SITUATION REPORT

I. Western Theater.

Air: German. Normal night attacks on Glasgow and the Clyde region. Some daylight pursuit activity in the Dover area.

British. Last night a heavy attack was made on the Rhineland industrial area, with the main effort against Mannheim.

II. Greek Theater.

The following Greek islands have been occupied by Axis troops:

In Ionian Sea: (By Italy): Corfu, Cephalonia, Zante (Zakynthos), Levkas (S. Mavra);

In Aegean Sea: (By Germans): Lemnos, Thasos, Samothrace, Naxos, Lemnos, Myconos, Lesbos (Mytilene), Chios, Syros;

(By Italy): Amorgos, Naxos, Paros, Santorin (Thera), Ios (Niso), Anaphe.

III. Mediterranean and African Theaters.

Ground: North Africa. The British for the present have assumed the initiative in the Sollum area as the Axis forces in this area appear to be merely covering the attack at Tobruk.

Air: Axis. Dive bombing attacks were renewed on Tobruk. Suda Bay (Crete) was raided.

British. Normal harassing activity in Libya.

IV. Iraq and the Arab World.

British military measures, including bombing, seem to be meeting with considerable success in Iraq. This is seeming to check swings toward the Axis in neighboring Arab states.
CONFIDENTIAL

London, filed 13:15, May 6, 1941.

1. British Air Activity over the Continent

   a. Day of May 5: Shipping was attacked along the coast of France but results are as yet unreported.

   b. Night of May 4-5: Ninety-seven heavy bombers operated against German battleships at Drest. Direct hits are claimed. Ten heavy bombers struck at Dover and nine at Rotterdam. Planes from the Coastal Command attacked Guernseyville and St. Nazaire airfields and scored a direct hit on a merchant vessel off the Norwegian coast. Planes from the fighter Command attacked airfields in occupied France.

2. German Air Activity over Britain.

   a. Day of May 6: German activity over Britain was on a minor scale, for the most part consisting of one small formation over East, patrols over the Straits of Dover, and single raids over Portsmouth, Milford Haven and Cornwall.

   b. Night of May 4-5: The principal German activity was an attack on the Glasgow area. Other attacks were made on Liverpool, Plymouth, Portsmouth and Belfast.

3. Revised figures of the number of German planes which operated over Britain on the night of May 4-5 show a total of 435.

4. Night of May 4-5: The principal target of the German planes was Belfast. They inflicted heavy damage to civilian property and ships to shipyards and the Short aircraft factory.

CONFIDENTIAL
CONFIDENTIAL

2. Night of May 2-3: The attack on Liverpool was the heaviest inflicted to date. There was considerable civilian damage, more than 1000 killed and injured. At Bournemouth the destruction of the Victorian-Austrian naval construction works was severely affected.

At Liverpool 3 merchant vessels were sunk or burned out.

3. Aircraft Losses, British Theatre.

In repulsing the air attacks on the night of May 4-5, no R.A.F. losses were sustained.

A. Eight fighters of the R.A.F. shot down 9 German planes during the attack on the latter on the night of May 4-5.

4. British Air Activity, Other Theatres:

A. Egyptian Theatre: R.A.F. planes based in Egypt bombed Suez naval base and all airports occupied by the Germans in Libya. Sixty motor transport vehicles filled with German troops were also attacked, with great damage resulting therefrom.

B. Arabianian Theatre: R.A.F. planes bombèd and machine-gunned Axis positions at the Felega Falls and damaged a column of 100 motor transport vehicles between Aba Alagi and Alamein.

C. Indian Theatre: R.A.F. planes covered the railroad southeast of Saggul, bombed Jergal headquarters at Beena, and dive-bombed and machine-gunned positions and troops around Beena.

5. Asia Air Activity, Other Theatres:

A. Arabianian Theatre: Thirty German dive-bombers attacked Teheran but with only slight success. Single planes bombed Herza Herza without

CONFIDENTIAL
inflicting material damage. Thirty German planes carried out dive-bombing attacks on Suda Bay, Crete, and six other planes laid mines in Alexandria Harbor.

6. Aircrrft Losses, Other Events:

a. No information has been received regarding British losses.

b. In the attack on Suda Bay, Crete, 3 German planes were destroyed and 4 probable. It is also known that 4 other planes were damaged.

III

Distributions:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, 0-2
War Plans Division
Office of Naval Intelligence
Air Corps
0-3
Cairo, filed May 4, 1941.

1. Libya.

In attacks on Tobruk German dive bombers used the formation of six planes in column from positions where observation was obscured by the sun and dived vertically from a height of 4000 feet with 12 to 15 He-119 or 110 Fighters with each attacking detachment. The escorts remain above, to one side, or in front of the formation of bombers. Three Fighters follow each string of bombers in their dive and crossed over the tails of the bombers while the latter are pulling up and out. The Fighters then regain their altitude to the position from which the attack started and the bombers reform under them. A part of the Fighters protect the bombers on their return trip while the remainder machine guns the targets which have been bombed. This method of attack and protection is effective since the Junkers 88 is most subject to attack when pulling out of a dive. Even with British Fighters present the method is not altered except that the attack is started from a higher altitude and the bombers pull out at greater height.

2. In the vicinity of Tobruk British Fighters were withdrawn a week ago.

3. Casualties from Anti-Aircraft among German dive bombers is one out of twenty with additional planes almost certainly damaged.
4. There were an average of five daylight dive bombing raids daily during the German attacks on Tobruk in the week ending April 20 and two bombing attacks from high altitudes every night. In all attacks 50 to 70 planes took part each time.

Distribution:
Secretary of War
State Department
Secretary of Treasury
War Secretary of War
Chief of Staff
Assistant Chief of Staff, 0-4
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL
Paraphrase of Code Cablegram
Received at the War Department
at 17:41, May 6, 1941

Lisbon, filed May 6, 1941.

A Battalion of Infantry sailed for Cape Verde Islands on
May 5. On May 1, two antiaircraft Batteries were sent to the Azores
for the island of Horta.

GAUM

Distribution:
Secretary of War
Secretary of Treasury
State Department
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, O-2
War Plans Division
Office of Naval Intelligence
CONFIDENTIAL

Paraphrase of Code Cabling
Received at the War Department
at 07130, May 6, 1942

Cairo, filed 2121, May 2, 1942.

1. The Habbaniya airfield was surrounded by units of the
Iraq army and at 0540, May 2, artillery opened fire on the British.
British fighter planes are being forwarded and it is planned to
make use of heavy bombers including possible bombardment of the
disaffected government in Baghdad.

DISTRIBUTION

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
G-3
Air Corps
Cairo, filed 18:46, May 1, 1941.

1. Libya.

A Western Desert Command under Air Marshal Tedder is being organized by the Royal Air Force which, when material is received, will comprise a fighter wing, a bomber wing and an army cooperation wing.

2. Very small amounts of Axis shipping have been observed during the last few days moving into Libya, but there have been considerable troop air transport. At Bardia and Benina on April 27 and 28, 1900 Junkers 52's unloaded troops.

3. On April 23 there were 237 German planes in Sicily, 409 in Greece with an additional 377 elsewhere in the Balkans and 192 in Libya. It is thought that the Italians have 936 in Libya, 104 in Albania and 163 in the Aegean.

4. Supplies of American ammunition for F-40's now in Egypt are 750,000 of .50 caliber and 1,500,000 rounds of .30.

5. Royal Air Force Headquarters have estimates that all but 8 per cent of their personnel was evacuated from Greece. Small craft transported approximately 1500; 350 went by air. One Sunderland flying boat carried 79 on one trip. Air crews were transported to Palestine to await new equipment.

6. On April 26 the British had in Egypt and Crete 11 Hurricanes, 46 Wellingtons, 10 Tempests and 31 Blenheims. Not included in the above were 10 Hurricanes, 3 Martines, 14 Blenheims and 22 Wellingtons.
in the course of inspection and maintenance. Ten Blenheimes and 10
Tornados were undergoing installation of war equipment in depots.

7. In Malta 5 Martines, 11 Wellingtons and 29 Hurricanes were
in serviceable condition. A total of 14 other so-called operational
aircraft, including Sunderlands and Valiants, were in commission and
undergoing inspection.

8. A total of 191 operational airplanes were in commission and
26 undergoing inspection and repair (all obsolete planes such as Vincents,
Hortons and Grantlets) in Aden, Iraq and the Sudan.

9. On April 25 there were in Tacheng:

<table>
<thead>
<tr>
<th>Airplane</th>
<th>Serviceable</th>
<th>Under Erection</th>
<th>awaiting Erection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blenheimes</td>
<td>7</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Martines</td>
<td>1</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Hurricanes</td>
<td>1</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Tornados</td>
<td>6</td>
<td>28</td>
<td>114</td>
</tr>
</tbody>
</table>

10. About 25 planes weekly are delivered in Tacheng in
approximately the same proportion as numbers serviceable in the above table.

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

SECRET
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE May 7, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

In accordance with instructions given me at the 9:30 Staff meeting yesterday
morning, I asked Sir Frederick Phillips to drop by the Treasury and discuss with
me last night the memorandum of April 25 from Secretary Knox of the Navy, in regard
to possible charges by the British Government for aircraft information supplied to
the United States Government.

I told Sir Frederick that the Secretary considered stupid this idea, as re-
ported to Secretary Knox by one of his naval observers recently returned from
England. Mr. Morgenthau asked that Sir Frederick pass this word on to Wilson for
further transmission to Lord Beaverbrook. In this connection the Secretary recalled
the arrangement which had been consummated relative to the Rolls Royce manufacturing
in this country.

Sir Frederick was not informed as to the possible correctness of the report
under reference. He promised to get immediately in touch with Wilson and get a
reply back from London for the Secretary as soon as possible.
MEMORANDUM for the Secretary of the Treasury.

SUBJECT: Possible Charges by British Government for Aircraft Information Supplied to the United States Government.

1. There is quoted below, as a matter of possible interest, an extract from a memorandum prepared by a naval officer recently returned from observer duty in England:

"I was informed while in London that Lord Beaverbrook had instituted a system for keeping close track of all cases where information, written or verbal, was furnished to American personnel, with the intention of assigning a value in each case and eventually presenting a claim for that value."

(Signed) Frank Knox
May 6, 1941

Merle Coohran
Secretary Morgenthau

What happened to that letter from Frank Knox in which he said that the English were charging us for the information that they were giving us in London? Please speak to me about it today.
MEMORANDUM

April 20, 1941.

To:       The Secretary of the Navy
From:    The Secretary of the Treasury

Thank you for your memorandum on the subject of possible charges by the British Government for aircraft information supplied to the United States Government. I am having this matter looked into.

(Initialed) H.M.Jr.
MEMORANDUM

April 28, 1941.

To: The Secretary of the Navy

From: The Secretary of the Treasury

Thank you for your memorandum on the subject of possible charges by the British Government for aircraft information supplied to the United States Government. I am having this matter looked into.

(Initialed) H.M.Jr.

By Messenger
MEMORANDUM

April 20, 1941.

To: The Secretary of the Navy
From: The Secretary of the Treasury

Thank you for your memorandum on the subject of possible changes by the British Government for aircraft information supplied to the United States Government. I am having this matter looked into.

(Initialed) H.M.Jr.
At 3:30 yesterday afternoon the Secretary received Mr. Harold Stanley and a Mr. Hall, both of Morgan and Stanley, and Mr. McKane of Dillon and Read. Messrs. Foley and Cochran also were present.

Mr. Stanley explained that the visitors had three points to mention. Insofar as the tax matter (which was the subject of Mr. Foley's memorandum of May 5 to the Secretary) was concerned, it appeared that a satisfactory arrangement had been made.

The important point was that two individuals still holding their original investment in Viscose had opened the question as to whether an arrangement similar to that effected for Brown and Williamson could not still be consummated with respect to Viscose. These holders are Mr. Hanbury Williams, the British banker who came out from London with Sir Edward Peacock and Mr. Salvage, the man who has been head of the Viscose Company in this country for many years. Each of these individuals has a five percent interest in the concern. Mr. Stanley reported that he understood these gentlemen had been in Washington in touch with Secretary Jones, and had reason to hope that the latter might arrange a transaction with them. For his part, Mr. Stanley hoped that no change in the original set-up would be made. He said that much work had been done and that plans were progressing for the issuance of securities, most likely before May 30, to take care of the obligations contracted for by Morgan and Stanley and Dillon and Read in connection with Viscose. This would involve an issue of $25,000,000 of preferred stock, and about $1,500,000 of common stock. Mr. Stanley wished, however, to follow the Secretary's advice, whatever it may be.

The Secretary stated that he was not aware of any negotiations with Mr. Jones on this new Viscose arrangement. He said that it was understood with Mr. Jones that they would consult on any operation of this sort, and he was positive that Mr. Jones would not go ahead with such a plan without speaking to him about it. It was the Secretary's definite wish that there should be no change in the original plan. He hoped that the new shares would be available for subscription by the general public and that the investment bankers who have participated in the transaction would make as many dollars as possible available to the British, with only a reasonable charge for their services. The Secretary instructed me, in the presence of the visitors, to get in touch with Sir Frederick Phillips and let him know of this conversation. Mr. Stanley and his associates seemed quite pleased with their talk with the Secretary. They had an appointment with Mr. Jones for later in the afternoon. It was understood that they would not raise the Viscose question with the Secretary of Commerce. If that they would not raise it, Mr. Stanley was to suggest that Mr. Jones consult Mr. Morgenthau thereon.
At 5:30 last night I recounted this meeting to Sir Frederick Phillips in my office. He told me that Mr. Hanbury Williams had called on him here in Washington and had let him know of the above-mentioned plan. Phillips had told him that he had better go back to New York and forget about it. Thus Sir Frederick thought the American Treasury's attitude was entirely correct and promised to pass on to Sir Edward Peacock a report of the meeting in Washington.
May 7, 1941
9:15 a.m.

RE TAXES

Present: Mr. Gaston
Mr. White
Mrs. Klotz
Mr. Sullivan
Mr. Helvering
Mr. Haas
Mr. Tarleau
Mr. Blough
Mr. O'Donnell
Mr. Foley
Mr. Kades

H.M.Jr: I got Blough out of bed this morning so I could go to school with him. I had a forty-five minute private lesson.

Sullivan: He is a very good teacher.

H.M.Jr: Very good. Simple enough so that I could follow him.

Go ahead, John.

Sullivan: In the original schedule that we filed on the Hill, we called for corporate taxes, an increase in the surtax, or rather a surtax of five and six percent, which would yield about five hundred thirty-five million and four hundred million additional excess profits taxes which were to be achieved through lowering the credits or increasing the rates or both.
We have gone through a series of discussions on a variety of ways in which it could be done, and we found we were somewhat restricted in the technique we used by the difficulty of making a change that was readily adaptable into the law as it is now written and the method that seems to be -- to fit in best with the present schedules and with the present law -- is to change the precedence of credits.

(Mr. Gaston entered the conference.)

Sullivan: At the present time, a corporation first computes its corporate tax and then having deducted that, computes its excess profits tax. We propose a shift in the precedence of those credits, under which a corporation will first compute its excess profits tax and then that tax will be a deduction for purposes of computing its regular corporate tax.

The effect of that will be to reduce the present eight percent credit for invested capital companies down to five and six tenths percent. Mr. Blough and Mr. Shoup think that that is not enough to induce new capital to enter invested capital businesses and hence recommend that the rate on new capital be raised to ten percent, which with the shift is the equivalent of seven percent.

We worked out a series of examples showing what happens to various companies under this system. This year United States Steel Corporation paid no excess profits tax. Under the proposal, it would pay an excess profits tax. Of course, its corporation tax would be reduced, but the net effect would be to increase its combined corporate tax and excess profits tax twenty-four and two tenths percent.
H.M. Jr: You mean an increase?
Sullivan: Increase.
H.M. Jr: Using what base for the corporate tax, twenty-four?
Sullivan: Thirty percent, sir. Liggett and Myers Tobacco this year will pay no excess profits tax. It will, under the proposal and the net effect will be to increase its combined corporate and excess profits tax eleven and a half percent.
H.M. Jr: That is the net increase?
(Mr. White entered the conference.)
Sullivan: That is right, sir.
Foley: Is that an average earnings company, John?
Sullivan: Liggett and Myers used average earnings this year and would use average earnings next year. United States Steel used invested capital this year and would still use it next year.
Foley: So the invested capital company's tax would be increased twenty-four percent, but the average earnings company increase would only be eleven percent?
Sullivan: In this particular case, but that is not the rule. The number of returns that have been filed thus far run about four to one in favor of average earnings. There are about four companies use average earnings for one that uses invested capital.
Now, J. C. Penney paid no excess profits.
Foley: Is that average earnings?
Sullivan: Average earnings, both this year and they would continue to use it under the proposal. Their increase would be sixteen and eight tenths percent.

Curtiss-Wright, they would use their - they used it this year and would continue to use it. Their increase would be nine tenths of one percent. They are about the same under either proposal. Coca-Cola --

H.M.Jr.: How much would Curtiss-Wright go up?

Sullivan: Nine tenths of one percent. They happen to be right on the border-line where it works out just about the same in either instance for them. Coca-Cola would show, using average earnings both this year and under the proposal, would show an increase of fourteen and three tenths percent.

General Motors, using average earnings both times, would show an increase of eleven and four tenths percent. Continental Can, using invested capital this year and through this being forced over onto average earnings, would show an increase of twenty-six and three tenths percent, and I have --

H.M.Jr.: How would it be - has anybody figured it that supposing you continued on the same basis and took your excess profits, or your corporation tax deduction first, but increased it to thirty percent and then applied it to the excess profits tax?

Sullivan: Oh, you reduce your excess profits if you --

H.M.Jr.: No, how would it apply to the individual companies?

Gaston: This is a comparison between those two, isn't
it, on the new rates?

H.M.Jr: No.

Sullivan: This is on the --

H.M.Jr: Supposing you took the corporation tax up to thirty percent.

Sullivan: Yes, sir.

H.M.Jr: And followed the method in '41 that you do in '40 and then applied it to excess profits.

Sullivan: Your excess profits tax would be less.

H.M.Jr: You don't answer my question. What would it be on the individual companies?

Sullivan: You mean what would the particular figures be?

H.M.Jr: How much would each company pay?

Sullivan: I don't know. We would have to figure that.

H.M.Jr: I think that is the first question anybody is going to ask you. You are only giving one side of the story.

Flough: May I interpose a word?

H.M.Jr: You are only giving one side of the story. How would it hit these companies if you took a deduction of the corporate tax first in '41 the way you did in '40?

Sullivan: They would pay less tax.

H.M.Jr: I don't know whether they would.

Flough: Mr. Secretary, may I interpose a word.

H.M.Jr: I don't know which companies would and which wouldn't.
Helvering: They all would pay less.
H.M.Jr: How much?
Helvering: I don't know in dollars and cents.
H.M.Jr: I would like to see those very same companies take and apply it the same way for '41 as you did in '40 and see how it comes out.
Foley: You mean use exactly the same rates but put the excess profits first and then take the deduction of the future corporate tax?
H.M.Jr: No, he has done it that way. Now I want him to do it the 1940 way. Take your corporate deduction first.
Blough: May I --
H.M.Jr: Apply that formula the way you did in 1940. In 1940 which was your deduction that came first.
Sullivan: All right, in the United States Steel Corporation in 1940 the deduction for corporate taxes was taken first and the result --
Foley: At what rate? I think the Secretary means at the accelerated rate.
H.M.Jr: Yes, I mean on percent.
Blough: It has been taken at that, Mr. Secretary.
Sullivan: It was taken at thirty percent.
Blough: The figures Mr. Sullivan has read are for the same year, 1940, using the same rates, thirty percent --
H.M.Jr: I didn't know that.
Blough: Normal tax and fifty percent maximum surtax.

H.M.Jr: That is applying it to 1940?

Blough: This is all 1940 and it isn't even the returns filed by these companies, because these companies haven't filed returns. It is based on published reports.

H.M.Jr: All right, say you are right, but you are taking it from twenty-four to thirty. Supposing you took exactly the same tax rates. Supposing you took twenty-four and just reversed the credits. Where would you be?

Foley: That is what I said.

Blough: Oh, if you took present tax rates and reversed the credits.

H.M.Jr: Yes. You are increasing it from twenty-four to thirty. What I want to discuss here that Sullivan brought up is a new method and the new method is not to increase it from twenty-four to thirty, but is to which credit you take first.

Blough: That is just what the tables Mr. Sullivan has read does do.

H.M.Jr: At twenty-four percent?

Blough: Both of them at thirty.

H.M.Jr: Of course it is more, but supposing you did it at twenty-four?

Foley: The comparison is the same.

Gaston: They have taken the new rates in both instances, but the comparison is of the switch.
But it is no comparison, Herbert, unless you take it at the same rates.

They are at the same rates. The difference shown here is the difference caused by the switch only, as I understand it.

That is right.

They are using the same rates.

Both figures are higher --

Are they at twenty-four or are they at thirty?

Thirty percent.

Then it isn't the same.

The Secretary wants an illustration of another kind of switch in which the basis of comparison shall be the old corporation rate of twenty-four percent instead of the new corporation rate of thirty.

That is right.

Exactly what you have got there except you use the lower rates instead of the higher rates.

We can get that.

And see what the end result is.

He has got, as I understand it, a comparison of the application of both the new rates, the corporation rates, and the excess profits rates, but switching them, one column shows the effect applying the corporate tax rate first and the other column shows the effect of applying the excess profits tax rate.
Foley: That is right. What the Secretary wants --

Gaston: Another --

Foley: ..... is exactly the same thing except using twenty-four percent.

Gaston: Going back to the '41 rates in both cases.

Foley: Yes.

Gaston: Both cases, yes.

White: With the assumption that you may end up by saying that you won't change the corporation rate if the change in the excess rate will give you the desired results.

H.M.Jr: I want to see what it does to American Car and Foundry and some of these other companies particularly American Car and Foundry, which is the glaring example. Have you got American Car and Foundry?

Tarleau: Excess profits ought to be the same because you are not going to reduce it by the normal tax. The excess profits tax would always be the same because the deductions for normal tax isn't taken into account.

H.M.Jr: Look, what I want is, just switch these things around, exactly the same rates, but take - you switch on your credits and what is the net percentage that a business will pay in taxes, Federal taxes. Now, that is a simple question. In other words, what does this switching method do to different types of companies without changing the rates, raising it to thirty. That just distorts it. Can I have that?

Sullivan: Yes, sir, you can.
H.M. Jr: How soon?
Blough: I can give it to you now on United States Steel.
H.M. Jr: All right.
Blough: United States Steel, subject to corrections, appears like this. At the twenty-four percent rates with the present credit, thirty-seven thousand three hundred - thirty-seven million three hundred ninety-nine thousand dollars in normal tax.

H.M. Jr: That is what they will pay for this year?
Blough: That is what they will pay on 1940 income.

Now, if you switch the credits, they would pay forty-nine million six hundred sixty-nine thousand dollars made up of sixteen million a hundred and forty-five thousand excess profits tax; and thirty-three million five hundred twenty-four thousand of normal tax. That gives us an increase of twelve million two hundred seventy thousand dollars, which is nearly thirty percent of an increase over 19 - over the method with the present credits.

H.M. Jr: And this shows twenty-four percent.
Blough: That shows twenty-four and two tenths percent. The reason is the base is smaller. The amount of increase won't be greater, but the base is smaller and that will give you a greater percentage.

H.M. Jr: I said this is distorted. Now, I want that thing done. You see, they pay thirty percent in the case of the United States Steel.

Blough: You mean that much more?
H.M.Jr: Yes, net.
White: With the new excess profits.
Blough: Their increase in taxes, using the twenty-four percent rate, is approximately thirty percent.
H.M.Jr: All right, and on this thing here it is twenty-four.
Blough: Yes. The increase in amount of tax would not be correspondingly different.
H.M.Jr: How many dollars would we get on that basis?
Blough: Well, on this basis we would get twelve million two hundred seventy thousand more, and on the thirty percent, eleven million three hundred one thousand more.
H.M.Jr: How many?
Blough: Twelve million two hundred seventy thousand.
H.M.Jr: And on this basis we get eleven million?
Blough: Yes.
White: But you get - not compared with the twenty-four percent rate but you get the eleven or the twelve as a result of the shift.
H.M.Jr: That is right. Now, could that be applied - you can't do it now.
Blough: Well, it is just a matter of a little arithmetic. It isn't a difficult thing to do. We could have it done quite shortly.
H.M.Jr: Couldn't you send for some other person and let
him do it outside while we continue with this discussion?

Blough: I wouldn't anticipate it inside of half an hour.

H.M.Jr: That is all right, just get it started and then come back.

Sullivan: Yes. Mr. Doughton wants me to be sure and call him in fifteen minutes. Should I go out and call him now?

H.M.Jr: Yes, you go out and call him. Incidentally, what I have got in mind is to ask Doughton and Jere Cooper to come down here at eight thirty tomorrow morning and submit this thing to them.

Sullivan: Yes, sir.

H.M.Jr: And go over it with them in this office here at eight thirty tomorrow.

(Mr. Sullivan left the conference.)

White: Mr. Secretary, what is in the back of your mind in getting that comparison? Are you contemplating not raising the twenty-four to thirty?

H.M.Jr: No, Harry, the only thing is - I just - all I want to consider for the moment is shifting these credits, what does it do.

Now, in the case of U. S. Steel, by shifting the credits you get --

White: It is twelve million dollars.

H.M.Jr: You get a little bit more.
White: A little bit more on the basis of the --

H.M.Jr: Of the old rates. Now, this is something quite new.

Now, how can you consider a new method unless you consider the old rates?

White: I see.

H.M.Jr: Nothing in the back of my mind. I am only thinking of one thing, and that is, is this a good method and what will it do to different types of companies. I want to stick to the method and not to the rates.

Now, the first one we hit, I am surprised, and I think some of the others - is this a good method or isn't it a good method. I am not thinking of the rates at all, Harry. But if you shift your rates on me, I can't consider the method.

Foley: Then you have got two changes instead of one.

H.M.Jr: I just want to consider one thing at a time. I mean, I don't see how you can do anything else but one thing at a time.

White: It would be helpful to me, Roy - could you tell us how much net profits would United States Steel have left on this estimate here? What would they have left after the change for distribution of earnings, if they wanted to?

Blough: Well, the work sheets are down there, but let me indicate how we could do this. The forty-six million represents thirty percent.

White: Then it would be a hundred thirtyeths. Would that give you the earnings, the distribution?
Blough: Yes, that is right.

White: In other words, in estimating the - whether these taxes are too high or too low to attract additional capital, which I take it is one of the points --

H.M.Jr: Well, that will come next.

White: I see.

H.M.Jr: That is another thing. No, that is another thing. Now, let's just - if we are going to do this method, if you want to know what I am thinking about, there is one thing which I want to stress, that we have got to make some provision for the smaller corporations.

White: Then why not try that same thing with the small corporations?

H.M.Jr: That is one thing you have got to do. And they have got a method on new money where they are going to make an allowance of twenty-five percent which works out so you get about ten percent on your new capital. But those are all - those are all modifications - I mean, those are all part of the plan.

Have you (Helvering) heard this at all? Is this all new to you?

Helvering: Yes.

H.M.Jr: Want to say anything, Guy?

(Mr. Sullivan returned to the conference.)

Sullivan: He (Doughton) is not going to reply to the letter.
White: You don't want to go on to the discussion of that second point yet?

H.M. Jr: What is that?

White: As to whether or not the rates are too high or too low, which you are recommending.

H.M. Jr: No, not now. You are thinking of what is left over for increase in wages and that sort of thing?

White: No, what is left over is sufficient inducement, whether it is much more than enough or not enough. That seems to me to be one of the important things, because --


Sullivan: Well, new capital would be allowed ten percent, which with the shift is the equivalent of seven percent.

Now, Mr. Blough feels very strongly on that and I think he had better explain his position on that.

Blough: Well, it is simply this, that it is entirely possible, and I think correct, to say that an old corporation with a lot of invested capital that has been earning over the last few years at very low rates and during '36 to '39 earned possibly only three or five percent, will continue to operate even though it doesn't get more than that same amount during this defense period or, to put it another way, even though all over that amount is subject to the excess profits taxes, but if we believe in the capitalistic system, I think we must necessarily believe that the inducement to put in money and take risks is part of it, and if
we set as an effectual top limit, almost, to what you can get if you win, not what you get if you lose but what you get if you win in your business efforts, a rate of five and six tenths percent net, which is what this plan would do with the reversal of credit, I don't believe you are going to get many business managements to be willing to expand or many investors to be willing to put in money.

Now, I should rather have us go considerably higher on new capital, but if that is politically not feasible, it seems to me at the very least an addition so that the net return on new capital would be seven percent is not certainly not too high. It may not be high enough, but I should certainly like to see some differential there between the old capital and the new.

White: I for one don't understand it, but I don't want to hold this up when everybody else does.

H.M.Jr: I want to point out this. On the over-all picture, while through excess profits you get seven hundred fifty million dollars more, but through allowing the credit, the net gain is only three hundred million by doing this, the net gain is only three hundred million.

So I mean here is something again where we subject ourselves to being said to, "You are always changing the rules, pulling a fast one," and there is some justice to the criticism.

But the net gain to the Treasury would be three hundred million dollars.

Blough: That figure I gave from memory. It may be you (Sullivan) have a revised figure.
H.M.Jr: Is that right?
O'Donnell: Between two hundred eighty and three hundred million dollars is correct.
H.M.Jr: So I mean while it looks very pretty to say you have gained seven hundred fifty million dollars from excess profits, the net gain to the Treasury is in the neighborhood of three hundred.
Sullivan: I am not so sure it is that much.
H.M.Jr: You don't think it is that much?
Sullivan: It depends upon the basis you are talking about, the gain.
H.M.Jr: Either it is or it isn't. The man sits here. Either he knows his business or he shouldn't be sitting here.
Sullivan: He knows his business.
H.M.Jr: He said two hundred eighty to three hundred.
Sullivan: We put in a schedule calling for four hundred million of excess profits and five hundred thirty-five million in corporation taxes.
Now, if this goes into effect we will get two hundred seventy-three million from the corporation taxes and six hundred sixty-two million from excess profits taxes.
(Mrs. Klotz entered the conference.)
Sullivan: So that the amount we get from the two taxes is combined and is just the same.
H.M.Jr: I can't follow you. From the two taxes, do you or - how much by shifting - is it more or less that you get? You do the figuring, don't you.

O'Donnell: Yes, sir, I do.

H.M.Jr: What is the amount?

O'Donnell: I think Mr. Sullivan is entirely correct in what he says. Now, I have not figured out on the basis of the present law what you get from shifting, which is equivalent to the question you have asked Mr. Blough. I have been working on the revised rates, Mr. Secretary, and on the application of the revised rates the net gain to the Treasury from corporation taxes is in the neighborhood of three hundred million dollars.

H.M.Jr: When you increase it from 24 to 30?

O'Donnell: That is correct.

H.M.Jr: But that doesn't give me the figure how much - that is one figure. But the figure - that is the figure that Blough gave me this morning.

O'Donnell: Yes, sir.

Blough: I don't understand it to mean quite that, Mr. Secretary.

O'Donnell: Let me follow it through with you, Mr. Secretary, if I may, step by step, without reference to tabulation. When you raise the rate, normal rate or surtax rate, if you want to call it that, of corporations by six percent, it is equivalent to that, it is five and six, you raise about seven
hundred eighty million dollars gross under the present law. However, when you do that under the existing law, that normal tax would be deductible for the purposes of computing your excess profits tax.

That is the way it is now.

O'Donnell: Yes, sir, so that seven hundred eighty million dollars is not a net gain. You have two deductions or offsets against that figure. One is the loss which you would entail in the expectation of excess profits yield under the present law. That expectation at present is one billion twenty-six and four tenths million dollars. We would reduce that, my recollection is, by a hundred and eighty-nine millions by increasing the corporate surtax by six percent. In addition to that, you have another offset. Having taken from the corporations this seven hundred eighty million gross, which is what it is equivalent to, you have reduced the ability of corporations to declare dividends, and the effect on the tax system is two-fold, both because other corporations would have received those dividends had they been declared and individuals would have received the dividends had they been declared. Now, it just happens that of all the sources of income that go to individuals, dividends is the one which bears the heaviest rate of tax because it falls heaviest in proportion to the income in the higher brackets and the effective rate of tax that we collect on dividends is relatively high, so there is about another eighty million dollars lost against your seven hundred eighty gross which brings you down to the figure which Mr. Sullivan put in the table that he submitted to the Ways and Means Committee to a net of about five hundred
thirty-four million dollars from raising the surtax rate by six percent. Now, that is one complete step.

H.M.Jr: How much?
O'Donnell: Five hundred thirty-four million dollars.
H.M.Jr: Now, that would be for the - applied to business for the calendar year '41.
O'Donnell: That is our estimate for the calendar year 1941, yes, sir.
H.M.Jr: But that isn't what we have been talking about.
O'Donnell: That does not yet touch the excess profits tax.
H.M.Jr: Now wait a minute, that is all very pretty. These figures here - I mean, I don’t see why you can’t do your homework - why I have got to do it for you.
Sullivan: I beg your pardon, I have been through this many, many times, sir.
H.M.Jr: Well, if you explain it on the Hill, John, the way you explained it to me, I don't see why anybody should understand it, and when you come in and tell me that there is seven hundred fifty million dollars increase in the thing, I just say it isn’t giving it to me the way it should be.

Now he gives me a figure on the '41 business. These figures here are based on '40 business and you fake your taxes, you increase them.
Sullivan: I am not faking anything.
H.M. Jr: Sure you do.
Sullivan: I beg your pardon, sir.
H.M. Jr: And I have got to get up at eight thirty this morning to find out that it isn't seven hundred fifty million the way you told me yesterday, it is only three hundred million. And this bunch of stuff that I have got here has got nothing to do with what we are talking about, and I am talking about the method, and I have got to wear myself out to find out what does this method mean, and I can't get the figues, how much would be the net increase if you take your 1940 businesses--

Sullivan: 1940?
H.M. Jr: 1940 calendar year, and apply this method without any increases, without any changing from 24 to 30, how much would be the net increase, and that is what I want at three thirty. I don't see why anybody should understand it. There is nobody in the room here understands it. You are giving me two different sets of figures. The five hundred thirty-four figure that I have just gotten applies to '41.

Sullivan: That hasn't anything to do with excess profits taxes.
H.M. Jr: Why give it to me?
Sullivan: I didn't give it to you. Mr. O'Donnell was attempting to explain to you the effect of one tax on another. That is the increase in corporation taxes, not excess profits taxes.

H.M. Jr: But what I - you are submitting a brand new formula to apply to every business, and what
the figure that I want from somebody in the Treasury at three thirty - apply it on - now get this, O'Donnell, will you please.

O'Donnell: Yes, sir.

H.M.Jr: Apply it on 1940 businesses, 1940 schedules, and just making the difference that the fellow applies the excess profits first instead of the corporate. Now, isn't that plain?

Sullivan: Yes, that is very plain. We can get that for you.

H.M.Jr: Now, the way it is this morning, you only gain three hundred million, but that is after increasing the normal tax by six percent. Now, what I want to know is, leave it the same and how much do you get. You may not gain anything.

Sullivan: You mean by the shift?

H.M.Jr: Yes.

Sullivan: I think we will, but that is aside from the point.

H.M.Jr: No, that is the whole point. That is the whole point.

Sullivan: All right, we will get that for you.

H.M.Jr: Well, God, John, I am saving you from being crucified up there on Friday, because that is what they are going to ask you.

White: Mr. Secretary, I think you are right, but I think they will ask both, won't they? They will want to know what it is on the '40 and
they will also want to know what it is on new rates. Now, they have what it is on the new rates. All they have to find out is what it is on the old rates, but both will be important.

H.M.Jr: It is much better to have it here than it is to have it on the Hill.

Sullivan: That is right, sir.

H.M.Jr: And have it on these model companies, and please include American Car and Foundry.

Blough: That is being worked on now.

H.M.Jr: And I want DuPont included and Newport News.

Sullivan: Is that a shipping company?


White: What is your illustration of a small company? What company have you selected as a small company?

H.M.Jr: Well, these are all--

Foley: How about United Aircraft and Standard Oil.

H.M.Jr: Those aren't small enough. You ask me what do I think is a small company?

White: Yes, you wanted to see how it acted on a small company.

H.M.Jr: Any company from a hundred thousand down.

White: Well, there were no illustrations that I have.
Blough: That is correct.

H.M. Jr: Include Chrysler, please.

Foley: How about United Aircraft?

H.M. Jr: That is all right, United Aircraft.

Foley: How about Standard Oil? Those two, I think, ought to be included.

H.M. Jr: All right.

Foley: What I think is important to bring out, Mr. Secretary, is the difference that this is going to have, this shift is going to have between the invested capital companies and the average earnings companies, because it seems to me that the average earnings companies are the ones that are getting away with something at the present time. These will be the invested capital companies and I am not sure that this shift is going to help that situation. I think the average earnings companies are still going to have a greater advantage than the invested capital companies.

Tarleau: Yes, but it is just a question of getting something out of the average earnings companies. If we don't do it through the shift, we may not be able to get another nickel out of them.

Foley: Then the whole thing is wrong, then we ought to eliminate the two formulas and have one single formula.

Sullivan: We fought that for three months last summer, Ed. We fought that all last summer long.

H.M. Jr: Well, if you don't mind my saying, just the
fact that we lost last summer doesn't mean
that we should condone a formula which may
prove to be--

Sullivan: That is right.
H.M.Jr: ... unfair.
Sullivan: Yes, I agree with you. That is why I fought
it all last summer.
H.M.Jr: But you may have to fight it again all this
summer.
Sullivan: All right.
H.M.Jr: I can't tell from this, John. I mean, I
just can't get anything out of this.
Sullivan: You want to get nine hundred million dollars
from corporations through two types of taxes.
H.M.Jr: Well, there is no iron-clad rule about that.
Sullivan: Well, I mean that is the schedule that was
approved and that is the point we have to
start from.
H.M.Jr: Approved by whom?
Sullivan: That we put in. It was passed on by the
President and yourself.
H.M.Jr: Oh, no, no. The President didn't approve
any schedule.
Sullivan: I didn't say he did, but I--
H.M.Jr: Excuse me, you said, "Approved by the Presi-
dent and myself."
Sullivan: I said, "Was seen by the President," and I
understand it was approved by you.

H.M.Jr: Well, what you said on the Hill - you were talking for me, but he hasn't approved any definite amounts.

Sullivan: I wasn't trying to hold him to that or anything else.

H.M.Jr: That is why when you go up there on Friday, you are talking for me, and I want to make sure that the Treasury, you and me, doesn't make a monkey out of itself.

Sullivan: I am equally anxious for that.

H.M.Jr: And I would much rather have it in the room here than have it up on the Hill, but I can't tell until we see this thing applied. You may find that it only produced five or ten million dollars more. You don't know.

Blough: I am willing to gamble a great deal.

H.M.Jr: How much do you think?

Blough: I think that if--

H.M.Jr: Well, don't let's guess. We will know at three thirty. Can you get it by three thirty?

Blough: That is Mr. O'Donnell's task.

O'Donnell: It is quite a job, but I think we can do it.

H.M.Jr: Well, you have got to get it. We will stop in five minutes. You can get it. You will just have to, that is all.

Sullivan: May I continue just a minute on the nine hundred million? I had understood that that
was the proportion of the three and a half that we were to take out of corporations, five hundred thirty-five was to come out of regular corporation taxes, and four hundred million out of excess profits. Now, whenever you change one tax, that affects the yield from other taxes. Now, our proposal is just one way of raising that nine hundred million and it means that instead of the regular corporation tax being five hundred and thirty-four million, the figure Mr. O'Donnell gave you, it would be two hundred seventy-three million net, and the excess profits would be six hundred and sixty-two million, so we would get the same amount out of corporations on both types of taxes.

H.M.Jr.: Yes, but John, I am not going to let you go out of here saying, "If we find out - " listen to this, Harry. If we find out that you can't get nine hundred million out of the corporations, there is no rule why you shouldn't get eight hundred out of the corporations and a hundred million somewhere else. I am not bound.

Sullivan: That is correct.

H.M.Jr.: But I want you to know that. I am not bound. You may find you only get eight hundred here and we will pick up another hundred million somewhere else.

Sullivan: We understand that, and, as a matter of fact--

H.M.Jr.: But neither the President nor I are bound, locked, and we have got to squeeze out nine hundred million.

Sullivan: No, nobody has that idea, sir, but we have to have a guide post. We have to have a guide
post and, as a matter of fact, we have a 

four hundred fifty million dollar leeway 
in our schedule.

H.M.Jr: But I certainly don't want the Treasury to 
go up there, and we have got to get nine 
hundred out of the corporations, no matter 
who it hurts.

Sullivan: Nobody had any idea of doing that.

H.M.Jr: Well, let's wait until this afternoon, and 
you are going to come in with this. You 
are going to figure the 1940 corporation 
tax on this new reversal of credit, and then 
you are going to apply it to a lot of com-
panies and both ways, and then I take it you 
can't estimate for '41. There is no use 
doing the '41 business.

Sullivan: No.

H.M.Jr: Just apply it to '40 and let me know. And 
then you have got to think some more about 
some kind of exemptions for smaller companies 
or some sort of a sliding scale.

Sullivan: Yes, we have a proposed new rate schedule.

H.M.Jr: And then the last, and what is most important, 
if none of these things work, to go back on 
the Hill and recommend a method that will 
work.

Sullivan: Surely.

H.M.Jr: And, as I say, I don't know what the method 
is, but just because we have got something on 
our books and we find it isn't working and 
it isn't - the corporations that can afford 
to pay the taxes aren't, and those that can
least afford it are, I am not afraid to come up there and say it no matter if we carry the whole thing on all summer.

Guy, do you want to say something.

Helvering:  No, I don't believe I can throw much light on this subject.

H.M.Jr:  Herbert?

Gaston:  As I understood it, the main purpose of this is to try to do something to equalize or neutralize the advantage which the average earnings corporations now have inasmuch as it was considered hopeless to try to attack that old problem of a change in the base credits and apparently this method of switching credits does go a certain distance toward increasing the tax of those who are using the average earnings base, and I believe that is the - if it has recommendations, that would be the main recommendation, but it is an indirect method of approach to that main problem on which we were defeated last year, of the average - the double base system.

H.M.Jr:  Well, let me ask, John, just a minute. Is that what is motivating you?

Sullivan:  That is one of the things. That is one of the things, is to just to try to equalize this. There seems to be an impression that this is something brand new. The order of precedence of the credits, which way it should be done, is a matter that Randolph Paul and Ross Magill and Tarleau and Blough and I discussed for at least over a period of two weeks last summer, and it was touch and go which one we should adopt.
But John, I have got three or four other things besides taxes. You spring this thing on me brand new yesterday.

I have had no opportunity before yesterday to spring it on you.

But if you knew this thing was coming, why didn't you give a fellow a little warning so I can sit down calmly and judiciously and study this thing?

It wasn't until yesterday that we were ready.

Why weren't you ready?

Because these returns hadn't come in. We had no opportunity to study them. Mr. O'Donnell put a group of men working on April 20, and they worked every night until after midnight for ten nights, wasn't it, Al?

Yes, they were here until one o'clock this morning.

I don't think any other Secretary of the Treasury could expect, with the job that I have got today, to be given a thing like this, if you don't mind my saying it, in an incomplete form and to assimilate the thing. Here is Guy Helvering hasn't heard of it before. My General Counsel hasn't heard it before. And be expected to go before the country and apply a new method to every business in the United States.

Well, all I can say, sir, is we gave it to you as soon as we got it.

All I can say is, you can't expect a fellow
to operate on that basis. That always happens.

Sullivan: I haven't expected you to.

H.M.Jr: What are you going to do? Here the papers say, "Why doesn't Sullivan come up?"

Sullivan: The men on the committee understand why not.

H.M.Jr: But the country doesn't and the newspapers don't. That is the people that are going to decide. I don't understand, either, why this is sprung on me, yet.

Sullivan: We had to tell you as soon as we found out, sir.

H.M.Jr: But I don't know why you didn't know it sooner.

Sullivan: Because we didn't have any figures to go on.

H.M.Jr: Well, you could take fictitious figures and apply this method. You don't need your actual figures. You haven't got them today. Take my set of figures and apply it. If you discussed this for two or three weeks last summer, you could have discussed it any time this spring and set up ten corporations and applied the same thing.

Sullivan: Yes, but ten corporations doesn't prove the general rule, sir.

H.M.Jr: Well, I can't work like this, and the result is I get all -- well, anyway, see what you can have for me at three thirty.

Sullivan: Yes, sir.

H.M.Jr: I just can't do things like this. I don't see how anybody on the committee can, either.
May 7, 1941.

Estimates of the net increased yield to the Federal Government under existing law if the excess profits tax were computed prior to the corporation normal tax and the amount of the excess profits tax were allowed as a deduction in the computation of the corporation normal tax.

At estimated calendar year 1940 levels of income, the total amount of corporation taxes would be increased by $173.1 millions and there would be a decrease in the individual income tax collections of $11.7 millions, leaving a net increase from all income taxes of $161.4 millions.

At estimated calendar year 1941 levels of income, the total amount of corporation taxes would be increased by $257.2 millions and there would be a decrease in the individual income tax collections of $19.9 millions, leaving a net increase from all income taxes of $237.3 millions.
May 7, 1941
10:15 A.M.

H.M.Jr.: Hello.
Operator: Mr. Cox.
H.M.Jr.: Hello.
Oscar Cox: Hello
H.M.Jr.: Oscar, where are you?
C.: I'm over the Federal Reserve.
H.M.Jr.: Oh yes. General Arnold is sitting here with me, and he tells me that he's been ready to go for a long time on a training program for British pilots and navigators.
C.: Yes.
H.M.Jr.: But that the legal difficulties -- because somewhere he doesn't know where the thing is being held up.
C.: Yes.
H.M.Jr.: You know?
C.: Well, I know where it isn't being held up; it's a question of working out some way by which you can infiltrate the British pilots with the Americans in the American Army School.
H.M.Jr.: Well, he said he is ready to turn over a third of the facilities.
C.: That's right.
H.M.Jr.: But where's the bottle neck?
C.: Both Budget and myself are trying to work out some legal way to do it, and I think we probably ought to have an answer today sometime on it.
H.M.Jr.: What's that?
C.: I say that I think we ought to have an answer today sometime on it.
H.M.Jr.: But who in the Budget is holding it up?
C.: Well, they aren't holding it up. They are perfectly willing to go ahead but you got a problem how you fit that in the Lend Lease Act.
H.M.Jr.: Are you on it, Oscar?
C.: Yes.
H.M.Jr.: Well, you think you have something tonight?
C.: I think so.
H.M.Jr.: Well, just as soon as you have, give me a ring.
C.: I certainly will. And thanks for your call last night.
H.M.Jr.: All right.
C.: I appreciate it and I sent you a note on it this morning.
H.M.Jr.: Did you? Well, when will you be ready?
C.: Tomorrow.
H.M.Jr.: But General Arnold says that this is terribly important.
C.: We know that and we got through the other one on the use of civilian schools and this problem ought to be cleaned up today.
H.M.Jr.: Wait a minute. He says that's just a small part of it.
C.: Yes, I know.
H.M.Jr.: But - the other thing - you have hopes.
C.: Yes, and I'll let you know today.
H.M.Jr.: If you need any help, let me know.
C.: I certainly will.
H.M.Jr.: Good bye.
THE COUNCIL OF NATIONAL DEFENSE
Federal Reserve Building
WASHINGTON, D.C.

May 7, 1941

Dear Mr. Secretary:

Louise now completely agrees with me that you are about the nicest guy that ever was.

The draft of the statute and the covering memorandum will be ready tomorrow.

My hunch about the General Burns matter seems to have been corroborated. Some time when you have a free moment you may want to be bothered about it.

Sincerely,

[Signature]

Hon. Henry Morgenthau,
Secretary of the Treasury
General Arnold was here. I asked him what kind of plane the English need the most. He said the four-engine bomber. I said what plane do we need the most and he said the four-engine bomber. I said I am only interested in what we can do from now to the first of January and he said, "That's what I am interested in" and I said, Well, is everything being done to help Boeing and Consolidated in the way of priorities?" He said he was sure that it was not, because it had not been up to the time he left. I said, "Ought they not to have everything first?" and he said, "Absolutely!" and he said he would call up both Bill Johnson, President of Boeing, and Major Fleet, President of Consolidated, and ask them what help they could use at this time.

It seems inconceivable, where everybody knows that we need the four-engine bomber, that these people are not given special help in these times.

He said what he has been promising the British is a training program for British pilots and navigators, but there have been legal difficulties. He said there is no use giving them any more four-engine bombers unless we have trained their pilots for them and he is ready to turn over one-third of his facilities for this purpose. I called up Oscar Cox and he said he was working on it with the Budget and hopes to have something tonight. General Arnold said that the same thing should be done in connection with the Navy -- that they should train crews for the PBY flying boats that are going to England.

Arnold says he feels terrible because I guess he promised the English he would get them 50 PBY flying boats and some four-engine bombers and has been unable to get them anything.

I asked him why didn't England use the Curtiss P-40 in England and he said because they had no confidence in
the engine and they had plenty of their own planes and they thought their own planes were better. He said in the Middle East they were using them, but he had not had any definite reports and he promised to get off a special cable to Cairo asking for a report on performance in battle of the Curtiss P-40.

Arnold says that through his Military Attache in Berlin he is informed that Hitler expects to clean up the whole situation in Europe by December 1; that his General Staff is 90% sure they can take England any time they want to, but that Hitler plans to capture and have under economic control everything in Europe up to the Russian border and the whole of North Africa.

o0o-o0o
This is Henry.

Say, I've got a problem here that I want to ask you about.

Please.

Under the Lend-Lease Bill we are asked to take over some existing British contracts that cover somewhat higher prices than what we pay in America. Now, I understood when you first told us about the Lend-Lease program that we would handle existing contracts with the funds we had. Has that been changed?

Well, it has just been changed to this extent: It so happens that Mr. Stimson is sitting here. The War Department is taking over certain of the contracts and the R.F.C. is supposed to take over certain of the physical properties and they've made certain - each one has made certain agreements.

I see.

Now, I don't know within just which contracts they are, Bill.

No. Of course, there is - I have a general note from Nelson to the effect that the prices are out of line and of course we can re-negotiate or try to re-negotiate, but I understood from you when we started out that the existing British contracts would be handled with present British funds. See?

That is perfectly true but then both the War Department and the R.F.C. have made certain exceptions on their own.

Well, then I think the only thing we can do is to go ahead and negotiate and do the best we can with them.
H.M.Jr: Would you like Foley to come over and see you?
K: No, I've got to talk to Nelson first.
K: Yeah.
H.M.Jr: No, this is my commitment based on information from the Army and the R.F.C. to the British Treasury: that between three and four hundred million dollars of contracts made prior to March 15th....
K: Prior to March 15th.
H.M.Jr: Prior to March 15th, that between the Army and the R.F.C. that we would take over between three and four hundred million dollars worth of contracts.
K: All right, thanks. That gives me what I want.
H.M.Jr: Between three and four hundred million.
K: Yeah. All right. Thanks very much.
H.M.Jr: O.K.?
K: Thank you.
May 7, 1941
3:30 p.m.

RE TAXES

Present: Mr. Sullivan
       Mr. Gaston
       Mr. Helvering
       Mr. Tarleau
       Mr. Haas
       Mr. Blough
       Mr. O'Donnell
       Mr. Foley
       Mr. Kades
       Mr. Schwarz
       Mr. White

H.M.Jr: I am very mellow this afternoon, John, so I am your meat.

Sullivan: I am not looking for meat, sir.

H.M.Jr: I don't say I am raw meat, but I am very mellow. You have got to be gentle with me this afternoon.

Did you hear at all how the other tax expert did on the Hill today?

Sullivan: Yes, I talked with him yesterday afternoon from four o'clock until almost a quarter of five, and also with Eccles; and then I tried to report to you. He - I got him to take out of his statement his criticism about specific excises because I knew they were
going to be shaved anyway and if he knocked the increase on liquor and tobacco and such excises, I told him we would never get them reinstated and that there would be an open road and a green light for a general sales tax.

He took them out of his statement, but then when Treadway cross examined him he said he didn't think there should be a tax on such things as that but there should be a greater tax on automobiles, tires, refrigerators, radios, and there should be a tax on oil burners. His reason for that --

H.M. Jr: Oil what?

Sullivan: Oil burners, furnaces. His reason for that is that there is going to be an acute shortage of fuel oil this fall. That was not brought out in the morning session, but he was to go back and testify again at three o'clock, and I think Eccles will go on tomorrow instead of today.

Henderson said that he thought our estimate on the amount of revenue this proposal would yield was low, that we would get more money on it. He thought our nineteen billion was quite low, and that in general was his testimony.

H.M. Jr: Would you say his attitude toward the Treasury was - what?

Sullivan: I think his attitude was favorable.

H.M. Jr: I mean publicly, before the committee.

Sullivan: Well, from everything I heard I think it was favorable with that one exception, and Eccles is going to testify along the same line; and
yesterday on the phone I appeared to make more progress with Eccles than I did with Leon. But I don't know what is going to happen when they get up there. What I am afraid of is if they knock out these special excises, it is going to be duck soup for the fellows who want a general sales tax.

H.M.Jr: Now, where are we this afternoon?
Sullivan: Well, Roy has the material you asked for this morning on the specific things. Why don't you present that?
Blough: You would like to start with the specific companies first?
H.M.Jr: I would like to have the over-all figures first.
Sullivan: Al?
H.M.Jr: Did you have any lunch?
O'Donnell: The burden didn't come quite as much on me as it did on a lot of other people, Mr. Secretary, but we have gotten the answer.
H.M.Jr: I congratulate you. You have got some fancy typewriters, haven't you.
O'Donnell: We understood you liked this. Is that right?
H.M.Jr: It is all right.
P Foley: They are pampering you now, Mr. Secretary. (Laughter)
H.M.Jr: After while I may get what I want. All right.

Now, as to companies. Estimate of calendar year '40. The first paragraph is based on
1940, is it? You are talking calendar year?

O'Donnell: That is right, sir.
H.M.Jr: It would be a hundred and sixty-one million?
O'Donnell: We would get a hundred and sixty-one point four million dollars net.
H.M.Jr: And based on this year.
O'Donnell: Based on 1941, two hundred forty-one point three million.
H.M.Jr: That is good. You even gave me '41, which I didn't ask for.
Blough: Might I explain these special company figures briefly.
H.M.Jr: Please.
Blough: Take the top sheet, United States Steel Corporation. This corporation has not filed, so far as I know, so we have used such figures as we could get from their published reports.

The first column, present, means the present method of taxing under the corporation tax and the excess profits tax at the present rate of twenty-four percent on the normal tax and the present method of computing the credit.

H.M.Jr: Did you see this, Herbert?
Gaston: No, I didn't see it.
Blough: I have another copy.
O'Donnell: We have plenty of copies, Mr. Secretary, if you would like to have some.
Blough: I don't have plenty of these, but here are three if you can make use of them.

The column 'present', then, shows the tax under the present method just as it is today and the income tax as calculated would be thirty-seven million three hundred ninety-nine thousand dollars.

H.M.Jr: Harry, please. I don't hear too well.

Blough: Thirty-seven million three hundred ninety-nine thousand would be the income tax which the United States Steel Corporation would pay if its income is as indicated in these reports. It would pay no excess profits tax at the present time. Its total tax would be thirty-seven million three hundred ninety-nine thousand.

Now, if we do nothing whatever except reverse the method of taking these credits --

H.M.Jr: That is right.

Blough: Or tax deductions, it would then pay sixteen million one hundred forty-five thousand dollars of excess profits tax, and that payment of excess profits tax would reduce its income tax to thirty-three million five hundred twenty-four thousand dollars. Its total tax would be forty-nine million six hundred sixty-nine thousand dollars.

H.M.Jr: I have got that.

Blough: Or twelve million two hundred seventy thousand dollars due merely to this shift in the method of taking the credit.

H.M.Jr: Yes.
Plough: Which, expressed as a percentage, which may not be very significant, is thirty-two and eight tenths percent increase.

H.M.Jr: Well, that is as to U. S. Steel.

Sullivan: Did you want the other to compare with it?

H.M.Jr: What would that be, John?

Sullivan: The thirty rate, the one we had this morning.

H.M.Jr: Oh yes, I would like that one. I will put them side by side.

Well, this doesn't say here that it is thirty percent. Isn't that what it is? This second sheet you gave me? Now, the next one.

Plough: The next one is Liggett and Myers.

H.M.Jr: It shows proposed seven and a half million without changing the tax; and if it is up to thirty percent it is nine million, is that right?

Plough: Yes.

H.M.Jr: They pay about a million more at present.

Plough: The shift in the credit would cause them to pay about a million more and the increase in the rate would cause them to pay about a million and a half beyond that.

H.M.Jr: Yes. All right, go ahead on Penney.

Plough: On J. C. Penney, at the twenty-four percent rate - that is the present rate - total tax at the present method of computing credit, five million six hundred seventy-two. Under the proposed method, six million four hundred seventeen.
If you move over to the thirty percent rate, you get under the proposed method six million six hundred twenty-seven.

Blough: All right.

Blough: Now, Curtiss-Wright is a company with a very large current year's earnings and a very small or relatively small credit. Under the twenty-four percent rate as at present, the tax would change from twenty-six million three hundred eighty-two to twenty-six million five hundred thirty-one, or an increase of a hundred and forty-nine million, or six tenths of a percent.

Shifting to the thirty percent rate, applying it for normal tax purposes and so-called corporate surtaxes, that would become twenty-seven million nine hundred ninety-four.

Next is CocaCola. Under present rates and method of credit, fourteen million fifty-four thousand dollars tax. Shifting the credit makes it fifteen million three hundred seven thousand, or an increase of a million and a quarter, or about eight and nine tenths percent.

If we also increase the rate to thirty percent, the tax is increased to seventeen million five hundred sixty-two thousand dollars.

Foley: What is the percentage there, Roy?

Blough: You mean from the fifteen million to the seventeen million?

Foley: Yes.

Blough: Well, it is about twelve or thirteen percent.

General Motors, present tax, one hundred nineteen million seven hundred sixteen thousand dollars.
Shifting the credit increases it to a hundred twenty-eight million a hundred forty thousand, an increase of eight million four hundred twenty-four thousand, or seven percent. Increasing the rates to thirty percent also would increase the tax to a hundred forty-four million five hundred thirty thousand.

H.M.Jr: All right.

Blough: The next is Continental Can. Under the twenty-four percent present methods, tax as computed is three million one hundred three thousand dollars. By shifting the credit, the tax is increased to three million nine hundred eighty-three thousand.


Blough: Had we finished Continental Can?

H.M.Jr: Yes.

Blough: International Paper and Power, under the twenty-four percent rate, present tax, seven million seven hundred forty-three. Shift of credit gives nine million three hundred thirty-four, or a million five hundred ninety-one thousand; increase, about twenty percent.

The increase to thirty percent further increases the tax to ten million four hundred twenty-seven.

H.M.Jr: I don’t have that sheet. That is all right.

Sullivan: Those weren’t prepared this morning. These are new companies and they didn’t have time to do them on both methods.

H.M.Jr: That is all right.
Blough: From now on we have only the new method.

H.M.Jr: That is all right.

Blough: The twenty-four percent. Now, the next one is American Car and Foundry, and it would pay no tax, either under the present method of computing the credit or under the shift in credit, because its earnings during the base period were too low.

Gaston: This is an invested capital company?

Sullivan: That is right.

H.M.Jr: This must be wrong, John. It can't be right. It only shows that American Car and Foundry has sixty-two million.

Sullivan: Sixty-two million in contracts?

H.M.Jr: Yes. That is low. I think that is low.

Blough: Those are Defense Commission figures, Mr. Secretary, and we can have them checked, if you wish.

H.M.Jr: I wouldn't know where to go, but I was under the impression it was very much bigger.

Sullivan: I think they are going to be very much bigger. Whether they have gone into production and have executed contracts, I don't know.

H.M.Jr: Well, sixty-two million, anyway, is a tidy sum. Well, they pay nothing?

Blough: They would pay nothing under this reversal of credit or under the present law.

H.M.Jr: All right.
Blough: United Aircraft, you have that sheet, do you not?

H.M.Jr: I have that.

Blough: United Aircraft is another of these companies that has a relatively low credit, and so the effect of the shift is small, increasing the tax from the present level of eighteen million four hundred ninety-three to one hundred eighty-seven point five.

Chrysler Corporation, present method, nineteen million two hundred seventy-five thousand, proposed twenty-one million two hundred sixty-six thousand.

H.M.Jr: Chrysler has eighty-three million dollars of contracts. All right.

Blough: DuPont, present method, fifty-three million one hundred sixty-nine thousand dollars; proposed method, fifty-six million, six hundred thirty-two thousand dollars; increase, three million four hundred sixty-three.

New York Shipbuilding, present, two million four hundred sixty-five thousand; proposed, two million five hundred thirty-three.

Newport News Shipbuilding, a slight increase there.

Standard Oil of New Jersey, which isn't on all of the sets because we didn't have enough copies, present, fifty-four million two hundred sixty-four thousand dollars; proposed, sixty million two hundred eighty-two. We are not too happy about the Standard Oil figures, but they are as good as we can get.
Well, John, this is my feeling about the thing, looking at this in this way. For some reason or other it doesn't seem to me that the very big companies bear sufficient percentage of increase in this method. That would be my general criticism.

Sullivan: Well, under any method, sir, the companies with a great deal of invested capital and low earnings in the period from '36 to '39 pay a very small excess profits tax, if any.

H.M.Jr: You see now, these are the ones that I have picked out, Standard Oil of New Jersey, Newport News, New York Shipbuilding, DuPont, Chrysler, American Car and Foundry, and General Motors.

Now, let me just go through these. I didn't know - Standard Oil of New Jersey, eleven percent. Newport News, one and three tenths. New York Shipbuilding, two and eight tenths. DuPont, six and a half. Chrysler, ten point three. American Car, none. General Motors, seven. And just for fun, I will just --

White: These are all average earnings?

Foley: The only company there that you named, Mr. Secretary, that is an invested capital company, I think, is American Car.

Sullivan: Yes, and United States Steel.

Foley: And United States Steel, that is right.

White: And the others all have higher, much higher increases.

H.M.Jr: Now, the other one - let's just look. U. S. Steel, thirty-two. Liggett and Myers, practically fifteen. Penney, thirteen; Curtiss-Wright,
O'Donnell: It might interest you, Mr. Secretary, to know that the figure I gave you represents about a six and a half percent increase for all companies, so that these companies are really being hit harder than the average company.

White: There is another difficulty there, Mr. Secretary. Notice that the capital invested companies, apparently are the ones who pay the higher increase. Those that go on the average earnings are the ones that are paying the very low increase.

Now, it may be that in the light of the additional taxes that some of these companies that are paying large increases may shift over into the average earnings and you will find that even those companies are not paying as much as they appear to be paying here.

Blough: We have taken that into account, Mr. Secretary. There is no question, this shift does represent a much larger percentage of increase for companies on the invested capital method and the reason for that is in the mature of the computation of the credit, but there has been so much complaint about the large invested capital companies that there has been considerable agitation for a reduction of that credit, regardless of what was done with the average earnings credit. And this method does constitute a reduction of the average earnings credit of a very substantial amount.

H.M.Jr: Do you want to say anything?

Helvering: I just thought maybe - I picked up a few small companies. I don't know whether you want to --
Very much.

This is just some that have come in. When you take a company with a hundred and forty-six thousand net income and compute it on this basis of switching the credit, you increase their taxes from forty-nine thousand to fifty-five thousand, or four percent.

That is the Carey Resistor Corporation. That is on the invested capital basis. Here is one of a hundred and ninety-four thousand, and you increase their taxes four plus percent. Here is one with two hundred twelve net income, and by this shift – this is the Precision Corning Wheel Company, Incorporated. It makes a three percent increase in their taxes. That is on the invested capital basis.

That is the way – I thought maybe you would like to know how it would affect some of the smaller companies, so I brought a few of them.

It doesn’t hit them too badly?

The highest one is eight percent.

(The Secretary held a telephone conversation with Congressman McCormack.)

Who is this fellow?

I never heard of him until yesterday morning. He was sent in to my office. Dave Niles telephoned in and said that he was a fellow that both John McCormack and Arthur Healey on Ways and Means were very much interested in, and I called Harold and asked Harold if he could see him, and I had a group there and then after my conference broke up I got a message from my Secretary that Mr. Morris...
had said he had a very unsatisfactory conference, and I dropped in to see Harold and they got into quite a tangle, apparently.

Harold said he thought he was one of the rudest people he had ever met. That is the present situation. Both McCormack and Healey called me.

H.M. Jr: (to reporter) Make a memorandum for Harold Graves that Congressman McCormack called up, urging me very strongly to take - what is this fellow's name?

Sullivan: Albert Morris. He wrote me today and gave me his biography.

White: Mr. Secretary, I would like to give you three illustrations that troubled me very much. It seemed to give a basis for people coming before the tax committee and criticizing the procedure.

H.M. Jr: Well, wait a minute; was Guy Helvering through?

Helvering: Well, I just wanted to call your attention to the fact that those small corporations it affected about in the same way, but none of them very high in percentage.

H.M. Jr: Do you have anything else?

Helvering: No, nothing else.

Blough: And these four companies, Mr. Secretary, are small ones also which we computed as requested by you this morning.

White: Mr. Secretary --
H.M.Jr: Well now just one minute, Harry. You just take a rain check a minute, will you?

Before we go any further, what do you think of this, Guy, as far as we have gone? Would you want to personally go before the committee and recommend this?

Helvering: Well, I would want to study it and get a little more information on it.

H.M.Jr: But I mean you are not ready to recommend it to me?

Helvering: No, I don't know what the ramifications of it are at all; but after we had the conference this morning, I did ask the boys to bring me down seven or eight smaller companies, because I thought they would have here the largest, to see how it affected the small companies, that is, companies of a hundred and fifty thousand to a million dollars income.

H.M.Jr: But you want more time?

Helvering: Well, if I was going to testify on it before the committee I surely would.

H.M.Jr: Well, I am not going to go along until you say you can recommend it one way or the other or say you wouldn't do it.

Helvering: Well, from an administrative standpoint, it won't cause us any more trouble this way than the other.

H.M.Jr: But I meant from the standpoint of the most good for the most people.
Helvering: Well, as Blough suggested awhile ago, the company has a choice; if they find out this affects them adversely under the income phase of it, they will take the invested capital phase of it; and if they can get out better with the invested capital, they will take that.

H.M.Jr: Well, let me ask you this. Do you think we ought to start a new fight as between the invested capital and the average earnings, start it over again?

Helvering: Well, I think that there is a discrepancy there now where they have a large invested capital and, of course, they take the large invested capital. That lets them out easy. Isn't that the fact? I should say a large income.

Blough: Yes, that is quite correct.

Foley: Then they get out. They are the ones that are going under the fence and that is why I think that this thing hits those same companies less drastically than it hits the other companies that are paying their tax on an invested capital basis at the present time.

Blough: There can be no question about that.

Foley: And Roy doesn't disagree and I say if United States Steel, which is an invested capital Company, has to pay an increase of thirty-two percent and DuPont, which is an average earnings company, only has to pay six or seven percent more, that the thing isn't right. It isn't hitting the companies equally.

Now, it is perfectly true that they have a chance to shift from one to another, but it isn't a fair opportunity for U. S. Steel, because U. S. Steel's earnings had been so small up to the
time when she began to get these huge war orders that she is paying a much higher percentage, which has a pretty high average earnings right straight along; and yet there isn't any reason why there should be that kind of a raw discrepancy, as you just said.

Tarleau: Well, Ed, the fact nevertheless remains that to the ordinary man in the street, if a corporation in 1941 is making more profit than it did during the years '36 to '39, making more money and making it out of defense orders and is not paying taxes on it, he is disturbed by it.

Foley: That is right.

Tarleau: Now, that kind of a company is a company with a large invested capital and with a low return during the base period. Typical of it is the American Car and Foundry Company.

Foley: Right.

Tarleau: Now, the thing that has been disturbing people is that these companies are making more than they ever did and are not paying excess profits tax.

They are not so much disturbed morally. There may be other reasons. About a company that is making no more now than it did during the base period and not paying excess profits taxes.

You take any one of the companies that is on the average earnings basis. Morally, they tell you that when you are talking about excess profits and talking about it from the viewpoint of the President's message of last July, what
you are talking about is trying to get at the profits that are due to the national defense expenditures; and since you are measuring us by the increase that we are making now over what we made in the normal period, our credit, morally, is a fair and sound way.

Now, you take American Car and Foundry. They point to that company and say, "There is a company that may make two or three times as much now as it made during the base period, may make it on defense orders; and because of the fact that you have an eight percent invested capital credit, they are not going to pay any excess profits taxes."

Now, what is our defense for that situation?

That is what has been confronting those people on the Hill; namely, they feel that these large, over-capitalized companies can double and in some cases triple their profits and may double and triple them out of the expansion due to the national defense and not pay any excess profits taxes.

In other words, they feel that there is a definite evil on the invested capital side of the picture, and that is what their attention has been drawn to.

H.M. Jr.: Just a minute. What is the cure? Would you mind? I would like to assert my prerogative to talk first.
Everything that you say, I agree with you, and that is why I got so excited this morning, because we have known all of this for months, and here you fellows in this section come in here on a Tuesday night, and I have been going along with no warning, nothing at all, that anything is wrong; and I am suddenly faced with this whole question of how we should do this, and I am supposed to give an answer over night.

Now, I say it is absolutely unfair to me. Nobody came along. Sullivan can answer me when I am through.

If they said, "Look, Mr. Morgenthau, we are worried about this thing; this is a problem which worries us. We don't know the answer. Will you sit down and talk about it? Will you get your boys? Let's everybody get together. Let's pull anybody in." Now, if I have been told that, then I was wrong this morning, and I am always the first to say it. If I have been told any time in the past month that I should sit down, you could perfectly well say, "Well, for God's sake, why didn't you do it yourself? I had that thing out here about a month ago." It is up to the tax section to bring it to my attention and not for me to be running after you fellows all the time as to what your headaches are; but my job, as I see it, right or wrong, is to have an intelligent staff, give them all the freedom in the world, back them up, right or wrong, when they appear publicly or privately in any Treasury business, which I have done, stand between them and political pressure; but, on the other hand, I expect them to run up the red signals and say, "Look here a minute, Boss, we have got a
headache. You have got to get the time to sit down with us." Now, if I am wrong, John, I am sorry. If I am wrong, I will say so.

Sullivan: I am not asking you to say you are wrong.

H.M. Jr: But if I am wrong at any time during the past month or two months, you have asked me to sit down and discuss this whole question of how we are going to tax these fellows or anybody in your group or if they have sent me any memoranda on it, then I am at fault.

Sullivan: Mr. Secretary--

H.M. Jr: Now, you answer me.

Sullivan: Every schedule and every set of schedules that was prepared for you, including the one that went to the White House, had down as the basis for a raising of the excess profits yield, reducing invested capital from eight to six percent and a tentative reduction in the average earnings credit. That was right on all of the schedules. We discussed it once. I told you that there would be a delay in the figuring of returns and that as soon as we got the figures we would bring it to you. We didn't have the figures until yesterday afternoon.

H.M. Jr: Herbert, just to be arbitrator, does that answer what I said or doesn't it? You call a spade a spade. Now, you can. You have been with me long enough.

Gaston: What I think about this situation - well, I understand about this--
H.M. Jr: You have been with me longer than anybody else.

Gaston: What I understand about this situation, and this is going afield from this statement of yours and the answer of John, but what I understand about this situation is that here is a method of increasing a tax yield which was originally a Treasury idea and right now Stam presents it as his own idea and it does offer an opportunity to get additional revenue, and since he is advocating it, it may be a good thing to use. I don't think it had been the deliberate intention of the staff to use this method until that development occurred, and that development, as I understand it, is quite recent, within the last day or two.

H.M. Jr: That isn't - now, Herbert, what I am saying is this. You don't want to take sides. Well, I just feel that I can not be on every single front, and it is up to the tax boys, if they say that here is a headache and they haven't got the answer, to come and say so, "Boss, we haven't got the answer." That is what your statement was just now, Tarleau's.

Gaston: I think that anything so complicated as raising a great amount of taxes, there are bound to become new headaches every day that haven't been foreseen.

H.M. Jr: Well, the way I feel right now is this, as far as I have gone. And if this is Mr. Stam's proposal, as of tonight, I would sit back and let Stam carry it and let the Treasury be in the position of critic. I certainly wouldn't, as far as I have gone tonight, get on board this bill.
Sullivan: Well, we will have to propose something, sir.

H.M.Jr: Well, John, now why?

Sullivan: Because they have asked us to.

H.M.Jr: Well, you can lay all the figures before them and simply say, "Gentlemen, here they are. We are not writing this bill. We will give you all the figures, all the information that you want, and then if you insist, then we will go back to our plan of last year."

Sullivan: Well, I would consider that very unwise.

H.M.Jr: You say they want a plan. Now, I don't know whether you can make last year's plan hold water, but certainly taking Tarleau's statement, which is as well put as anybody I have heard, I don't want to, to the President or the man on the street, try to explain why these companies who have got millions and millions of orders and with six months to prepare for it, and we come along and we can't devise a scheme whereby they should pay a just proportion of their increased earnings back to the Treasury.

Sullivan: You can.

H.M.Jr: Pardon?

Sullivan: You can.

H.M.Jr: I can?

Sullivan: Yes, and you will kill off a lot of other companies you don't want to harm.

H.M.Jr: Then, I say, find a way - there must be a way.
I won't take the position that the Treasury isn't smart enough to find a way to get the cream of the profits off the war babies and let the other companies go along on the basis of a reasonable profit on their invested capital.

Sullivan: And levy an excess profits tax on the same amount of money that they earned before there was any defense program.

H.M.Jr: Not necessarily.

Sullivan: Well, that is what you come to with the average earning companies.

H.M.Jr: Not necessarily. Supposing an average earning company isn't doing any war business.

Sullivan: All right.

H.M.Jr: Supposing he isn't doing any war business.

Sullivan: That is right. Now, I understand Foley's objection is--

H.M.Jr: Let's take a company that makes lawnmowers and still makes lawnmowers or Singer Sewing Machines and still makes them and has no war business.

Sullivan: That is right.

H.M.Jr: And this fellow - let's say this man was earning 10 percent from '38 to '39.

Sullivan: Yes.

H.M.Jr: Well, and he comes along now, and due to the increase in national income, maybe he is making 15 percent. Well, we will get him on the 30 percent corporation tax.
Sullivan: Yes, and we get him on the extra five, on the - on either method.

H.M. Jr.: Under what method?

Sullivan: Average earnings, which is what he would file under.

H.M. Jr.: Well, I can - I am easy prey to you, because I haven't studied this thing. That is why I have got this large section of tax people with you at the head of it, to study this. I don't pretend to know the answer, but I know what is wrong, and that is why I say I would rather let Stam push it and sit back and push holes in it, and you don't want to do it, and if the other thing, everybody agrees that the other system we advocated - I am perfectly willing to go up on the Hill and say, "Gentlemen, if you are going to push us, we think there is only one answer, and here is the answer." I will send Guy Helvering up, if he believes in it. I wouldn't ask him to go if he doesn't believe in it.

White: Wouldn't you be strategically in a much better position, John, if that were done and possibly in the meantime there might be some new wrinkle that might develop as a result of the criticism that is brought up at the hearings which might give you some degree of flexibility in handling that, because if you take - they can pick any half dozen companies on any basis of this character and they can show that the increased taxes varies so greatly when there is apparently no basic rhyme or reason so far as their contribution to - their participation in war profits, that you put yourself on the defensive in a way that they can make it very uncomfortable for you because there is
no explanation as to why the United Aircraft should pay one percent increase in taxes and United States Steel thirty-two percent.

Sullivan: That is right, Harry, and that criticism is inherent whenever you try to lay down a formula. You affect every business in our complicated structure, and that is one of the reasons why the Treasury had grave doubts as to being able to make any type of excess profits tax work. None of the men who have ever studied it have ever found any such thing as an equitable excess profits tax act. Here or in any other country.

White: I can see that, but it seems to me also, in view of that fact, wouldn't it be strategically advisable to adopt a passive position, particularly since Stam has been willing to take the ball on it, and let him take the rap at the beginning, you supply the figures, and there might be something come forth.

Sullivan: No, he hasn't taken the ball at all, and we have been asked for specific recommendations.

H.M. Jr: Well, let me put it this way. Are these two gentlemen coming in tomorrow at eight thirty?

Sullivan: I had a note to ask you whether you wanted them.

H.M. Jr: Did you ask them?

Sullivan: I spoke to Mr. Doughton, and I told him I would call him back and tell him.
H.M.Jr: Well, I think we will have him, and I am just going to have a heart to heart talk, and I would like Guy here.

Is that too early for you, Guy?

Helvering: No.

H.M.Jr: Pick up John and get him here, will you?

Sullivan: By the way, Mr. Doughton said he thought you had better make that earlier for Mr. Cooper.

H.M.Jr: Better make it earlier?

Sullivan: Yes.

H.M.Jr: Why?

Sullivan: Well, that was his way of saying Jere never got up until after nine.

H.M.Jr: Oh! (Laughter) Well, this is what I would like to say, if I can get a meeting of the minds with you. I would like to say, "Now look, gentlemen, here is the thing. The Treasury has taken this thing, and it looks this way. Now, if Mr. Stam wants to present this thing, all right; but we are going to reserve the right to sit back and find fault with it because we don't think it is equitable."

And then they will say, "Have you got a plan," and we will have to say, "No, unless you want to go back to what we recommended last year," if you (Sullivan) think that that is fair.

Sullivan: Well, I fought the fight for three months
last summer, and I got licked. I don't think there is a chance in the world of changing it. Now, there isn't anybody in town who would desire to go back to that more than I, but I think it is my duty to give you my opinion as to what is going to happen.

H.M.Jr: That is all right. That is what I have been asking for, if I can get it in time. I think this thing better - they are not waiting for you tomorrow, are they?

Sullivan: No, sir.

H.M.Jr: And they have got Eccles tomorrow?

Sullivan: Friday is the earliest, and it can go over until Saturday, I think.

H.M.Jr: Well, what harm would it be to have a heart to heart talk with these men tomorrow?

Sullivan: I think it would be a good thing.

H.M.Jr: Then let's have it.

Sullivan: I think we ought to be in some agreement as to what we are going to say to them.

H.M.Jr: I am just going to tell them how I feel.

Sullivan: The thing that disturbs me, Mr. Secretary, is this: you are worried about United States Steel. Ed and Harry are worried about the average earnings companies, and I think we ought to have some appreciation of just what our problem is. I think what we say to them will depend very largely on who we are out to get here.
H.M. Jr.: Well, I am very glad to answer that. I am not out to get anybody. I repeat, I haven’t got the President’s statement here, but I repeat how I feel. I feel that where we are going to spend these billions and billions of dollars, that if I could write a law, this is the way I would write it, that any company in this emergency who can get six percent on the dollars they have put into the business, anything over and above that, I would take a hundred. That is what I would do. That is the way I would write it, irrespective of anything else, of the actual money they put in. They will give a man six percent on his money invested, and everything over that I would take a hundred. If anybody asks me, that is what I would do. Big, small, large, everybody the same.

Sullivan: And regardless of the amount that that company had been earning before?

H.M. Jr.: I wouldn’t care. Six percent on the money in the business, the actual cash in the business, and everything above that, I would take a hundred percent.

Sullivan: Are you going to have anybody from the Senate at the meeting tomorrow?

H.M. Jr.: No. That is the way I feel. And if they push me, that is what I will say, publicly or privately.

What is the matter with that, Guy?

Helvering: Well, of course, there are some companies, very large companies, that would escape under that, too.

H.M. Jr.: Would they?
Helvering: Yes.

H.M.Jr: On a six percent basis?

Sullivan: American Car and Foundry, United States Steel.

H.M.Jr: Well, they might escape this year. United States Steel wouldn't escape.

Sullivan: On six? Yes.

H.M.Jr: Well, then the answer is that they didn't make it for a number of years, and if they make it for a year or two, until they have got six percent, all right. If they have two fat years in ten, that is better - that is less than in the Bible, isn't it? How many was it they had in the Bible? Wasn't it six in seven?

Gaston: Wasn't it seven lean years and seven fat years? That is more like the natural cycle.

H.M.Jr: Well, if I were to be pushed, I could stand and defend that to a lot of workmen or fellows who are in Army camp. At least I could stand on that.

Sullivan: How about a company with five million dollars capital that has been making a million dollars a year through '36 and '37? You would say that you would take everything above three hundred thousand?

H.M.Jr: Yes.

Sullivan: Although they had, in peace time, been making a million dollars a year?

White: We could defend that morally very easily, just as a man who has been earning five
hundred dollars a week during peace time is suddenly called into the Army to work for thirty dollars a month. There is a very definite ethical justification. I think that you could stand on that ground. I think where it might meet with difficulties is the question as to whether, if you captured everything above six percent, whether that six percent would be adequate inducement for them to go back - to call for additional effort on the part of industry.

Helvering: What is your basis for the six percent.

White: Oh, you might merely - traditional, regular, six percent, any more than what is the basis for assuming that an interest rate on a Government bond, a man is entitled to two and a half. A lot of things enter into it and people may disagree, but six percent has a sort of a traditional sound that seems reasonable.

H.M.Jr: I will take seven, I don't care. Start at six.

Helvering: What I was trying to get at, Mr. Secretary--

Sullivan: That is our proposal.

H.M.Jr: What is that?

Sullivan: Allow them five and a half on old capital and seven percent on new, on the companies that file under invested capital.

H.M.Jr: That isn't this proposal here.

Sullivan: No. You are saying that they all file under invested capital.
White: And a hundred percent recovery above that, which is different.

Gaston: The effect of this proposal is to increase the taxes of all corporations, but to increase those who were on the invested capital basis such as U. S. Steel at a greater rate than you do the — those who are on the average earnings basis, who may be making thirty, forty, or fifty percent on their invested capital.

White: But you see at least the principle is sound, and you could defend the principle no matter where the chips fly on that basis, but where the troublesome thing is, and there may be no way out the other way, I don't know, but the troublesome thing is that you have the chips falling in different directions and there doesn't seem to be an underlying fundamental principle on which you can fall back on.

H.M.Jr: There is no morality behind the thing.

White: It seems like chance discrimination.

H.M.Jr: There would be no ethical justification.

Sullivan: You mean on the present law?

H.M.Jr: Yes.

Sullivan: I will tell you what the philosophy of it is, that a company shall be allowed to make the same amount of money it made before there was a defense program, and in the case of the company who had no earnings, they are allowed a certain percentage on invested capital as a relief measure. Now, that is the philosophy of the present law. It is
increase there is except for those companies that had such low earnings that it would be unconscionable to take that away from them.

Foley: That is a war profits measure instead of an excess profits measure, John. This Administration stood for an excess profits and not a war profits.

White: And the difference in the two philosophies lies in the fact that there is no assumption that a company that has had high earnings shall continue to have those earnings in the event of war. Rather, the assumption is that in a time of emergency, like defense, that sacrifices have to be made and that those sacrifices are made on the principle which is presumably embodied in the excess profits tax. In the same way, to repeat the homely illustration, let a soldier who has to sacrifice his monthly earnings, like one of my lads just joined the Army, and instead of thirty-six hundred a year, he is going to get three hundred dollars a year plus living expenses.

H.M. Jr: What?

White: It is three hundred sixty plus uniform, et cetera. But there is a justification for that. And that same justification could certainly be applied to earnings of large corporations.

Sullivan: Well, I don't think you are going to conscript capital, Harry, at this point.

White: You are calling things names. You are not conscripting capital.

Sullivan: I am telling you that is what it is going
White: But it wouldn't be a just name. You are not conscripting capital by doing that.

Gaston: From the economic standpoint there is a whole lot to be said for that. From the standpoint of full utilization of income for an emergency purpose.

Blough: May I suggest one of the big criticisms that was made of that principle last summer? There may be an answer to it. That is, that over a period of 10 or 20 years the people, who have bought into corporations, have bought, not on the basis of what was originally placed in that corporation in money, but on the basis of the prospective earnings of the corporation. The stock may have turned over three or four times. A man who bought stock at a hundred may be doomed under this plan to receive only fifty cents in dividends instead of six dollars, which another man, who bought into a company where the earnings prospects coincided with the capital in the company, would be expected to get. That was the big criticism.

H.M.Jr: Well, it is a perfectly good criticism, but what I would like to do tomorrow is this, John. Let me carry the ball and display my ignorance, and let these fellows go after me, you see, at eight thirty, and you don't have to commit yourself one way or the other, and let them take me on, you see, and let's just see - let me educate myself at their expense and see where we get.

Sullivan: All right.
H.M. Jr: And then you and Helvering and I will see them tomorrow and then we will see where we are at. O.K.?

Sullivan: Yes, sir.

H.M. Jr: All right. Thank you.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

STANDARD OIL OF N. J. - 1940 Estimated

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (–)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$47,368</td>
<td>$43,290</td>
<td>$–4,078</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>6,896</td>
<td>16,992</td>
<td>10,096</td>
</tr>
<tr>
<td>Total</td>
<td>54,264</td>
<td>60,282</td>
<td>6,018</td>
</tr>
</tbody>
</table>

Invested capital credit used under present method and average earnings method used under proposed method of computing the taxes.

1/ Based on estimated 1940 earnings and published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

NEWPORT NEWS SHIPBUILDING - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>$ 2,292</td>
<td>$ 1,347</td>
<td>$ - 945</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>2,924</td>
<td>3,936</td>
<td>1,012</td>
</tr>
<tr>
<td>Total</td>
<td>5,216</td>
<td>5,283</td>
<td>67</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

NEW YORK SHIPBUILDING - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (–)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$1,064</td>
<td>$600</td>
<td>$– 464</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>1,401</td>
<td>1,933</td>
<td>532</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,465</td>
<td>2,533</td>
<td><strong>68</strong></td>
</tr>
</tbody>
</table>

Invested capital credit used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

**DUPONT - 1930**

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (–)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>$34,657</td>
<td>$27,718</td>
<td>$ - 6,939</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>18,512</td>
<td>28,914</td>
<td>10,402</td>
</tr>
<tr>
<td>Total</td>
<td>53,169</td>
<td>56,624</td>
<td>3,463</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

CHRYSLER - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or Decrease (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$15,554</td>
<td>$13,750</td>
<td>$ - 1,804</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>3,721</td>
<td>7,516</td>
<td>3,795</td>
</tr>
<tr>
<td>Total</td>
<td>19,275</td>
<td>21,266</td>
<td>1,991</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

AMERICAN CAR AND FOUNDRY - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$1,579</td>
<td>$1,579</td>
<td>-</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,579</td>
<td>1,579</td>
<td></td>
</tr>
</tbody>
</table>

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.

2/ Invested capital credit of $7,089,000 exceeds estimated 1940 earnings of $6,579,000.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

**GENERAL MOTORS - 1940**

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (–)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>$ 60,579</td>
<td>$ 65,560</td>
<td>$ – 15,019, -18.6%</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>39,137</td>
<td>62,580</td>
<td>23,443, 59.9%</td>
</tr>
<tr>
<td>Total</td>
<td>119,716</td>
<td>128,140</td>
<td>8,424, 7.0%</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

**GENERAL MOTORS**

1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (Δ)</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$100,724</td>
<td>$81,950</td>
<td>$-18,774</td>
<td>-18.6%</td>
<td></td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>29,065</td>
<td>62,580</td>
<td>33,515</td>
<td>115.3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>129,789</td>
<td>114,530</td>
<td>14,741</td>
<td>11.4</td>
<td></td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 30 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes \(^1\)

**Dexter Company - 1940**

*\(\text{Amounts in thousands of dollars}\)*

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$20.9</td>
<td>$19.4</td>
<td>$-1.5</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>.6</td>
<td>6.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Total</td>
<td>21.5</td>
<td>25.4</td>
<td>3.9</td>
</tr>
</tbody>
</table>

*Invested capital credit used for both present and proposed methods of computing the taxes.*

\(^1\) Based on published financial reports, and present rates of income tax and excess profits tax, after allowing specific exemption of $5,000.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

**BRINKS MANUFACTURING COMPANY - 1940**

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$ 35.4</td>
<td>$ 28.6</td>
<td>$ - 6.8</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>15.9</td>
<td>28.3</td>
<td>12.4</td>
</tr>
<tr>
<td>Total</td>
<td>51.3</td>
<td>56.9</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Invested capital credit used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and present rates of income tax and excess profits tax, after allowing a specific exemption of $5,000 for the excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

**GENERAL ALLOYS COMPANY - 1940**

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (–)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$16.0</td>
<td>$15.1</td>
<td>$ - .9</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>1.5</td>
<td>3.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Total</td>
<td>17.5</td>
<td>18.7</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and present rates for income tax and for excess profits taxes, after allowing a specific exemption of $5,000 for the excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

INDIANA STEEL PRODUCTS COMPANY - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$ 26.6</td>
<td>$ 22.5</td>
<td>$ - 4.1</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>8.7</td>
<td>17.1</td>
<td>8.4</td>
</tr>
<tr>
<td>Total</td>
<td>35.3</td>
<td>39.6</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Invested capital credit used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and present rates of income tax and excess profits tax, after allowing specific exemption of $5,000.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

U. S. STEEL CORPORATION - 1940
(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or Decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>$37,399</td>
<td>$33,524</td>
<td>$ - 3,875 10.4%</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>-</td>
<td>16,145</td>
<td>16,145</td>
</tr>
<tr>
<td>Total</td>
<td>37,399</td>
<td>49,669</td>
<td>12,270</td>
</tr>
</tbody>
</table>

Invested capital method used for both methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

U. S. STEEL CORPORATION - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (−)</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$46,749</td>
<td>$41,905</td>
<td>$4,844</td>
<td>−10.4%</td>
<td></td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>−</td>
<td>16,145</td>
<td></td>
<td>16,145</td>
<td>−</td>
</tr>
<tr>
<td>Total</td>
<td>$46,749</td>
<td>$58,050</td>
<td>$11,301</td>
<td>24.2%</td>
<td></td>
</tr>
</tbody>
</table>

Invested capital method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 30 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

LIGGETT & MYERS TOBACCO COMPANY - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (–)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td></td>
<td>Percent</td>
</tr>
<tr>
<td>Income tax</td>
<td>$ 6,513</td>
<td>$ 6,192</td>
<td>$ 321</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>38</td>
<td>1,337</td>
<td>1,299</td>
</tr>
<tr>
<td>Total</td>
<td>6,551</td>
<td>7,529</td>
<td>978</td>
</tr>
</tbody>
</table>

Average earnings credit used for both methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

LIGGETT AND MEYERS TOBACCO COMPANY - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$ 8,141</td>
<td>$ 7,740</td>
<td>$ -401</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>-</td>
<td>1,337</td>
<td>1,337</td>
</tr>
<tr>
<td>Total</td>
<td>8,141</td>
<td>9,077</td>
<td>936</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 30 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

J. C. PENNEY COMPANY - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or Decrease (±)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Amount</td>
</tr>
<tr>
<td>Income tax</td>
<td>$ 5,222</td>
<td>$ 4,845</td>
<td>$ -377</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>450</td>
<td>1,572</td>
<td>1,122</td>
</tr>
<tr>
<td>Total</td>
<td>5,672</td>
<td>6,417</td>
<td>745</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

J. C. PENNEY COMPANY
1946
(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (())</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$ 6,528</td>
<td>$ 6,057</td>
<td>$ -471</td>
<td>7.2%</td>
<td></td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>-</td>
<td>1,570</td>
<td>1,570</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>6,528</td>
<td>7,627</td>
<td>1,099</td>
<td>16.8%</td>
<td></td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 30 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

Curtiss-Wright - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease ((\text{-}))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$10,817</td>
<td>$ 5,855</td>
<td>(\text{-}) 4,962 (-45.9%)</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>15,565</td>
<td>20,676</td>
<td>5,111 (32.8%)</td>
</tr>
<tr>
<td>Total</td>
<td>26,382</td>
<td>26,531</td>
<td>149 (.6%)</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes $^1$

**CURTISS-WRIGHT**

1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (−)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$13,521</td>
<td>$7,318</td>
<td>$−6,203</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>$14,212</td>
<td>$20,676</td>
<td>$6,463</td>
</tr>
<tr>
<td>Total</td>
<td>$27,733</td>
<td>$27,994</td>
<td>$260</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

$^1$ Based on published financial reports, and rates of 30 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

**Coca-Cola - 1940**

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (±)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>$10,530</td>
<td>$ 9,022</td>
<td>$ - 1,508</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>3,524</td>
<td>6,285</td>
<td>2,761</td>
</tr>
<tr>
<td>Total</td>
<td>14,054</td>
<td>15,307</td>
<td>1,253</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (–)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>$13,163</td>
<td>$11,277</td>
<td>$–1,886</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>2,208</td>
<td>6,285</td>
<td>4,077</td>
</tr>
<tr>
<td>Total</td>
<td>15,371</td>
<td>17,562</td>
<td>2,191</td>
</tr>
</tbody>
</table>

Average earnings method used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 30 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

**CONTINENTAL CAN COMPANY - 1940**

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>$2,937</td>
<td>$2,606</td>
<td>$-331</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>166</td>
<td>1,377</td>
<td>1,211</td>
</tr>
<tr>
<td>Total</td>
<td>3,103</td>
<td>3,983</td>
<td>880</td>
</tr>
</tbody>
</table>

Invested capital credit used under present method and average earnings credit used under proposed method of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/

CONTINENTAL CAN - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (−)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>$3,670</td>
<td>$3,257</td>
<td>$−413</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>−</td>
<td>$1,377</td>
<td>$1,377</td>
</tr>
<tr>
<td>Total</td>
<td>3,670</td>
<td>4,634</td>
<td>964</td>
</tr>
</tbody>
</table>

Invested capital credit used under present method and average earnings method used under proposed method of computing the taxes.

1/ Based on published financial reports, and rates of 30 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes

INTERNATIONAL PAPER AND POWER COMPANY - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$ 5,564</td>
<td>$ 4,373</td>
<td>$ - 1,191 21.4%</td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>2,179</td>
<td>4,961</td>
<td>2,782 127.7</td>
</tr>
<tr>
<td>Total</td>
<td>7,743</td>
<td>9,334</td>
<td>1,591 20.6</td>
</tr>
</tbody>
</table>

Invested capital credit used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Comparison of income and excess profits tax liabilities under present and proposed methods of computing the taxes 1/ 

UNITED AIRCRAFT - 1940

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Proposed</th>
<th>Increase or decrease (−)</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>$8,103</td>
<td>$4,749</td>
<td>$ −3,354</td>
<td>−41.4%</td>
<td></td>
</tr>
<tr>
<td>Excess profits tax</td>
<td>10,390</td>
<td>13,976</td>
<td>3,586</td>
<td>34.5%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>18,493</td>
<td>18,725</td>
<td>232</td>
<td>1.3%</td>
<td></td>
</tr>
</tbody>
</table>

Average earnings credit used for both present and proposed methods of computing the taxes.

1/ Based on published financial reports, and rates of 24 percent for income tax and 50 percent for excess profits tax.
Leighton McCarthy: Hello, Mr. Morgenthau.

H.M.Jr: How are you?

McC: I'm very well. I thought perhaps I'd like to put your mind at rest in reference to that matter of the Maritimes and the New England States. I went into it with my military attache and I find that the Joint Board of Defense have given it very careful consideration and have made provision and are providing for just what you had in mind.

H.M.Jr: Oh, that's splendid.

McC: Both from the standpoint of land, sea and air.

H.M.Jr: Oh, that's splendid.

McC: We are looking after the harbor facilities and the airports in the Maritimes and the railroad situation is being well thought out and considered and it seems to me that they have it well in hand and well in mind.

H.M.Jr: Well, that's splendid.

McC: You can easily get it from your representative on that Joint Defense Board if you wanted to go further with it.

H.M.Jr: Right. Thank you so much.

McC: I feel very well satisfied.

H.M.Jr: Thank you.

McC: All right.

H.M.Jr: Good-bye.
John McCormack: Hello, Mr. Secretary. John McCormack talking.

H.M. Jr: How are you?

M: Fine, thank you. How are you?

H.M. Jr: I'm fine.

M: Up in Massachusetts I understand they appointed Daniel J. Dougherty, who was former Commander of the American Legion, as director of the Defense Savings staff.

H.M. Jr: Yes.

M: I knew nothing about it. I would have been glad to have recommended him because I have very high regard for him if I had known about it. I don't know who recommended him.

H.M. Jr: Well, on these, frankly, we've sort of considered them non-political and .......

M: Well, you couldn't have a better man now.

H.M. Jr: Well, I'm glad to get that.

M: Oh, no. I'd have been only too glad to recommend him, I say.

H.M. Jr: Well, that's good.

M: I have a very high regard for him.

H.M. Jr: But I wanted to be frank the way I always try to be that we've been asking any fellow as long as he's a good American.

M: Oh, well, you couldn't have a better man and I wasn't making that observation from the angle - I was just leading up to what I was going to follow it up with.
H.M.Jr: Oh.

M: Because I've recommended him for an attorney in the War Department and one or two other places and that shows what a high regard I have for him.

H.M.Jr: Well, that's a lucky break for us.

M: Because he's a very fine fellow, Dan Dougherty is, National Commander of the American Legion and you couldn't make a better appointment if you want my frank opinion.

H.M.Jr: Well, I'm delighted; I do.

M: Now, on his assistant I'm awfully interested. There is a fellow by the name of Albert E. Morris - M-o-r-r-i-s - Al Morris was Democratic leader in the Senate - in the Massachusetts Legislature. He is not there now - an outstanding fellow - he lives in Arthur Healey's district, to show you that I'm not trying to get him for my district, and to show you the regard I have for him. When I was chairman of the Speakers' Bureau last year, we had one quarter of what we were allowed - what the chairman was allowed in 1936, understand?

H.M.Jr: I understand.

M: We were allowed about $25,000 and they were allowed between $80 and $100,000 in 1936 and we went along and never asked for a penny more, but I had a lot of good friends of mine come up and offer their service for nothing, and he was one of them. He worked there for about eight weeks in the Speakers' Bureau and paid everything out of his own pocket. Well, he did it; he was a fellow who had nothing and was struggling along but his love of the party and his devotion to the President had him go over there to New York and spend eight weeks working at the Speakers' Bureau and going
out speaking, filling in engagements whenever necessary because it had a good experience. This fellow is a very, very, very able fellow. Now, I'm not basing this on political lines, I'm basing it upon the happy line consistent with what you would want as you expressed a few moments ago - non-political. But you couldn't have a better fellow and you couldn't have a more deserving fellow than him.

H.M.Jr: Yeah. How do you spell his name?
M: Albert E. Morris - M-o-r-r-i-s. He's at Everett - E-v-e-r-e-t-t, Massachusetts. He was former Democratic leader in the Massachusetts State House of Representatives.

H.M.Jr: Good. Well, I'm delighted to get the suggestion and I'll pass it along.
M: All right, fine. Thank you.
H.M.Jr: Thank you, John.
M: All right. Much obliged. And listen, on Dan Dougherty, you couldn't have a better man.

H.M.Jr: Thank you.
M: And if you wanted me to put that in writing, I would be only too glad to do it.
H.M.Jr: No, that's not necessary.
M: No, I meant, if any time you want it in writing - in other words if the situation arose why I would have been damn glad - I would have been proud to have recommended him to you.

M: All right. Good-bye.
May 7, 1941
5:13 p.m.

General Arnold:
Arnold talking.

H.M.Jr:
General, Morgenthau.

A:
Yes, sir.

H.M.Jr:
Oscar Cox phoned me that he thinks he has cleared that British pilot and navigator thing through the Budget and he says he reported to General Brett on it.

A:
That's fine.

H.M.Jr:
But I didn't know whether you got word or not.

A:
That's fine, sir.

H.M.Jr:
He says he thinks it will be ready for the President to sign tomorrow, and then I said that as long as had done that now to start on the Navy training crew for the PBY's and he said he would.

A:
That's grand. I've called up Phil Johnson and Fleet and they're going to send me in a wire because they said that they couldn't give me that answer direct because it was too sudden.

H.M.Jr:
Well, when you hear from Johnson and Fleet let me know.

A:
All right, sir, and I sent that other wire out to Cairo.

H.M.Jr:
Fine. Thank you. Good-bye.
May 7, 1941

My dear Mr. Ambassador:

Your letter of May 6th has given me more pleasure than I can say.

It is deeply satisfying to know that my efforts in connection with war purchases were of some assistance to your country.

I think it was most thoughtful of you to have written me as you did, and I appreciate it.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency
The Viscount Halifax,
Ambassador of Great Britain.
May 7, 1941

My dear Mr. Ambassador:

Your letter of May 6th has given me more pleasure than I can say.

It is deeply satisfying to know that my efforts in connection with war purchases were of some assistance to your country.

I think it was most thoughtful of you to have written me as you did, and I appreciate it.

Yours sincerely,

(Signed) E. Morgenthau, Jr.

His Excellency
The Viscount Halifax,
Ambassador of Great Britain.
May 7, 1942

My dear Mr. Ambassador:

Your letter of May 6th has given me more pleasure than I can say.

It is deeply satisfying to know that my efforts in connection with war purchases were of some assistance to your country.

I think it was most thoughtful of you to have written me as you did, and I appreciate it.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency
The Viscount Halifax,
Ambassador of Great Britain.
Original Letter being processed and framed.

One copy to each of following: 335

Mrs. Morgenthau
Henry Morgenthau, Sr.
Henry Morgenthau III
Robert Morgenthau
Joan Morgenthau
Mr. Kuhn (for preparation of reply)
Resolved, May 6, 41.

BRITISH EMBASSY, WASHINGTON.

I had meant to have stated days ago, how little you have cause to blame the President's Union Committee, I wrote to from my bed to help us while you less than poor. The ability, patience, money, and everywhere, the urge to the noble business of enlisting essential settlers, some quite volunteer, and having something else further too to the city, I can appreciate—his part at least—that I can understand. They are well aware it is their problem, their part to help in the common. For many of you I am sure the best times are those of better times for us. In this time of gathering into the many more Anglo-American families, this time find in this time of personal contact for our part in the great group of us.

J. MacVeagh
Halifax
My dear Mr. Secretary:

I had meant to write several days ago now that you have ceased to be Chairman of the President's Liaison Committee, to thank you for all you did to help us while you held that post.

The ability, patience, courage and imagination that you brought to the vital business of getting us essential supplies, were quite miraculous, and having seen something of the problem from the other side, I can appreciate - in part at least - what your help has meant. They are well aware of it in London for Purvis, Layton and Lothian also have often told them what a tower of support you were being to us.

You will of course be grappling with many more Anglo-American problems, but I wanted to send you this line of personal thanks for your part in one great group of them.

Very sincerely,

Halifax.
May 6, 41

BRITISH EMBASSY,
WASHINGTON.

My dear Mr. Secretary:

I had meant to write several days ago, now that you have ceased to be Chairman of the President's Liaison Committee, and thank you for all you did to help us while you held that post.

The ability, patience, courage and imagination that you brought to the vital business of getting us essential supplies, were quite miraculous, and having seen something of the problem from the other side, I can appreciate - in part at least - what your help has meant. They are well aware of it in London, for Purvis, Layton and Lothian also have often told them what a tower of support you were being to us.

You will of course be grappling with many more Anglo-American problems, but I wanted to send you this line of personal thanks for your part in one great group of them.

Very sincerely,

Halifax.
May 7, 1941.

To: Secretary Morgenthau  
From: Mr. Gaston

Senator Minton called me today, pleading that we accept Guffey's man Miller for Collector of Internal Revenue at Pittsburgh and saying that Guffey's vote on the American Export Air Line may depend on it. I told him that your invariable custom was to follow the recommendation of the Commissioner of Internal Revenue, which in this case was adverse, but that I would put the matter up to you again.

I attach a memorandum which I wrote for Ed Flynn.

Enclosure.
Senator Guffey gave the Treasury Department the names of three men to be investigated for appointment of one as Collector of Internal Revenue at Pittsburgh. The three are Walter L. Miller, of Pittsburgh and Harrisburg; Stanley Ormeor, of Raynesboro; and Robert L. Brown, of Nashville. Through Sherman Minton, Guffey indicated that Miller was his number one selection.

The Treasury has now received reports of field investigations on all three men. In each case the recommendation is adverse. Commissioner Helvering has reported to Secretary Morgenthau that none of the three should be appointed.

The agents' reports have been shown to Senator Minton, who makes the comment that he is inclined to agree with the recommendations on all but Miller.

Walter L. Miller is 46 years old and gives his voting address at 1904 Davis Avenue, Pittsburgh, Pennsylvania. He now lives at Harrisburg, where he is resident secretary of the Pennsylvania State Democratic Committee and assistant chief clerk of the Pennsylvania House of Representatives at a combined salary of $1600. His education consists of graduation from the eighth grade of the Pittsburgh Public Schools and two terms at a night business school. He was employed from 1910 to 1915 as clerk and bookkeeper from 1919 to 1934 as office manager for an architect; and from 1934 to 1940 as an office manager for FHA, WPA, and the Bituminous Coal Commission, at a salary ranging from $2600 to $5600 per annum. Those interviewed spoke well of his character and general reputation. The records of the WPA, however, disclose that he was investigated in 1938 on charges of soliciting and collecting political contributions through the sale of tickets for a picnic and that recommendation for his separation from the Service was approved on May 29, 1939; however, he resigned on May 14, 1939 to accept a position with the Bituminous Coal Commission. He filed an income tax return for 1939, the only year up to that date for which he seems to have been liable. The judgment records of Allegheny County show a judgment on foreclosure against a residence property owned by Miller and his wife. Miller admitted one arrest in connection with an automobile accident and this was confirmed by court records. Credit bureaus in Harrisburg and Pittsburgh have nothing unfavorable on Miller. The investigating agent comments that "Walter L. Miller has had a very meager education and has had practically no training or experience in tax matters. However, he has had rather extensive experience in office management."

Miller is a veteran of the World War, having served from March 10, 1918 to April 22, 1919, during which time he served with Company "H" of the 33rd Engineers in France, having been discharged with the rank of Sergeant.
Secretary Mergenthaler has never recommended the appointment by the President of any candidate for Collector of Internal Revenue who did not have the favorable recommendation of the Commissioner of Internal Revenue.
May 7, 1941

Dear Frank:

Your letter dated May 1, which evidently only cleared your mail room on May 6th, was received by me at 8:55 a.m., May 7th.

Your proposal, as suggested in your letter, is agreeable to Mr. Gaston and me. If the Chief of Naval Operations will get in touch with Admiral Naeche, the details of the transfer, I am sure, can be worked out to our mutual satisfaction.

Yours sincerely,

(Signed) Henry

Honorable Frank Knox,

Secretary of the Navy.
My dear Henry:

This morning Mr. Gaston, your Assistant, notified us that the President requested you to turn over to the Navy seven 327-foot Coast Guard Cutters. He intimated, however, that if this was done, the Weather Patrol Service would have to be discontinued by the Coast Guard.

I suggest that the seven 327-foot Coast Guard Cutters be transferred to the Navy with the understanding that the Navy assume the obligation of maintaining the Weather Patrol Service until such time as it might be undertaken by the Coast Guard with vessels secured from the Maritime Commission or elsewhere.

Yours sincerely,

[Signature]

Honorable Henry Morgenthau,
Secretary of the Treasury,
Washington, D.C.
To: Secretary Morgenthau  
From: Mr. Gaston

This memorandum is to confirm our conversation this afternoon regarding the assignment of Coast Guard equipment and personnel to work under Navy command in Greenland waters.

You approved the request of the Chief of Naval Operations contained in letter dated May 6 (photostat attached) to the Commandant of the Coast Guard for the assignment of the following vessels:

1. One Coast Guard cutter of the ALGONQUIN class;
2. One 110-foot ice-breaking tug;
3. The Coast Guard Arctic cutter NORTHLAND;
4. The Arctic vessel NORTH STAR, on loan to the Coast Guard from the Department of the Interior;
5. A senior officer of the Coast Guard experienced in Arctic operations to command vessels operating on the east coast of Greenland;
6. Coast Guard personnel for manning the above Coast Guard vessels.

Attachments:
1. Copy of letter to the Commandant of the Coast Guard from the Chief of Naval Operations, dated May 6;
2. Copy of memorandum to the President, dated April 22, signed by the Secretary of War and the Secretary of the Navy;
3. Copy of memorandum by the President, dated April 30, addressed to the Secretary of War and the Secretary of the Navy.
SECRET

Memorandum

May 6, 1941

From: The Chief of Naval Operations.
To: The Commandant, U. S. Coast Guard.

Subject: Request for assistance in operations in GREENLAND.

Reference: (a) Secret Joint memorandum from the Secretary of War and Secretary of the Navy to the President dated 22 April 1941.
(b) Secret memorandum from the President to Secretary of War and Secretary of the Navy dated 30 April 1941.

Enclosure: (A) Copy of reference (b).

1. Naval operations will be required in Greenland this summer for two purposes. The first purpose is to support the Army in accomplishing its task assigned by the President, of establishing in Greenland air-drome facilities for use in ferrying aircraft to the British Isles. Forces employed for this purpose are not likely to be engaged in active hostilities and the character of the operations is such that they can best be controlled direct from the Navy Department.

2. The second purpose is to defend Greenland and specifically to prevent German operations in Northeast Greenland. There is a possibility that forces employed for this purpose may become engaged in active hostilities. If this should occur it would be necessary for them to be supported by units of the Atlantic Fleet. In order to ensure complete coordination it has been decided to assign ships and aircraft operating in Northeast Greenland to the Atlantic Fleet.

3. The referenced memorandums constitute the President's directive with respect to the prevention of German activities in Northeast Greenland. It is requested that a maximum degree of secrecy be maintained in connection therewith.
SECRET

4. Assistance is desired from the Coast Guard as follows:

(a) Assign to operate under naval control for purposes connected with the establishment of military and naval installations in Greenland:

(1) One coast guard cutter of the ALGONQUIN class for use in a survey to be made in the Angmagssalik area when ice conditions permit.

(2) One 110' ice breaking tug for use in connection with the movement of Army troops and supplies for the airdrome construction project.

(b) Assign to operate under naval control for purposes connected with the defense of Greenland:

(1) The NORTHLAND and NORTH STAR.

(2) A senior officer experienced in Arctic operations to command the ships and aircraft operating in Northeast Greenland this summer.

(c) Assist the Navy in retaining the BEAR as a ship of the Navy for duty in Northeast Greenland in order that the services of her experienced naval crew may be utilized.

(d) Assist the Navy in obtaining the use of the BOWDIN for duty in connection with airdrome surveys and construction projects.

5. It is proposed to arm the NORTHLAND, BEAR and NORTH STAR as effectively as possible, to provide for each one an amphibian airplane equipped with bombs and machine guns, to increase their crews so that they can land armed parties when necessary, and to assign them to the Atlantic Fleet as a task force commanded by a Coast Guard officer.

6. It is proposed to man the BOWDIN with naval reserve personnel, placing Lieutenant Commander MacMillan, U.S.N.R., on active duty for that purpose and inducting into the naval reserve such experienced men as he has available.

[Signature]

R. B. Shack
MEMORANDUM FOR:

THE SECRETARY OF WAR
THE SECRETARY OF THE NAVY

SUBJECT: Prevention of German Activity in the Scoresby Sound Region, Greenland.

April 30, 1941.

1. In paragraph #4 of your report of April 22nd, you suggest that until July the only practicable way of locating and eliminating such stations (German) is by the use of Iceland, both for the immediate operation of radio intercept and direction finding stations, and later as a base for aircraft operating against stations located.

2. I do not think that we should wait until we can get a specially constructed ship up to Scoresby Sound in mid-July, though we should plan to have the USS BEAR go there then. I understand that one other ship, the RIVER STAR or the NORTHLAND is similarly strengthened for ice conditions. Perhaps two ships should go together. The object of this July expedition would be to thoroughly search out and eliminate any German or so-called Norwegian weather stations or bombing plane base.

3. I cannot agree that Germany will not attempt to establish a military base in Northeast Greenland this year. I think Germany will probably seek to get a definite foothold even if this foothold can only defend a small location. Therefore, our own expedition should be fitted out with sufficient guns to hold the Scoresby Sound area until early September, leaving just before ice closes in.

4. In addition to the above expedition by sea, I suggest that one or two Navy patrol planes fly immediately (as soon as possible) to Newfoundland and thence to Iceland, after the requisite arrangements have been made at the latter place. This will not be a neutral act, as Iceland is independent and not a part of the war. These two planes should stay in

Regraded Uclassified
Iceland as short a time as possible, making one or two flights from there over the Scoresby Sound area for close observation purposes, returning immediately to Iceland. When their mission is accomplished, they should return at once to Newfoundland.

5. In regard to your Paragraph #11, I think that (a) is unnecessary, as I have already announced that Greenland falls within the Monroe Doctrine.

I approve (b), (c), (d) and (e). I suggest a modification of (f), as I do not think we are prepared at this time to use Iceland as a permanent or semi-permanent base. Its use for one specific purpose, as outlined above, i.e., one or two inspection flights over northeast Greenland only, is approved.

F. D. R.
Memorandum

From: The Chief of Naval Operations.
To: The Commandant, United States Coast Guard.

Subject: Prevention of German Activity in the Scoresby Sound Region.

1. There is enclosed herewith, for your information, a copy of a memorandum prepared for the President at his direction.

R. E. Ingersoll
Acting
WAR and NAVY DEPARTMENTS
Washington

SECRET

April 22, 1941.

Memorandum for THE PRESIDENT.

Subject: Prevention of German Activity in the Scoresby Sound Region.

1. During the summer of 1940 Germany made numerous attempts to establish weather stations in Northeast Greenland. Three small Norwegian vessels were sent under German control to establish such stations. The British took counter measures using a Norwegian gunboat operating under British Admiralty control. They landed British personnel at Hyggbukta for a brief period; they dismantled two Norwegian radio stations and removed their personnel; they seized Danish Navy supplies of aviation fuel; they captured personnel landed by a German controlled Norwegian vessel, and seized one of the three Norwegian vessels mentioned above.

2. German aircraft have since appeared over Northeast Greenland on at least three occasions. It is suspected that a German controlled weather station is still in operation in Greenland although no definite information has been received on this point.

3. The region involved in these activities includes Scoresby Sound, King Oscar Fjord and the Mackenzie Bay area between latitudes 70° North and 73° 30' North. In this region are reported to exist the best sites on the East Coast for developing landing fields. The area is normally open to navigation only from mid-July to early September and then only to ships especially constructed for Arctic operations.

4. Owing to ice conditions, the only German activity feasible in Northeastern Greenland prior to July is the maintenance or establishment by air of weather stations. Until July, the only practicable way of locating and eliminating such stations...
is by the use of Icetanks, even for the immediate operation of radio intercept and direction finding stations, and later as a base for aircraft operating against stations located.

5. The importance to Germany of regular meteorological reports from Greenland indicates that when ice conditions permit, in July, Germany may attempt to establish new weather stations and to send supplies or any which may now be in operation. Since the region involved is slightly less than 1000 miles from German bases in Norway, attempt may also be made to establish aviation facilities, but it is believed that such facilities will be limited to those needed for aircraft cooperating with the weather stations.

6. Ships to be used in northeast Greenland, either by Germany or by us, must have been especially constructed for work in pack ice. Operations must be limited accordingly. For this reason it is not believed that any attempt will be made to establish a naval base in the region. Owing to the relative proximity of landing fields available to her, Germany can utilize aircraft to supply her stations by air. Without a base in Iceland, we can not.

7. The terrain in the region is such that troop movements over long distances are not practicable by land. Passage over the ice can be accomplished only by very small numbers of men after elaborate preparations. Accordingly the establishment of a military garrison on shore is effective only for the defense of its own location, and is ineffective as a means of denying other locations. It is not believed, therefore, that Germany will attempt to establish a military base in Northeast Greenland this year.

8. The most effective means available for preventing the type of activity expected is the use of ships suitable for arctic work, equipped with aircraft for observation purposes, and prepared to land detachments to seize the personnel and material of any German stations located. We have three such ships, -- the Coast Guard Cutter NORTHLAND, and the EAR and NORTH STAR now returning from the Antarctic. Each ship should have guns installed and be equipped with an observation seaplane or amphibian. Such of the present equipment and personnel of the Antarctic Expedition as may be useful and available should be retained. The crews of the ships should be augmented to include well trained landing parties.

9. Although their operations may not be absolutely effective against surreptitious activities, the entry into the region, as soon as ice conditions permit, of these three ships
will make it more difficult for Germany to establish stations than was the case last summer. If Germany chooses to use force, she may destroy any or all of the ships by air attack. Our only safeguard against such action is Germany's knowledge of the consequences. If Germany should land in Northeast Greenland, for any purpose, a force too strong to be dealt with by ships which can enter the region, it will be necessary for us to resort to the use of superior force. The most effective way of doing so locally, until such time as we may have a base in South or West Greenland, is to use aircraft based on Iceland.

10. The use of the NORTHLAND, BEAR, and NORTH STAR for operations in Northeast Greenland will make it necessary for the War Department to modify its former plan to use two of them to accomplish the survey of the Southeast coast of Greenland, for the purpose of locating a landing field, previously directed by the President. The desired survey probably can be accomplished, although with somewhat less certainty and effectiveness, by using the smaller short range cutters of the ALONQUIN class, which are partially strengthened for work in ice, and by refueling them in the Julianehaab area.

11. After considering the probable extent of German operations in Northeast Greenland during the summer of 1941, it is recommended:

(a) That announcement be made that European military activities in Greenland will be resisted by the United States.

(b) That the British be requested to operate the necessary radio intercept and direction finding equipment in Iceland.

(c) That no United States garrison be established in Northeast Greenland this year.

(d) That a naval expedition be prepared now for such use as may be necessary in Northeast Greenland, including the NORTHLAND, BEAR, and NORTH STAR operating under naval control, and that other ships be employed for surveys elsewhere.

(e) That sufficient equipment and supplies be carried to permit one ship to winter in the region if found necessary.

(f) That, if more force becomes necessary, the foregoing action be supplemented by patrol plane operations, using Iceland as a base.

/s/ Henry L. Stimson
The Secretary of War.

/s/ Frank Knox
The Secretary of the Navy.

to:
Secretary of State
Secretary Knox announced at his press conference this morning that transfer of the seagoing activities of the Coast Guard to the Navy had been authorized verbally by the President and would be confirmed in a formal order later. He said Coast Guard would retain its shore activities and its planes.

From: MR. GASTON
TODAY - Wednesday, May 7.

Time: 11:00-11:15 A.M.
Station: WRC, Washington, D.C.
Program: Transcription of address given by D. W. Bell, Under Secretary of the Treasury, before the conference of the National Association of Mutual Savings Banks, in Philadelphia, Pennsylvania.

Time: 7:00-7:30 P.M.
Program: Defense Savings Bonds given as prizes to quizee children - announcement during broadcast.

Time: 8:00-8:30 P.M.
Program: Eddie Cantor sells a bond to the Mad Russian on the Eddie Cantor show.
May 7, 1941

DEFENSE SAVINGS STAFF
ADVANCE NOTICE RADIO PROGRAMS

Special

TODAY - Wednesday, May 7.

Time: 8:00-9:00 P.M.


Program: Defense Savings Bonds and Stamps will be featured during Fred Allen's program.
The following address by Daniel W. Boll, Under Secretary of the Treasury, is scheduled for 10:00 a.m., Eastern Standard Time, Wednesday, May 7, 1941, before the conference of the National Association of Mutual Savings Banks at the Bellevue-Stratford Hotel, Philadelphia, and is for release upon delivery at that time.

I appreciate this opportunity to discuss with you some of the problems which the Treasury faces in financing the National Defense program. These problems involve complex, technical questions, and I am glad to be able to discuss them before an audience as conversant with them as you are.

There is no doubt that the entire country is in complete sympathy with the action taken by the President and the Congress to make the United States so strong that no nation or combination of nations will dare attack us. To make our country thus secure is going to cost a lot of money. It is certain, therefore, that some of us will have bought a lot of Government securities before the Defense program is finished, and before the total bill is finally liquidated all of us will have paid a lot of taxes. But the American people are united on this program and have clearly indicated that they are ready to pay the bill, whatever it may be. They value too highly the fundamental principles on which our nation is founded not to make such sacrifices as are necessary for the successful defense of those principles.

Recently the Secretary of the Treasury stated to a Congressional committee that it would be sound fiscal policy to levy sufficient taxes
during this emergency to meet about two-thirds of our total Budget expenditures and to borrow the remaining third. He also recently announced the Treasury program for the sale of Defense Savings Bonds and Postal Savings Stamps directly to the public in order to attract the real savings of the country. The response that the Treasury has had to these two announcements has been very gratifying. Here again the unity of our people is clearly reflected on another phase of our defense program.

The Secretary's two statements on our financial policy for defense are complementary. The financial problem with which we are confronted is to raise the necessary money to finance the defense program in such a way as not to interfere with the smooth and continuous functioning of our tremendous productive machine. We do not want a necessary increase in production to cause an unhealthy boom which will inevitably be followed by a severe depression. We want to make the switch over to defense production as smoothly as possible and to help prevent, so far as we can foresee them at this time, the post-war difficulties and dislocations which have usually followed an emergency of this character.

If we are to attain these goals, we will have to make every effort to carry out our defense program without inflation. Fiscal policy can contribute to this end by financing as much of the defense program as possible from tax revenue and genuine savings. To do this, it will be necessary temporarily to forego some of the luxuries and non-essential goods and services to which many of us have become accustomed. It is also essential that we curtail the use of those goods and services which compete
with the products that go into National defense. This is a great challenge to every citizen and an excellent opportunity to be of real service to his country.

Our tax and our savings bonds programs both contribute to the efficient mobilization of our economy for defense production; both, it seems to me, are an integral part of any policy of financial preparedness. I should like first to discuss the tax program and then go on to consider the savings bond program.

In order to provide a background for this discussion, let me give you a brief picture of the fiscal situation as we see it today. World events are moving with great rapidity. This makes it necessary for us in the Treasury to review constantly this fiscal picture to keep it in line with the defense program.

The current fiscal year is almost over; so I will confine myself to the situation we face in the fiscal year beginning next July 1 and ending June 30, 1942. While there have been no official estimates of receipts and expenditures for this year since the Budget submitted to the Congress last January, there are available the preliminary estimates which the Secretary of the Treasury presented to the Ways and Means Committee of the House as a basis for his recommendation for additional taxes. In his statement the Secretary estimated that expenditures for the fiscal year 1942 would not be less than $19 billions, and that revenue under the present tax laws would reach $9.2 billions. If, therefore, taxes are to be two-thirds of expenditures during the next fiscal year, we must have tax revenues amounting to $12.7 billions, or roughly $3.5
billions more than we expect to collect under the present tax structure. It is for this reason that the Secretary has asked Congress for a $3.5 billion increase in taxes.

The American people can pay these additional taxes with sacrifices, yes, but with sacrifices which are small in the light of our National needs. Though $3.5 billion is a large tax increase, it actually represents less than 4 per cent of the National income we are likely to have in the fiscal year 1942. Expenditures on defense are bringing business recovery and increasing the National income which, by June of 1942, will probably be running at an annual rate considerably in excess of $90 billion. In fact, our total defense expenditures will probably not be more than 15 per cent of this National income. This surely is not a high price to pay for our security and freedom in a world at war, when all the principal nations at war are devoting as much as one-half of their National incomes to war efforts.

The fiscal advantage of increasing taxes at this time is obvious. With a National debt of $47 billion, a program for defense expenditures already aggregating $39 billion, and the end of world conflict not yet in sight, it would seem the height of folly not to meet a very substantial part of current expenditures on a pay-as-you-go basis. No one knows how long this emergency is going to last. And no one knows the conditions which will confront us during the post-war period. Common sense demands, therefore, that we should keep our borrowing to a minimum now, so that we shall be better prepared for whatever contingencies may arise in the future.
Further, by meeting a substantial portion of present emergency expenditures from current revenue, the Government is able to borrow the remainder at lower interest rates. This is so both because smaller borrowing means a smaller demand for capital, and because it gives a direct assurance to present and prospective holders of Government securities that everything is being done to maintain our finances on a sound and safe basis even in the face of a grave National emergency.

There are, moreover, other important economic advantages favoring a policy of increased taxation at this time. Higher tax revenues during a period of rapidly expanding business activity are an important instrument for putting the brakes on an inflationary rise in prices.

If the Government succeeds in taking away from individuals and corporations, through taxation, purchasing power that would otherwise be spent in competition with expenditures for defense, which must be spent in any case, then the total monetary demand for goods and services will to that extent be reduced. The pressure for increased prices will accordingly be lessened. Higher taxes are, therefore, an essential instrument in the fight against inflation.

In other words, the Government by its tax program hopes to divert purchasing power from use by individuals and corporations to the Government's defense program and in this way to facilitate the shift of our productive resources from non-defense to defense goods.

But even if taxes are raised $3.5 billions, we shall still have to borrow a substantial amount. Of the $3.5 billions of additional annual tax liabilities contemplated under the Treasury proposed tax program,
the Treasury will receive during the next fiscal year not more than $2.6 billions. Therefore with expenditures at $19 billions and revenues, including the new taxes, at $11.8 billions, we will still have a deficit of $7.2 billions.

Government trust funds, including Social Security funds, are expected to purchase from the Treasury about $1.5 billions of Government securities during the next fiscal year. This leaves $5.7 billions to be raised from our Defense Savings Bonds program and our regular market operations. In addition to this, Government corporations and credit agencies will probably borrow in the short-term market around one billion dollars.

The amount that will be raised by the Savings Bond program is difficult to estimate, but to the extent that we do raise funds through this method, the amount we will have to raise through our regular market financing will be reduced. Such a reduction will lessen the increase in demand deposits which might otherwise have taken place, and at this time we are anxious to minimize further expansion of such deposits.

As you know, if banks make net purchases of Government bonds, the volume of bank deposits is very likely to expand. Furthermore, the consequences will be the same if banks make loans to individuals or corporations wishing to buy Government securities. During the period of recovery the expansion of deposits was perhaps desirable because we then had a large volume of unemployment and idle plant capacity.

Now, however, we face a different situation. The volume of unemployment is rapidly decreasing and the volume of production is
rapidly increasing. So great is our necessary defense effort that already some industries are experiencing difficulties in getting adequate supplies of equipment, raw materials and specialized labor. As the defense program gets into full swing, we shall reach the stage where more and more industries will be approaching capacity. The problem will then no longer be simply to expand total production but in addition to expanding defense production by diverting resources from non-defense fields. At that stage a sustained rise in demand deposits would make it more difficult to check a drastic rise in prices. Such a price rise in addition to its many well-recognized evils would greatly increase the cost of our defense effort. Furthermore, the sharp rise in prices during the period of the last war was an important factor in contributing to the unbalance of post-war years.

You will note that it is an expansion of demand deposits, not savings bank deposits, that the Treasury is particularly concerned to prevent. For the deposits of the savings banks can only be expanded when some one does not spend all his income but instead places a part of it in a savings account. However, demand deposits can be expanded without any one having to curtail expenditures, so that an expansion of such deposits may lead to an increase in total spending, and thus prices. It is this which the Treasury seeks to prevent. On the other hand, if the savings of the public are gathered by the savings banks and used to buy Government bonds, there will be the same restriction of spending as occurs when savings bonds are sold directly to individuals.
The Treasury, therefore, considers it desirable to sell as many of its bonds as possible without further expanding demand deposits. As a second important step in the direction of preventing an inflation, this decision will, I am sure, meet with universal approval.

The fundamental financial problem is to cananlize purchasing power in such a way that when our economy is working at full capacity the defense effort will not be blocked by excessive demand for non-defense goods. The closer we approach full employment of available labor and full use of existing plant and equipment, the more urgent does this cananlization become. The ramifications of this problem run through almost every aspect of economic life. It ties up with the control of priorities and prices and credit, and the organization of labor supply, as well as with the Treasury’s fiscal program.

Part of the necessary cananlization of purchasing power into defense production will result from the purchase with real savings of the new Defense Savings Bonds and Savings Stamps which were placed on sale last week. These savings securities range all the way from 10-cent Postal Savings Stamps to $10,000 Savings Bonds, and therefore can easily be purchased by people in all walks of life.

The sale of such bonds, it is true, increases the National debt, and there are some people who feel that a mounting National debt is in itself a factor making for rising prices and inflation. But actually this is not always so. It all depends on what would otherwise have been done with the money the Government borrows. If the money in question
would have been spent in any case, then government borrowing does not add to total spending, but simply diverts part of it from private individuals to the government without altering the total. If your wife finds the money you put aside to buy a new set of golf clubs and uses it to buy a new spring outfit, your only choice is to make the old set do for another year! In the same way, if you make your car do for another year and use the money you might have spent on a new car to buy a Savings Bond, then the government simply spends on, let’s say, a tank, the money which you would have spent on a car.

Savings bonds, more than any other government security, are likely to be purchased with real savings made out of current income rather than with idle balances. Therefore, in encouraging the sale of such bonds the government is making a real effort to divert to itself money which would have been spent in any case, in order, so far as possible, to keep constant the total volume of spending, and so the level of prices.

However, even if savings bonds are purchased with idle balances, the sale of such bonds still has a contribution to make. For it is clearly more desirable for the treasury to obtain existing idle balances then to finance its defense expenditure by a further expansion of bank deposits, or, in other words, by the creation of new balances. Both, it is true, increase the flow of funds at present, but the ultimate result is quite different. A further expansion of deposits leaves us with as many if not more idle balances to cope with in the future. A reduction of idle balances, on the other hand, causes balances to be
used at the present time; this in turn prevents them from coming into use in the future, when an expansion of the flow of funds may be much less desirable than at present. Idle balances are a source of inflationary expansion which cannot easily be checked by the usual methods of credit control; hence a program designed to reduce idle balances serves to strengthen our controls over credit expansion against the day when such controls may have to be used.

Of course, when our regular bond issues are not sold to the banks, they too are likely to remove idle balances, even if they are less likely than savings bonds to be purchased out of income. Moreover, the Treasury could unquestionably place such regular bonds with the general public by means of drives such as those which accompanied the various Liberty Loans during the World War. But there is no occasion to adopt measure of that sort at this time. Instead, we have attempted in the new series of Savings Bonds to devise securities which will induce people to provide us with funds from the most desirable sources.

How large a proportion of the necessary funds we shall be able to secure from such sources depends largely upon the extent to which the general public is willing to postpone consumption and purchase either the new Savings Bond series or our regular issues. As far as I have been able to determine, about the only people in the country today who are making any substantial sacrifice for this defense program are the boys who are going into military service. Those of us not in
military service may never have to make as great a sacrifice as that being made by the boys who are being drafted; but we can make our contribution by paying taxes and by giving up some of the goods we can get along without and lending the money to the Government to spend for defense. You have only to compare the pay received by those who are in the Army with their previous earnings as civilians to see that the new taxes, heavy as they are, require us to make but a relatively small contribution. Surely all of us will want to make it somewhat larger by purchasing as many Savings Bonds as we can.

In this connection, I should like to appeal to our State and local governments to make some sacrifices by keeping their current expenditures down to a minimum whether those expenditures are derived from taxes or loans. The Secretary of the Treasury has already appealed for a curtailment of Federal non-defense expenditures. The more spent by Government agencies, whether Federal, State or local, on non-defense purposes, the less of the National income will be left for defense. This is true because unemployed labor and resources are being rapidly absorbed and bottlenecks in certain lines of production are emerging. If Governmental agencies increase their spending on normal account, it will only tend to hasten the development of shortages and to intensify our priority problem.

It is essential for us to speed up production for defense in as short a period as possible if we are to catch up with other countries and give aid to the other democracies. Therefore, the least we can
The task of all government authorities is to do their bit by not expanding their normal expenditures and by curtailing them wherever it is possible to do so without the imposition of hardships. This is not a large sacrifice, and it is one American citizens have every right to expect from their governments at such a time as this.

The provision of adequate financial resources for defense is not a problem that can be solved by Treasury officials in Washington without your cooperation and without the cooperation of all the people. Our defense program is a great National effort and it can only succeed if each of us makes his full contribution to this cause. The savings banks of this country are in a particularly strategic position to make a substantial contribution to the success of the defense effort. I know the people of this country can depend upon you for that. You have already shown a splendid spirit of cooperation and we in the Treasury appreciate what you are doing.
In accordance with your request of yesterday, I telephoned Mr. Carl Hamilton, Assistant to the Secretary of Agriculture, with regard to that Department's continuance of its surplus disposal programs in view of the current record level of mill consumption of raw cotton and the relative increases in the prices of cotton textiles.

I explained to him that you were, of course, apprehensive about inflationary tendencies resulting from undue price rises, and that according to a recent report we had furnished you, cotton goods had shown the most important price increase among the textile materials – the average price having risen better than 23 percent since a year ago.

Mr. Hamilton was cognizant of the price rise and said it was true that they were continuing to make subsidy payments on exports of cotton products as well as subsidies under the mattress, stamp plan, cotton bagging for cotton bales, and cotton insulating programs. He said their justification for continuing the subsidy payments was that the export markets had been largely lost and even if there were a complete crop failure this year there would be a sufficient supply of cotton on hand. He said they were running into some difficulty in the mattress program due to a shortage of ticking. He felt that the real bottleneck was in manufacturing facilities and that this bottleneck was causing the increase in prices.

Mr. Hamilton admitted, however, that their program might be aggravating the bottleneck and said he would like to have time to explore the situation and would call me again with regard to the matter.
LOCKHEED P-38 TYPE PURSUIT INTERCEPTOR AIRPLANES
Actual and Estimated Deliveries to the U.S. Army
(Includes models XP-38, P-38, P-38D, and P-38E)

<table>
<thead>
<tr>
<th>Period</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 15 - Oct. 12, 1940</td>
<td>1</td>
</tr>
<tr>
<td>Jan. 5 - Feb. 1, 1941</td>
<td>1</td>
</tr>
<tr>
<td>Mar. 2 - 29</td>
<td>2</td>
</tr>
<tr>
<td>Mar. 30 - April 26</td>
<td>2</td>
</tr>
<tr>
<td>Total actual deliveries</td>
<td>6</td>
</tr>
<tr>
<td>Number of planes now on order</td>
<td>680</td>
</tr>
</tbody>
</table>

Estimated deliveries of the planes now on order:

<table>
<thead>
<tr>
<th>Period</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 27 - 30</td>
<td>1</td>
</tr>
<tr>
<td>May</td>
<td>6</td>
</tr>
<tr>
<td>June</td>
<td>12</td>
</tr>
<tr>
<td>July</td>
<td>18</td>
</tr>
<tr>
<td>August</td>
<td>26</td>
</tr>
<tr>
<td>September</td>
<td>25</td>
</tr>
<tr>
<td>October</td>
<td>54</td>
</tr>
<tr>
<td>November</td>
<td>72</td>
</tr>
<tr>
<td>December</td>
<td>104</td>
</tr>
<tr>
<td>January 1942</td>
<td>130</td>
</tr>
<tr>
<td>February</td>
<td>120</td>
</tr>
<tr>
<td>March</td>
<td>112</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics.
May 7, 1941.
LOCKHEED P-38 TYPE PURSUIT INTERCEPTOR AIRPLANES

Actual and Estimated Deliveries to the U.S. Army

(Includes models XP-38, P-38, P-38D, and P-38E)

<table>
<thead>
<tr>
<th>Period</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 15 - Oct. 12, 1940</td>
<td>1</td>
</tr>
<tr>
<td>Jan. 5 - Feb. 1, 1941</td>
<td>1</td>
</tr>
<tr>
<td>Mar. 2 - 29</td>
<td>2</td>
</tr>
<tr>
<td>Mar. 30 - April 26</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total actual deliveries</strong></td>
<td><strong>6</strong></td>
</tr>
<tr>
<td><strong>Number of planes now on order</strong></td>
<td><strong>680</strong></td>
</tr>
</tbody>
</table>

Estimated deliveries of the planes now on order:

<table>
<thead>
<tr>
<th>Period</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 27 - 30</td>
<td>1</td>
</tr>
<tr>
<td>May</td>
<td>6</td>
</tr>
<tr>
<td>June</td>
<td>12</td>
</tr>
<tr>
<td>July</td>
<td>18</td>
</tr>
<tr>
<td>August</td>
<td>26</td>
</tr>
<tr>
<td>September</td>
<td>25</td>
</tr>
<tr>
<td>October</td>
<td>54</td>
</tr>
<tr>
<td>November</td>
<td>72</td>
</tr>
<tr>
<td>December</td>
<td>104</td>
</tr>
<tr>
<td>January 1942</td>
<td>130</td>
</tr>
<tr>
<td>February</td>
<td>120</td>
</tr>
<tr>
<td>March</td>
<td>112</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics.
LOEHEED P-38 TYPE PURSUIT INTERCEPTOR AIRPLANES

Actual and estimated deliveries to Great Britain

(British version known as model 322)

<table>
<thead>
<tr>
<th>Period</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual deliveries</td>
<td></td>
</tr>
<tr>
<td>To April 26, 1941</td>
<td>0</td>
</tr>
<tr>
<td>Number of planes now on order</td>
<td>667</td>
</tr>
<tr>
<td>Estimated deliveries of the planes now on order:</td>
<td></td>
</tr>
<tr>
<td>Apr. 27 – 30, 1941</td>
<td>0</td>
</tr>
<tr>
<td>May</td>
<td>2</td>
</tr>
<tr>
<td>June</td>
<td>3</td>
</tr>
<tr>
<td>July</td>
<td>6</td>
</tr>
<tr>
<td>August</td>
<td>18</td>
</tr>
<tr>
<td>September</td>
<td>37</td>
</tr>
<tr>
<td>October</td>
<td>54</td>
</tr>
<tr>
<td>November</td>
<td>72</td>
</tr>
<tr>
<td>December</td>
<td>104</td>
</tr>
<tr>
<td>January</td>
<td>130</td>
</tr>
<tr>
<td>February</td>
<td>120</td>
</tr>
<tr>
<td>March</td>
<td>121</td>
</tr>
</tbody>
</table>

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

May 7, 1941.

Note: On April 29, 1941, the British had 56 Allison "C" engines on hand for insertion in model 322 planes as soon as the airframes were ready.
BURBANK, Calif.—This Lockheed P-38 interceptor plane is a pretty toy but it spells poison for some gentlemen in Berlin, Tokio and Rome. The fastest things in the world, these 400-plus-miles-an-hour babies are rolling off the line in increasing numbers for the Army Air Corps.
May 7, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of telegram no. 244 dated May 5, 1941 from the American Legation, Stockholm, reporting a rumor that the United States intends to freeze Swedish credits.

Enclosure:

No. 244, May 5, from Stockholm.
Secretary of State,
Washington.

244, Fifth.

Telegram to Swedish press on Saturday from New York
states United States Treasury again urging freezing
Swedish credits. Today newspapers all much concerned
and comment most adversely stating that Swedish Govern-
ment exchange regulations make improper transfers im-
possible which should remove any suspicion Swedish funds
in United States may be utilized by Germany or Italy.
Furthermore American proposal if executed would cause
great resentment in Sweden.

STERLING

CSB

Copy: bj: 5-8-41
DEPARTMENT OF STATE

Memorandum of Conversation

Date: May 7, 1941

PARTICIPANTS: The Greek Minister, Mr. Diamantopoulos;

Mr. A. A. Berle, Jr.

COPIES TO: S, U, EU, EA
(Copy to Treasury)

The Greek Minister came in to see me today, at my request. I gave him the schedule of the balances held by the Federal Reserve and the New York banks for account of the Bank of Greece. I suggested that he might wish to explore the possibility of transferring this to the account of the Greek Government.

The Minister said that he understood that the Governor of the Bank of Greece was at Crete; and he would cable to see what they thought of the idea.

A. A. Berle, Jr.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 7, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

FBI reports that between September 13, 1940 and May 1, 1941, Yokohama Specie Bank withdrew from the Guaranty Trust Company cash, in small denominations, totaling $548,000.

It also reports that on April 2, 1941 and on April 16, 1941 the Banco Espirito Santo of Lisbon, Portugal, made deposits of $60,000 each in United States currency, chiefly in denominations of less than $500, in that bank's account at the Manufacturers Trust.

Regraded Uclassified
TREASURY DEPARTMENT
WASHINGTON

May 7, 1941.

Dear Mr. Morgenthau:

I attended the annual convention of the Association of Reserve City Bankers at Hershey, Pennsylvania, Monday night and Tuesday. This Association is composed of bankers located in all Federal Reserve cities in the United States, having a membership of approximately 400. There were 341 of the members in attendance at this convention.

We were promised every possible cooperation in our program for the sale and distribution of defense securities. There was also overwhelming evidence of the fact that bankers are in favor of your tax program, whereby substantial additional taxes will be levied to cover at least part of the expenditures of the defense program.

Dr. W. Randolph Burgess, Vice Chairman of the Board of the National City Bank of New York and Educational Director of the American Bankers Association, made the following statement to the convention, which apparently was well received:

"In my opinion, Secretary Morgenthau evidenced the highest degree of courage when he spoke before the Appropriations Committee in Washington and requested that appropriations for non-essential expenditures be decreased in order that the expense of the defense program might be provided for."

I thought I should tell you of this statement.

Sincerely yours,

E. N. Edwards
Assistant to the Secretary

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
RESOLUTION OF THE EXECUTIVE COUNCIL OF THE AMERICAN BANKERS ASSOCIATION, ADOPTED AT HOT SPRINGS, VIRGINIA APRIL 30, 1941

THE EXECUTIVE COUNCIL OF THE AMERICAN BANKERS ASSOCIATION, AT THIS TIME

ATIONAL EMERGENCY HAS GIVEN CONSIDERATION TO THE PRINCIPLES WHICH DETER-

INE NATIONAL FINANCIAL POLICY.

IT RECOGNIZES THE NECESSITY FOR MARSHALLING THE VAST POWERS OF THIS NATION

FOR THE DEFENSE PROGRAM. IT RECOGNIZES THE POSSIBLE DANGERS OF INFLATION AND

OF ECONOMIC DISLOCATION AGAINST WHICH SAFEGUARDS SHOULD BE SOUGHT. IT RECO-

GNIZES THE CHALLENGE TO THE LEADERSHIP OF GOVERNMENT, TO THE BANKING PROFESSION, AND TO THE PUBLIC.

THIS COUNCIL BELIEVES THAT AN ADEQUATE NATIONAL FINANCIAL POLICY TO MEET THE

PRESENT SITUATION MUST INCLUDE A REDUCTION IN NON-DEFENSE SPENDING. A SUBSTANTIAL

INCREASE IN TAXATION, AND THE SALE OF GOVERNMENT SECURITIES TO THE INVESTING PUBLIC,

THE COUNCIL ESPECIALLY COMMENDS TO THE COUNTRY'S BANKERS THE TREASURY'S

PROGRAM FOR THE SALE OF SAVINGS BONDS TO INVESTORS. THIS PROGRAM IS SOUNDLY

CONCEIVED AND WARRANTS THE WHOLEHEARTED SUPPORT OF ALL BANKERS AND THE GENER-

AL PUBLIC.
Mr. Foley showed original of this memo to Secretary at 9:30 meeting yesterday - May 8, - but brought back with him and still has on his desk.

5/9/41
Secretary Morgenthau

Mr. Foley

2, 1436 which amends the Reconstruction Finance Corporation Act involves three important questions of policy:

1. The bill reinstates the exemption from Federal income tax of interest on notes, bonds and other obligations issued by the RFC, which was repealed by the Public Debt Act of 1941. Upon inquiry from this office, lawyers at the RFC handling the bill stated that the provision was inserted inadvertently and that an appropriate amendment would be drafted immediately to eliminate such an exception.

2. The bill exempts from sales and use taxes the Reconstruction Finance Corporation, the Defense Plant Corporation, and all other corporations organized or created by the Reconstruction Finance Corporation.

This is a narrow version of the legislation providing for an exemption from state sales taxes and use taxes on defense activities of the Government and contractors on a cost-plus basis. It might interfere with the Treasury’s program to eliminate future issues of tax exempt securities.

3. The bill authorizes the Federal Loan Administrator, with the approval of the President, to make loans, notwithstanding the provisions of any other law, to any foreign government, central bank, or person acting on behalf of a foreign government, such loans to be made upon the security of obligations of the United States or any state, municipality or political subdivision, or any private corporation organized under the laws of the United States or any state. The title of the bill gives no hint of its importance in this respect.

The House Banking and Currency Committee reported the bill favorably yesterday.

(Initialed) L. H. 200

CLK: 0
5-7-41
Sir Edward Peacock
British Purchasing Commission
15 Broad Street
New York City

Dear Mr. Peacock:

I have previously had some communications with the Treasury Department relative to the holdings of the American Association of Middlesboro, Kentucky, which is largely an English concern. It is believed that this company owns approximately 40,000 acres of land in Kentucky, Tennessee and Virginia around historic Cumberland Gap. Last year the Congress of the United States passed a law providing for the establishment of the Cumberland Gap National Historical Park, comprising about 50,000 acres within the reach of Cumberland Gap where the three states come together. A tentative boundary for that proposed park has been set out and it is believed that approximately 15,000 acres or more of the land belong to the American Association will be within the Park area.

It is not designed to take over any valuable mineral lands of the American Association. Most of the territory will be wild and rugged mountain scenery. However, there may be places where certain coal lands might have to be included.

Colonel C. W. Rhodes, the American manager of the English Company, was killed about two weeks ago while on his way to the coal mine and this may delay securing the information which you will desire concerning this holding of the English people. I am writing without the knowledge of the company and in confidence.

I feel that the State Department and the British Purchasing Commission should know of these local developments because that portion of the English holding here which will become public lands should be included in any Anglo-American pool now in contemplation.

The offices of the American Association Inc., are located in London and I do not know the name and address of the London officers.

Sincerely yours,

(Signed) Robert L. Kincaid
President, Cumberland Gap National Historical Park Association,
Middlesboro, Kentucky.

RLK:mkg
Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £36,000
Purchased from commercial concerns £241,000

Open market sterling held steady at 4.03-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns £9,000
Purchased from commercial concerns 0-

The Cuban peso again strengthened, reaching 2-1/4% discount at the close, the best rate in more than two years. According to advice received from Havana by a New York bank, the strength in the Cuban peso yesterday and today was occasioned by (1) anticipation of an Export-Import Bank loan to Cuba, which was today confirmed to the extent of $25,000,000, and (2) persistent buying of pesos on the part of the Cuban stabilization fund.

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

- Canadian dollar $20.87-1/4 discount
- Swiss franc 2321-1/2
- Swedish krona 2.385
- Reichsmark 4.005
- Lira 0.905
- Argentine peso (free) 2.375
- Brazilian milreis (free) 0.905
- Mexican peso 2.066

In Shanghai, the yuan was unchanged at 5-7/32¢, and sterling was again quoted at 3.87-1/4.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped $3,625,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The price fixed in London for both spot and forward silver remained at 23-1/2d, equivalent to 42.67¢.
The Treasury's purchase price for foreign silver was unchanged at 350. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4.

We made one purchase of silver amounting to 50,000 ounces under the Silver Purchase Act. This consisted of new production, from various foreign countries, for forward delivery.

We also purchased 50,000 ounces of silver from the Bank of Canada, representing the first silver bought from that source in May under our regular monthly agreement to purchase up to 1,200,000 ounces.

CONFIDENTIAL
May 7th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

[Signature]

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.
Telegram received from London
dated May 6th, 1941.

**Naval.** Suda Bay attacked by 20 Junkers 88s on 4th. Three shot down by fighters, 2 probably by anti-aircraft guns. One British ship 7,000 tons hit and beached.

2. Upholder reports sinking 3rd enemy ship in addition to 2 reported on 2nd sunk by British submarine off Kerkenah Islands, also she surveyed ships wrecked by captain of DLH March 16th. She boarded and on fire 1 with cargo of motor vehicles.

3. British hospital ship "Karapara" 7,000 tons bombed and set on fire near Tobruk the 4th. Fire extinguished damage slight, arrangements for casualties.

4. Royal Air Force reports direct hit on vessel about 1,500 tons off Rezuze and another of 3,000 tons off Sandal.

5. "Camito" and captured Italian tanker "Sangro" torpedoed early on the 6th 450 miles west by south of Bingle Bay. The former proceeded at slow speed.

6. "Furious" sustained damage to hangar during air raid at Belfast night of the 4th/5th.

7. "Gloucester" damage by bombs on 4th not serious. Fleet minesweeper "Selkirk" damaged by bomb and beached night of 4th/5th.

8. Two destroyers landed troops at Arsia Tobruk night of the 3rd/4th. Heavy air attacks Tobruk continue but no serious damage reported.

9. **Royal Air Force.** Night of 5th and 6th, 150 bombers sent to Mannheim and few to Boulogne and Cherbourg. Coastal command sent 20 aircraft against enemy shipping and ports. All have returned.

Regraded Unclassified
10. **German Air Force.** 5th. Enemy activity slight. Two enemy aircraft destroyed, 1 probably destroyed; we lost 1 Spitfire, pilot safe.

11. **Fight of 5th and 6th.** About 270 enemy aeroplanes came over, about 170 went to the Clyde Side area. Seven bombers destroyed.

12. **Crete.** On the 3rd 30 enemy aircraft dive-bombed Suda Bay damaged 1 ship. Our fighters and anti-aircraft destroyed 4, probably destroyed 4 and damaged 4.

13. **Iraq.** On May 2nd our bombers cut the railway 70 miles southeast of Bagdad; Hashid and Bagdad (some words omitted) bombed and many enemy aircraft destroyed and damaged on the ground. Patrols maintained in Habbaniya area and direct hits obtained on enemy gun positions.
MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, May 7, 1941.

TENTATIVE LESSONS BULLETIN
No. 101
6-2/2577-235

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 (9-19-40) M-3-41.

FURTHER NOTES ON RECONNAISSANCE UNITS IN THE GERMAN ARMY

SOURCE

Notes in this bulletin are from an official German manual, as translated by the British in late 1940. Previous information on German reconnaissance units has been presented in TENTATIVE LESSONS BULLETINS No. 27, 38, 83, and 88.

CONTENTS

1. GENERAL
2. ORGANIZATION AND PERFORMANCE
3. TASKS
4. METHOD OF OPERATION
5. GAS CONTAMINATION

RESTRICTED
- 1 -
FURTHER NOTES ON RECONNAISSANCE IN THE GERMAN ARMY

1. GENERAL

Great demands are made upon the commander and all the personnel of a reconnaissance unit. The personality of the commander is the deciding factor for success. Cunning, versatility, ability to grasp orders rapidly, determined driving across any type of terrain, the offensive spirit, resourcefulness under all circumstances and especially at night, cold-bloodedness, and the ability to act quickly and independently, are all qualities which must be developed.

Orders to a reconnaissance unit must generally cover the following points:

a. Time of departure;
b. Information about reconnaissance units on the flanks;
c. Zones or general direction to be reconnoitered;
d. Object of reconnaissance;
e. Limits of reconnaissance;
f. Arrangements for transmission of messages and for liaison with other reconnaissance units and reconnaissance aircraft, or both;
g. Line of advance and objective of main body;
h. Information about the enemy and local inhabitants.

The higher commander issues orders regarding liaison arrangements between air and ground reconnaissance and between motorized reconnaissance units and the reconnaissance units of infantry divisions.

2. ORGANIZATION AND PERFORMANCE

a. Motorized Reconnaissance Unit of the Armored Division

HQ and signals troop
Two armored car squadrons
One motorcycle squadron
One heavy squadron, consisting of:
  One motorized 75-mm. gun troop
  One motorized antitank troop
  One motorized engineer troop

A echelon, 1st line transport
Ration train
Light ammunition train
Baggage train
b. Motorized Reconnaissance Unit of the Motorized Infantry Division

HQ and signals troop
One armored car squadron
One motorized squadron
A echelon, 1st line transport
Ration train
Light ammunition train
Baggage train

Motorized reconnaissance units can cover 120-160 miles in a day if there is no enemy resistance, if ground conditions are favorable, and if gasoline supply is assured.

The following are average rates of advance in the absence of enemy resistance:

Motorized reconnaissance units, approximately 18 miles per hour;
Armored car troops, approximately 25 miles per hour;
Darkness and mist considerably reduce these speeds.
An armored car troop is capable of reconnoitering a zone 16 miles broad.

c. Partly Motorized Reconnaissance Unit of the Infantry Division

HQ and signals troop
One mounted cavalry squadron
One cyclist squadron
One heavy squadron, consisting of:

One 75-mm. gun troop
One antitank troop
One armored car troop

A echelon, 1st line transport
Ammunition and stores train
Ration train
Baggage train

In the absence of enemy resistance and over favorable ground, mounted and cyclist troops can cover approximately 45 miles a day, armored car troops approximately 160 miles, and the reconnaissance unit itself about 30 to 40 miles a day.

The following may be taken as average rates of advance.
in the absence of enemy resistance and over favorable ground:

Partly motorized reconnaissance unit, four miles per hour;  
Mounted troop, five miles per hour;  
Mounted orderlies, six miles per hour;  
Cyclist troop, seven to eight miles per hour;  
Armored car troop, 25 miles per hour.

A squadron is generally capable of reconnoitering a zone six miles in width.

3. **TASKS**

Superiority in the reconnaissance area facilitates friendly reconnaissance and makes that of the enemy difficult; it also conceals movement of friendly troops.

This superiority is gained by taking the offensive against the enemy's reconnaissance units and posts. It is wrong, however, for reconnaissance units to allow themselves to become involved in unnecessary engagements.

By taking advantage of its mobility, the reconnaissance unit may successfully engage even superior enemy forces. Its mobility frequently enables it to attack the flanks and rear of the enemy and achieve surprise, to deliver repeated attacks at different points, to concentrate its forces quickly, to destroy small isolated enemy detachments, and to employ part of its strength as a mobile reserve or for counterattacks in defense.

In the attack, a distinction must be drawn between an enemy strong point and an enemy defensive line. In the case of a strong point, the aim of the reconnaissance unit is to utilize its speed to surround and destroy the enemy. In the case of a defensive line, the aim is to concentrate all available forces and to achieve a break-through at one point. It may not be advisable to reconnoiter suitable points for a break-through if such action will disclose the intention to attack prematurely to the enemy. The reconnaissance unit will generally have to be reinforced if it is to achieve a break-through in a strongly held defensive line.

When an attack is being prepared, orders will generally be issued first to the heavy weapons, so that the attack will not be delayed while the heavy weapons are preparing to come into action and the element of surprise thus lost. If an attack is held up, it may be advisable to break off the engagement and, taking advantage of the mobility of the reconnaissance unit, strike at another...
point. Reconnaissance units are particularly well adapted to pursue an enemy who has been compelled by the main force to withdraw. If pursuit from a flank means loss of contact with the enemy because the distance is too great, the enemy should be pursued through the break-through.

A reconnaissance unit may be compelled by the task allotted to it or by enemy action to adopt the defensive temporarily. It can defend itself successfully only on ground which forces the enemy to attack on a narrow front; otherwise its flanks must be protected by other troops. It is generally advisable to keep a mobile reserve for forestalling enemy outflanking movements or for counterattacks.

The reconnaissance unit, however, is more suited for delaying action than for protected defense.

4. METHOD OF OPERATION
   a. Motorized Reconnaissance Units

   Army reconnaissance units carry out strategic reconnaissance under the orders of the army to which they are allotted. Reconnaissance units of armored and motorized infantry divisions carry out tactical reconnaissance under the orders of the divisions to which they are allotted.

   The reconnaissance unit commander sends out patrols, each consisting of at least two cars including the radio car. Patrols will be given lines, and when they cross these, they will report by radio or messenger even if they have not been in contact with the enemy. Patrol commanders receive oral information on the general situation - that is, where contact with the enemy may be expected and what types of units may be encountered - as well as information on ground, results of air and other reconnaissances, task allotted to the reconnaissance unit, and the commander's intentions.

   The reconnaissance unit commander then issues orders orally to patrol commanders. Particular points on which reports are required should be given out in order of importance under the heading of information desired.

   A patrol should not as a rule be given more than one task. If demolitions are required, engineers should be attached to the patrol and move with it.

   Reconnaissance at night is principally a question of watching roads and keeping the enemy under observation from woods and farms. Reconnaissance units should be relieved before
dawn, as it is not advisable to leave them in contact with the enemy for several days on end.

Reconnaissance units and patrols must be able to effect river crossings rapidly. Attacks on bridges on main roads are not as a rule likely to succeed, but feint attacks may be made on such bridges while preparations are being made to cross at other undefended or less strongly defended points.

The engineers in a reconnaissance unit can carry out the following work:

1. Build a five-ton bridge 36 feet long;
2. Build and man two 2-ton rafts or one 4-ton raft;
3. Build a foot-bridge for cyclists.

The commander of the reconnaissance unit decides whether to send the whole reconnaissance unit across a water obstacle or only the patrols. If the whole unit is sent, the crossing point must generally be defended until the patrols return.

b. Partly Motorized Reconnaissance Units

The partly motorised reconnaissance unit carries out tactical reconnaissance for an infantry division. It should receive orders in good time so that it can get a sufficient start on the main body.

In country where immediate contact with the enemy is to be expected, the reconnaissance unit commander will divide the area to be reconnoitered into bounds. Patrols will be informed of the route on which the reconnaissance unit will advance. Bounds for mounted and cyclist patrols should not as a rule be more than ten miles in advance of the main body of the reconnaissance unit unless radio is available. The mounted orderlies and messengers can then be sent back to it as they will know its bounds.

Personnel of mounted patrols which are not dependent upon roads can swim their horses across streams or search a sector in open order. They are not dependent upon round or weather, and not usually upon supplies. Their rates of march and performance are limited.

Cyclist patrols in districts with good road systems and in favorable weather have a higher rate of march and a greater performance than mounted patrols. Their rate of march is reduced, however, on paths, particularly in bad weather. Across country their rate of advance may frequently be less than that of a man
on foot. If there is a good road system, cyclist patrols are more suitable at night because of their noiselessness.

The armored car patrol has a high rate of advance and performance. Its armor gives it superiority if unarmored patrols are encountered, and since it is allotted a radio car, it can pass information back more quickly than other patrols. It is suitable for employment on roads and for covering great distances. It can carry out one task quickly and be available shortly afterwards to undertake another.

The strength of patrols of all types depends upon their tasks, the ground, enemy dispositions, and the attitude of the civil population. The strength of mounted patrols varies from a section to a troop. Cyclist patrols should generally be a troop strong, since being mainly confined to roads, they have to fight for information more frequently than mounted patrols. The strength of an armored car patrol must always be at least two cars including the radio car. Portable radio sets may be allotted to the most important patrols, but it must be borne in mind that if wireless traffic is reduced to the minimum, it is more difficult for the enemy listening posts to discover the presence and movements of the reconnaissance unit.

As a rule patrols can work only by day. At night their activities will generally be limited to gaining and maintaining contact with the enemy and locating his foremost posts.

The reconnaissance unit is made up of elements which move at different speeds. In spite of these differences, the aim must be to bring the mounted and cyclist squadrons forward in such a way that on contact with the enemy unified command of the reconnaissance unit is possible. If the situation requires it and if the country is impassable for motor vehicles, the commander of the reconnaissance unit must not hesitate to push on with the mounted squadron. Separation from radio sets and the necessity of relying entirely upon mounted orderlies and messengers for transmission of messages must be reckoned with.

Mounted men, cyclists, and motorcyclists can cross streams rapidly in pneumatic boats. The reconnaissance unit has two large and two small pneumatic boats in the engineer stores wagon of the ammunition and stores echelon. These boats are manned by engineers in the mounted and cyclist squadrons.

5. GAS CONTAMINATION

Patrol commanders should be trained and equipped for gas

RESTRIC TED

- 7 -
detection duties. The bulk of the gas detection personnel should generally be kept together with the reconnaissance unit. They reconnoiter the extent of contamination after patrols have reported the existence of contaminated ground. The aim must be to get through a contaminated area quickly in order to gain information about the enemy's dispositions behind it. Armored cars are particularly suitable for this purpose.

The removal of lightly contaminated obstacles which are holding up motorized patrols is in the main a matter for the engineers allotted to reconnaissance units.
CONFIDENTIAL

Paraphrase of Code Radiogram Received at the War Department at 9:35, May 7, 1941

1. The German strength in Libya is believed to be the following:
   - Armored Divisions: 4
   - Motorized Infantry Divisions: 4
   - Infantry Divisions: 4

2. Certain foreign military attaches in Berlin believe the German strength to be somewhat lower, between 8 and 10 divisions.

3. Italian strength is unknown but it is thought to be about eight divisions. Types are not known.

4. No accurate estimate of the German air strength in Africa can be made.

5. The strength in the Mediterranean area as a whole is estimated as follows:
   - Air Fleet Six: 400 Single Motorized Pursuit
   - 200 Two-Motorized Pursuit
   - 600 Bombers
   - 400 Dive Bombers

6. It is expected that this force will be doubled when Air Fleet Four now in the Balkans becomes available for Mediterranean operations. The Italian air strength in Africa is not known in Berlin.

FENTON

Distribution:
- Secretary of War
- Secretary of Treasury
- Assistant Chief of Staff, G-2
- Under Secretary of War
- War Plans Division

CONFIDENTIAL
Budapest, filed May 7, 1941.

No reason to doubt German statement as to number of divisions employed in Balkan campaign as reported here: 11 infantry and mountain divisions, 6 armored and 4 motorized. While small losses difficult to believe I can find no evidence that they were larger except for British broadcast. All reports including eyewitness accounts indicate extremely small losses against Yugoslavia due to the latter's lack of equipment, communications, cohesion, and effective distribution of troops. I am unable to estimate German losses in Greece but cannot believe they were large due to last moment organisation British opposition.

PARTRIDGE

Distributions:
Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
CONFIDENTIAL

INFORMATION FROM STATE DEPT. CABLES DATED MAY 6, 1941

It is necessary to release these messages immediately in
a new form in the position of the attaches
and after the conclusion again by the next sea phase together
of certain activities from captured Greek territories. Introducing the波兰
activities would read:

"This proposal

1. Cases from the Embassy.
2. Those to be released to reinstall messages, 1940, 1941.
3. Your attention is invited to reinstall the American population

of the region of Epirus and the area southwest of this population as a Grand eastern post-

amount of Epirus and the area southwest of this population as a Grand eastern post.

4. Your attention is invited to reinstall the American population

of the region of Epirus and the area southwest of this population as a Grand eastern post.

5. The Turks have called on 21 st of June, 1941, to

United States and the Greek authorities.

General Staff not to have taken place. The Greeks say they have

not taken the Johnstone or others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

They are read. The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.

The activities of the Polish and others. The message of a May 6, 1941.
Distribution:
Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Cairo, filed May 6, 1941.

The Corinth Canal was seized by German parachute troops. Local canoe boats and the ferry at Patras were utilized to cross the Gulf of Corinth. It is considered beyond question that the services of Fifth Columnists had been arranged for in advance to obtain canoes in the vicinity. General Wilson has stated the German Army carried boats only for crossing rivers. The crossing to the Island of Lemnos and Samothrace was affected by canoes and perhaps by German shipping which had passed through the Bosporus. The Greek canoe is a seaworthy boat.

PELLERS

Distribution:
Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, O-2
War Plans Division
Office of Naval Intelligence
Assistant Chief of Staff, O-3
Air Corps

CONFIDENTIAL