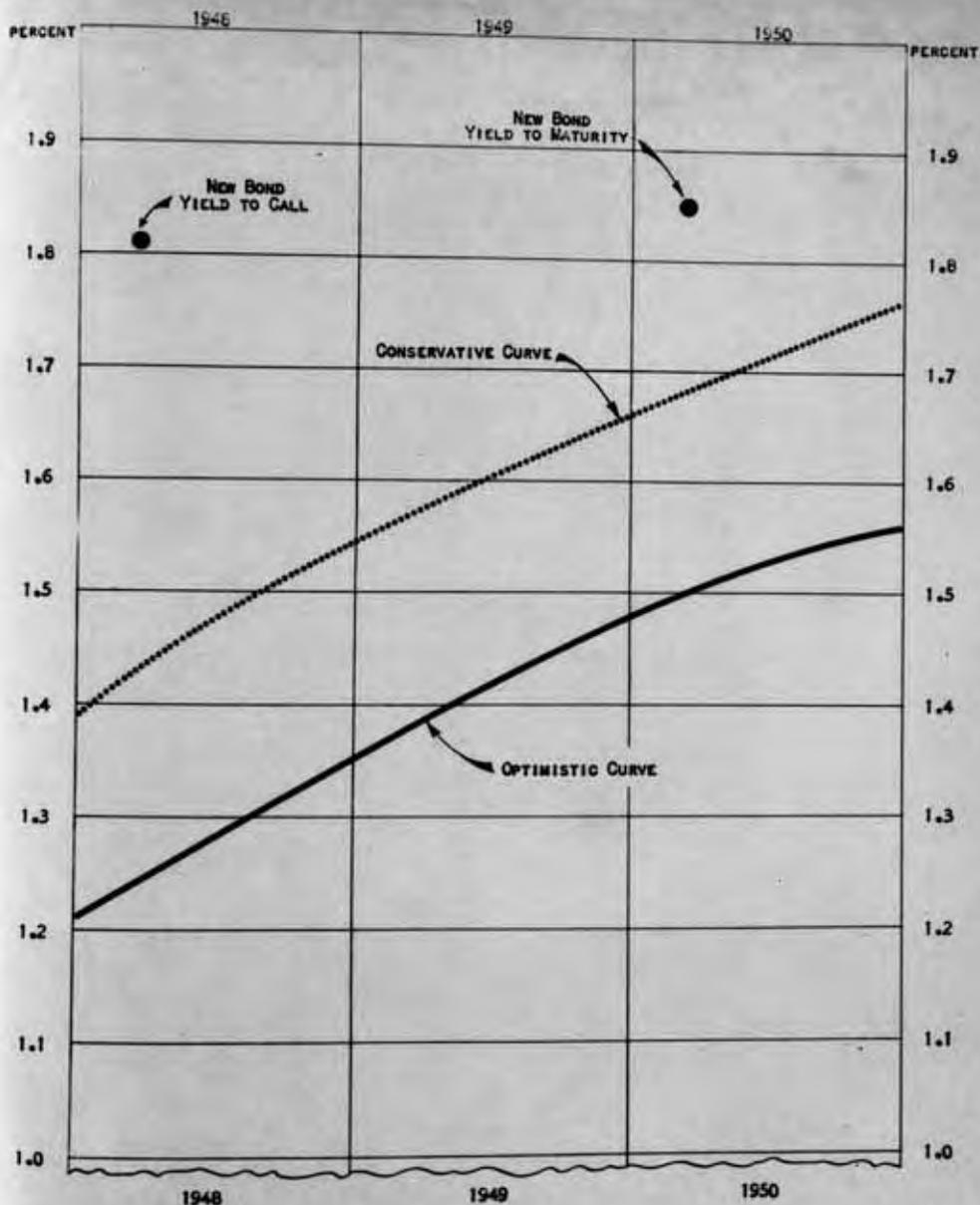
Yields Based on Saturday Quotations



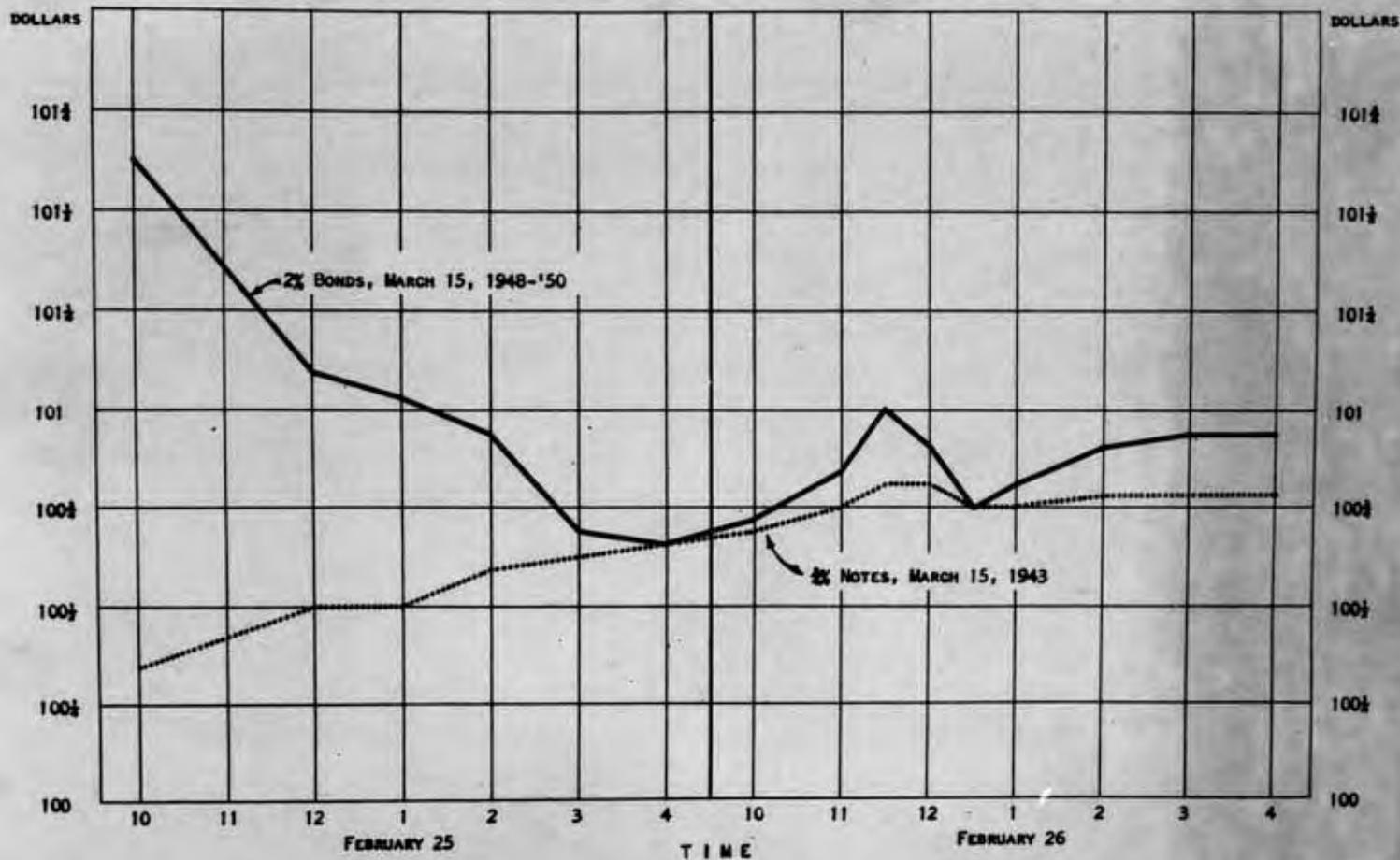
*Break in line indicates change in composition of Long Term Treasury average.

COMPARISON OF YIELD OF NEW 2% TREASURY BOND WITH
YIELDS OF PARTIALLY TAX-EXEMPT TREASURY BONDS

Based on Closing Bid Prices, March 10, 1941



BID PRICES OF NEW TREASURY SECURITIES
 Hourly, February 25 and 26, 1941



501

Treasury Department
Division of Monetary Research

Date..... March 11 19⁴¹

To: Secretary Morgenthau
From: Mr. White
Subject: Financing of Argentine food
shipments to Spain

Cable advice from Buenos Aires indicates that the Spanish interest in the Argentine Electricity Company will be used as the security for the Argentine credit to Spain to finance "immediate shipments" of meat and wheat to a value of 35 to 40 million pesos (about \$10 million).

This is the first case which has come to our attention of Argentine acquisition (probably only as collateral) of foreign-owned enterprises. Possibly these securities can be resold in the Argentine capital market to acquire pesos to pay Argentine grain and meat producers. But apparently they are to be used only as collateral.

MR. WHITE

Branch 2058 - Room 208

EH

PLAIN

Calcutta

Dated March 11, 1941

Rec'd 9:11 p.m.

Secretary of State,

Washington.

Eleventh.

Government notification March tenth requires British subjects holding twenty-four American securities surrender them within one month at fixed prices. Preferred stocks American power light fives electric bond share fives common stocks Telandtel Anaconda Bethlehem Chrysler electric bond share General Motors National City Bank Republic Socony National Power Light United States Steel Government bonds eleven issues.

GROTH

NPL

Copy:alm

Peiping via N. R.

Dated March 11, 1941

Rec'd 1:02 p.m.

JH

Secretary of State,

Washington.

80, March 11, 2 p.m.

As of March 1 the Federal Reserve Bank is reported to have refused to issue export permits covering articles made in whole or in part of silver, brass or other metals, including cloisssonne, and costume jewelry.

An official of the bank has stated informally that although no such restriction has been promulgated the matter is presently under consideration. The customs authorities state they have no instructions in the premises but refuse clearance without a permit from the bank.

This restriction if universally applied will in effect eliminate the only remaining major export from this area.

Sent to the Department, repeated to Chungking, Tientsin and Shanghai. By air mail to Tokyo.

SMYTH

GW

eh:copy

(CONFIDENTIAL)

PARAPHRASE

A confidential telegram dated March 11, 1941 from Consul Brady at Rangoon reads substantially as follows:

Reliable figures show that during the two months from December 30, 1940 to February 28, 1941 there were shipped into China by the Southwest Transportation Company supplies of all kinds for the Chinese Government to the amount of 22,026 long tons. It is reported that there was reopened to traffic on March 3 the new bridge across the Mekong River which in December was badly damaged by bombing. For weeks a pontoon ferry has been used to handle traffic across the Mekong River and there is now being built a pontoon bridge. The old Mekong River suspension bridge is still in a wrecked condition.

RECEIVED
MARCH 11 1941

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RESTRICTED

G-2/2657-220
No. 336

M.I.D., W.D.
March 11, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Daylight activity on the 10th was limited to attacks on shipping. Last night a heavy attack was made on Portsmouth.

British. On the night of the 10th-11th Cologne was heavily attacked. Invasion ports, including Brest, Cherbourg and Boulogne, were also raided.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. The Italians report patrol action by the ninth army and artillery and local infantry action by the eleventh army in the Tepelini sector. The Greeks report they have repulsed strong Italian attacks along a widened front in the central sector (Tepeleni-Klisura). It would appear that the Italians are preparing for a general offensive.

Air: Normal close support operations in Albania.

III. Mediterranean and African Theaters of War.

Ground: Abyssinia (Ethiopia). British forces have captured Dambacha and are threatening Debra Marcos 32 miles to the southeast on the road to Addis Ababa.

Libya. Minor operations incident to the siege of Giarabub.

Sea: The British report an Italian cruiser has been torpedoed and almost certainly sunk.

Air: German. Harrassing attacks in the Bengazi area.

British. A rather strong attack was made on Harrar, Ethiopia.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

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Paraphrase of Code Radiogram
Received at the War Department
at 10:35, March 11, 1941.

London, filed March 11, 1941.

1. On Monday, March 10, British fighter planes flying at 30,000 feet carried out three offensive sweeps over the French coast between Calais and Boulogne but encountered no German planes. During the preceding night no British planes were over the Continent.

2. During the night of March 10-11 targets on Liverpool Bay and the Estuary of the Thames were the objectives of secondary German raids. The principal raid was a fairly severe German attack carried out against Portsmouth. The extent of the damage done has not been determined. No British planes were lost. German losses were one plane which crashed. During daylight hours of March 10, 41 German planes were on reconnaissance missions over the English Channel and the North Sea. Twenty-nine German planes were plotted over Great Britain. One German plane was shot down and no British planes were lost. There was no damage to military installations. During the night of March 9-10 Royal Navy dock facilities and Army barracks in the Portsmouth area suffered some damage. During the same night 130 German planes took part in the attack on London. The Manston airfield in southern Britain was attacked by 18 German Messerschmidt dive bombers without damage in the early daylight hours of March 9.

3. Royal Air Force operations in Middle Eastern theaters were as follows: seven Italian planes were shot down and it is probable that two others were destroyed by British fighter planes over Kalayra (this may be

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Korfu which is the Greek name for the island of Corfu - G-2); an Italian motor transport concentration and Italian forces in the vicinity of Tepeleni, Albania, were attacked by British planes; British bombers successfully carried out a severe attack on the harbor of the Albanian city of Durazzo; in the Eritrean theater two Italian planes were destroyed and the highway between Asmara and Keren was bombed; in the Libyan theater the airfield at Tamet (Tad Kusan) and the city of Tripoli were attacked by British bombers.

4. Axis air operations in the Middle Eastern theaters were as follows: at Malta 12 German planes attempted to carry out a raid but the British shot down one of the German planes, damaged two others and drove off the rest; in Libya German bombers attacked the city of Agadabya without damage.

5. During the night of March 9-10 a British cargo boat in the Straits of Dover was sunk by German bombs. During the preceding day German bombers attacked two British merchant convoys along the east coast of England but caused no damage.

6. During the night of March 7-8 German airplanes attacked and caused minor damage to the 1,370-ton British destroyer IMPERIAL in the Mediterranean near Malta.

SCARLOW

Distribution:

Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
 Air Corps
 G-3

-3-

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Paraphrase of Code Radiogram
Received at the War Department
at 9:47, March 11, 1941.

Rome, filed March 11, 1941.

The Italian Army now has the following divisions in Albania: 16 line infantry divisions, 5 Alpine Divisions, 2 armored divisions, 1 motorized division. In addition to these there are the corps and army troops for 6 corps and 2 armies. These figures include one Celere groupment. At present the total strength of the army in effectives may be placed at 420,000. It is believed that an offensive is impending. There is a report that Celoso has been given the command, but as yet there is no sufficient confirmation.

FINIS

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Secretary of War
State Department
Secretary of Treasury
War Plans Division
Office of Naval Intelligence