

Book No. - 396

continued

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RESTRICTED

G-2/2657-220; No. 386 M.I.D., W.D. 12:00 M., May 8, 1941.

SITUATION REPORTI. Western Theater.

Air: German. Small daylight attacks over the southeast coast of England continued. Last night unusually large bombing forces were employed against Liverpool, Hull, Horthlepool, Middlesbrough and Bristol.

British. Night attacks of undetermined strength along the western European coast. Hits claimed on the German battle-cruisers at Brest. Destruction claimed of 22 German bombers by night fighters.

II. Mediterranean and African Theaters.

Ground: North Africa. According to the Italian High Command, German and Italian forces have occupied important positions at Tobruk. Patrol activities are reported east of Sollum,

East Africa. In southern Abyssinia (Ethiopia) British troops are attacking a strong Italian position at Waddara (Vadara), about 30 miles north of Neghelli.

British troops have occupied Bender Cassin (Bender Bela) on the northeast coast of Italian Somaliland.

Air: Axis. Raids on Tobruk continued. A heavy night attack was made on Malta.

British. An Axis convoy was attacked in the Mediterranean.

III. Iraq.

British forces, reinforced by air, appear to be gaining the upper hand at Hebbaniya. The R.A.F. bombed airdromes in the vicinity of Baghdad.

RESTRICTED

May 9, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Haas
Mr. Sullivan
Mr. Thompson
Mr. Graves
Miss Chauncey
Mr. Cochran
Mr. Graves
Professor Odegard
Mr. Gaston
Mr. Schwarz
Mr. Kuhn
Mr. Bell
Mr. White

H.M.Jr: Dan, I read an editorial today in the Washington Herald about staggering the paydays. That was your pet some time ago and I thought you had done it.

Bell: No, it is still pending before the Budget. We had a conference over there I guess two weeks ago, and they were going to take it up with the local people.

H.M.Jr: But you recommended it?

Bell: Yes, and you signed the letter recommending not only that we stagger the paydays, but we fit it into a thirty-nine hour week, instead of six days, seven hours, and a fraction on Saturdays. But they don't like

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to take up the thirty-nine hour week at this time because of the emergency work.

- H.M.Jr: I agree with them.
- Bell: Well, I don't see that it will do any harm because that is what we are working, is thirty-nine hours, but it is put in terms of days, seven hours a day with four hours on Saturday instead of thirty-nine hours.
- H.M.Jr: Well, let's talk about it Monday.
- Bell: O.K. But I think they were talking about issuing an Executive Order.
- H.M.Jr: George, I see that our drawing attention to Agriculture, that they are buying up this cotton and so forth, aggravates the situation and they admit it.
- Haas: They are the bottlenecks in the manufacturing end.
- H.M.Jr: But they just weren't aware of it.
- Haas: Well, he said - Milo Perkins had a meeting with Don Nelson on it, and they are still working on it.
- H.M.Jr: Just remember it, if I get in a tight corner, it is a good illustration. In the meantime, will you find out what they are buying from the cotton manufacturers, just how much they are buying, have they been buying since the first of January.
- Haas: Do you want me to find out?
- H.M.Jr: Yes. How much business has the Department of Agriculture added to the cotton manufacturers since the first of January.

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Hass: O.K.

H.M.Jr: And what kind of stuff have they been ordering. In other words, they have been given that money and how much have they aggravated the situation while the War Department and Navy have also been in the field. Why in the hell hasn't Don Nelson known about it a long time ago?

Thompson: The President has made available to General Burns a hundred thousand dollars for his division and that money will be available for picking up the staffs of Phil Young and Oscar Cox. Cox, however, we can continue to carry Oscar Cox on our defense allotment.

H.M.Jr: Well now, what about these good men we let them have out of Bell's office?

Thompson: There is one accountant, Mr. Banning, and he can remain on detail.

H.M.Jr: I wonder if he wants to leave the Treasury?

Thompson: He should stay on detail.

H.M.Jr: What is his name?

Bell: Paul Banning. He is Assistant Commissioner of Accounts, and he shouldn't be transferred.

H.M.Jr: That is right. Well, I don't want Oscar Cox to leave.

Thompson: No. Well, we will take care of Oscar.

H.M.Jr: And Banning is a good man, I don't want him to leave.

Bell: He doesn't want to leave.

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- H.M.Jr: And Philip Young can make up his own mind. That is up to him to decide. I would put it up to him.
- Thompson: Well, we are having a meeting this morning with OEM people.
- H.M.Jr: Well, that is up to Phil, whether he wants to leave or not.
- Thompson: That is right.
- H.M.Jr: I think that - don't you think it would be nice if each one of these people that have been on the Treasury payroll, even though they were a twelve hundred clerk, were given a chance to say whether they wanted to go over to OEM or come back to Treasury?
- Thompson: Well, I think most of them are pretty well satisfied.
- H.M.Jr: Well, now let's do it for two reasons. In the first place, it is good democracy, if a fellow isn't sold down the river. And in the second place, if they decide they want to do it, I don't want them to come back and cry on my shoulder six months from now when somebody changes his mind and says, "We don't need that any more. I would like to come back on the Treasury payroll."
- If they are given a chance now and they don't want to do it, then they have made their bed; but if in three months there is a reorganization and they are all out on the street, then they are no longer my wards. Is that right?
- Bell: That is all right. I suppose there are people over there on the emergency roll, which is an uncertain factor at the present time. We

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don't know how much money we will get this next year.

H.M.Jr: After all, here is a fellow and suddenly he is ordered to Siberia. Well, if he doesn't want to go he doesn't have to.

Thompson: I think there are only three detailed from Emergency Relief, and they would undoubtedly rather be over there because the present appointment on relief will expire June 30. But I will take care of it.

H.M.Jr: What else?

Chauncey: Miss Alexander, who went over to Mr. Young's office, came back two days later. She preferred being back in the Treasury.

H.M.Jr: Smart girl. Where is she now? Well, that is all the more reason. I just don't want them to feel they are being ordered to Siberia. They may think it is Vienna, or Paris, or whatever used to be a good spot, Shanghai.

Thompson: I will take care of it.

H.M.Jr: Just to give them a chance.

Dan, how much is your working balance?

Bell: One billion four hundred eighty-nine million.

H.M.Jr: You are all right until Monday.

Bell: We are fixed until Monday, yes.

Here is this little matter of the Library of Congress wanting approval of the payment of their insurance premiums. You can put your initials on that.

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H.M.Jr: I shouldn't read it?

Bell: No. It is only a hundred and eighty-two dollars.

H.M.Jr: What else?

Bell: That is all.

H.M.Jr: Harold?

Graves: We have been visited by Paderewski, who wants to --

H.M.Jr: Give us a recital?

Graves: No, he wants to make our translations before his broadcasts.

H.M.Jr: Ignace himself?

Graves: Yes. He is very old and feeble, as you know. He is eighty-one. But there is some likelihood that he will broadcast for us. Maybe you will be announcing it to the press.

H.M.Jr: And don't forget my other man there.

Graves: Mr. White and I have talked about him. He apparently is not at the University of Virginia.

H.M.Jr: Harold Ickes knows where he is, because I met him at his house.

Graves: But we have not forgotten that.

H.M.Jr: But I think it is fine if we get old Ignace and we get - what is the name of that German authority?

Schwarz: Ludwig.

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- H.M.Jr: Ludwig and Paderewski. I think it is swell, don't you?
- Odegarde: Very good.
- Schwarz: You know this past winter in Florida, Paderewski asked if he could go over to visit Mrs. Roosevelt and she instead went to visit him because he wasn't very well.
- H.M.Jr: He is a great friend of my father's. You see, my father went on that mission for Woodrow Wilson to Poland after the war, and they have been great friends for years.
- Graves: They are broadcasting any number of foreign language announcements, and I think, although I am not very well informed, I think we get a good deal of volunteer service from many people.
- H.M.Jr: There must be some good Czechs in this country, too.
- Sullivan: It would be a pretty good time to get a good Greek, too, wouldn't it?
- H.M.Jr: The reason I am laughing is, I want to say just for myself, all the time the Greeks were coming in here to get help, I just couldn't see them and - I mean, see them in the sense that - in their methods, and I used to say - the poor devils have put up a good fight and lost - but I used to say if I could only hire a good Armenian to advise me how to treat the Greeks because no matter what you told this Greek Minister, if you give him every bomber you had, it is not good enough, he wanted twice as much; and every time you made a deal he would slide out from under it and he never

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stuck by any agreement that he made.

Sullivan: The Greek people raised an awful lot of money. I don't know whether it went or not.

H.M.Jr: But as to keeping an agreement.....

I will never forget when I went out to visit my father when he was in Greece, this friend of mine was in the export business and he had bought a shipment of hides from Greece and when they got here they were about as different from what they ordered as goat skins could be from steer skins, and he wanted me to take it up. He couldn't get anything, and he lost a lot of money, I guess about forty thousand dollars.

So when I was out there I sent for this fellow and said to him, "You know this friend of mine bought these things in good faith on your say-so that they were such and such a grade," and so forth and so on.

"Why," he said, that friend of yours must be a fool," he says. "He bought these things without even looking at them. Why, he just took my word." (Laughter)

Sullivan: I had a case once where I had a Greek witness who couldn't talk English, so I had to find another Greek to interpret.

I said, "Now, go in and talk it over with him and tell me what he says." He came out in a few minutes and said, "We won't need him, and he told me all about it. I guess I saw that accident myself."

We had to hold up the trial while I sent a sheriff out and got the man.

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H.M.Jr: Where were we? You?

Graves: I think I am all through.

H.M.Jr: Harry White? Thanks for the book, Harry.

White: You are welcome.

H.M.Jr: Much obliged.

White: There is a report that is put out by the --

H.M.Jr: Thanks for the inscription, too.

White: That is all right.

H.M.Jr: I don't think I have ever seen your handwriting before. You write almost as bad as I do.

White: Can you read it?

H.M.Jr: Did you ever get a note from me in longhand?

White: No, I don't think I have.

H.M.Jr: All right.

White: The OPM puts out a summary of national defense which reports the various progress made in production, etc. If you see that, all right. If you don't see it, I have a letter here asking to receive it. I know that it is issued and I know that some people get it and a letter from you could make it available to the Treasury. It would be helpful.

Haas: I get it. It comes into our office.

White: All right.

H.M.Jr: Doctor White, meet Doctor Haas. Mr. Haas, meet Mr. White. (Laughter) All right.

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White: That is all. I saw some of the men yesterday over at Social Security.

H.M.Jr: When are you going to start?

White: Well, I will spend most of the day seeing the various men. You have got answers to each one of them, which were very friendly, and I will finish today and start Monday morning. Today or tomorrow.

H.M.Jr: Let the office know where you are at night.

White: I will do that.

H.M.Jr: Is Mrs. White going?

White: I think so. She hasn't definitely made up her mind yet.

H.M.Jr: Anything else?

White: That is all.

H.M.Jr: Chick?

Schwarz: Charlie Lucey, whom Dick Parker had sent over to help us once before, recently, is now working on a non-defense economy series, and he is asking for help and Harry and I have talked about it and he seems so far to know about as much as we do until we can get some specific ideas, but I would like to help him if you have any suggestions.

H.M.Jr: Well, I was disappointed in the other stuff he wrote.

Schwarz: There were limitations on that, of course.

White: I understand he wants to write an article, as I got it.

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Schwarz: A series, maybe.

White: A series of articles, in which he will tie up the defense - the plea for economy with your testimony. Personally, I think we ought to fight shy of it until we --

H.M.Jr: I think so.

Schwarz: He doesn't have to tie it in, but he just wants --

H.M.Jr: We are not ready.

Schwarz: I will hold him off.

H.M.Jr: Anything else, Chick?

Schwarz: I have some clippings. Did you note in the Herald Tribune the story on our bond sales?

H.M.Jr: They are disappointed, is that the one?

Schwarz: Yes, and then when you read the story, they merely say, "if they continue disappointing." It is another case of a head writer stretching.

H.M.Jr: Anything else?

Schwarz: That is all.

H.M.Jr: George?

Haas: Mr. Secretary, the other day when you cleared the distribution of these British reports, I overlooked some of them.

That list included all that we prepared, but the British sent down some of their reports which are really raw material reports and they are distributed --

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H.M.Jr: Can't you just apply the same formula?

Haas: I can except in one instance. There is a machine tool report which goes to a machine tool committee. It is composed of a captain in the Army, a captain in the Navy, a colonel in the Army, and Maxwell and a man in OPM. Otherwise, it all conforms.

H.M.Jr: For the time being, let that go.

Haas: All right.

H.M.Jr: Anything else?

Haas: That is all.

Kuhn: I have nothing.

H.M.Jr: Peter?

Odegarde: Could I see you for about five minutes about that matter you referred to me?

H.M.Jr: Oh, yes. Are you going to be here today?

Odegarde: Yes.

H.M.Jr: Let me just see how it works out. It depends upon whether we do or don't have Cabinet. I will work it out. Will you be in the building?

Odegarde: Yes. Any time.

H.M.Jr: All right.

Cochran: Mr. Knoke is in town. He is going back at four this afternoon. He said he would like to drop in.

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H.M.Jr: I would like to shake him by the hand.

Cochran: He is coming in to see me at twelve. Shall I let you know?

H.M.Jr: Yes, I will see him right at twelve.

Cochran: All right, sir.

Yesterday, John Erhardt, in charge of personnel over at the State Department asked me if we had any objection to Donald Heath being transferred from Berlin. He has been there three or four years, and they need him at a post down in Latin-America, and I told him I didn't think you would have any objection.

(Mr. Foley entered the conference.)

H.M.Jr: Just a minute. (Looking at Mr. Foley through magnifying glass) I never knew when you looked through this thing that the people are upside down. That is a funny thing.

Sullivan: Maybe it is just the people.

H.M.Jr: Doesn't Mr. Foley look funny? It is very good.

What did you do? Did you forget to go to bed last night?

Foley: Yes, I went to bed.

H.M.Jr: Aren't you feeling well?

Foley: Yes, I am all right. I over slept. I am sorry.

H.M.Jr: Wonderful. I am embarrassed with Miss

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Chauncey here. (Laughter) I will ask you afterward.

How far had we gotten when Foley so rudely interrupted us?

Cochran: I was just half way.

Erhardt also told me they had a personal letter from Ambassador Winant suggesting that he would be happy if he could get someone like Win Riefler to come over and be his financial adviser. Jack asked me if I knew Riefler, and I said, "Yes," I doubted if he would want to go.

H.M.Jr: Let Riefler decide.

Cochran: Yes. I don't know whether they are going to put it up to him or not. This Mr. Russell who came to your office was here yesterday and is coming back at ten, and I am going to take him in to see Ed because he has a proposition on this British security, direct investment. Peacock has asked that we pass on it here. It is agreeable to him. I think it would be all right, but we will check with Ed.

H.M.Jr: John?

Sullivan: I gave the Vice President your message on Professor Hall, and then I talked with Mr. Cochran and he is getting in touch there.

Collector Squires writes and wants permission to publish the names of people who make gifts and contributions, people who haven't any tax liability, but who write in to the collector and say they want to do their bit. He thinks if he has the

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authority to give the names of those people that there will be a lot more. Mr. Helvering sent over a memorandum, of course, if there is no tax liability, they are not tax payers, and there isn't the same legal prohibition against giving out the names, but he thought, as a matter of policy, that we should pass on it. I frankly don't know what to do about it.

- H.M.Jr: Would anything spoil if you let it go until Monday.
- Sullivan: Not a thing.
- H.M.Jr: Let it go.
- Bell: There are an awful lot of those people who donate money, and I should think we would have to give their names out too, and I question whether we ought to do it.
- Gaston: You get yourself into what looks like a campaign for voluntary contributions which is voluntary and unequal taxation, and it is bad business.
- Sullivan: Senator Tydings sends an inquiry in regard to the bill for an automatically balanced budget and a very searching questionnaire. I don't know whether you got one, Dan.
- Bell: The Secretary got one and sent it in to me.
- Sullivan: I think we ought to put some time in on that.
- H.M.Jr: I am smart, I turned it over to Bell.
- Bell: One question he asked was whether or not you wanted to appear and testify before the committee. I should think probably not

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at the moment. Maybe later, but I shouldn't do it now.

H.M.Jr: Well, if and when you are ready to discuss it.

Anything else?

Sullivan: That is all, sir.

H.M.Jr: Before I leave you, John, I got this idea during the night in regard to this bill of Jesse Jones' where he brings up this question of the state taxing federal contractors, whether it might not pay me to write a letter to Jesse and send it over this morning and say that in view of the situation, and give him the reasons, we would appreciate it if he would life that section out and postpone it.

Foley: Either that or ask him to give us the figures as to the cost that taxing these transactions entails in so far as the Defense Corporation and these other corporations of the RFC are concerned.

H.M.Jr: I think something. I don't know whether you are going to have a chance to do it or whether Monday is too late, but I won't have time to assimilate it today, and I don't think - I am all tied up this morning and there is Cabinet this afternoon, but I think we will just have to wait until you and John can give me something bright and early Monday morning, see.

Foley: All right.

H.M.Jr: If you will collaborate together. And then John gets his hearing on his tax bill at

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ten fifteen, John?

Sullivan:

All right, sir.

H.M.Jr:

I have allowed forty-five minutes.

Sullivan:

That is all, sir.

Gaston:

You sent me in a--

H.M.Jr:

I would like you (Bell) in here on that.
The same group, if they are interested.

Gaston:

You sent me a telephone transcript of a conversation with one of Pat Harrison's secretaries in regard to one of the positions down there. They always get confused with the appointment date and the time when a man takes his oath. This doesn't expire until April 15, and I suggest you send a letter endorsing the man for re-appointment.

H.M.Jr:

Who is McDermott?

Gaston:

Johnston, I mean.

H.M.Jr:

For Pat's sake, if we could get word to Johnston today.

Gaston:

Yes, I will call Johnston up today and tell him the date of expiration and all that is necessary for the Senator to get the letter to send in.

We are going to be seriously embarrassed in New York by the Army's space demands. It affects not only the investigating agencies but it affects the revenue agents, Krigbaum and his unit. The Army is insisting on their moving out immediately from that building on Church Street.

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H.M.Jr: Is that the post office?

Gaston: No, it is the downtown Federal Office Building on Church Street just back of the Woolworth Building.

H.M.Jr: Oh!

Gaston: But I wanted - Guy Helvering called me up this morning, and I wanted to talk to Norman Thompson about it, but we might want to ask your help because it seems to be quite unreasonable. The Army is not going to find enough space in that building. They are going to have to scatter all around lower New York anyway, and what is going to happen is that they are going to scatter our agencies and put especially the revenue agents in a terrible jam at a time when they are in the midst of going through their returns.

Thompson: We have fought it out with them, and they have turned us down.

H.M.Jr: Who is "they"?

Thompson: The Post Office Department has jurisdiction over that space.

Gaston: They are just gradually pushing out one agency after another.

H.M.Jr: Lower New York is full of offices. Why can't we go into one?

Gaston: It is awfully inconvenient and expensive right now, especially for the revenue agents.

H.M.Jr: The Postmaster has decided against it?

Thompson: He has decided we shall move and give that

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space to the Army and Navy.

H.M.Jr:

I don't want to get in on it.

Thompson:

I suggested to Mr. Gaston yesterday that we might have a conference with the Postmaster General.

H.M.Jr:

But leave me out of it.

Gaston:

O.K. I have got just one suggestion. If you move, I would move all Treasury out of there.

Thompson:

We would move the whole thing.

H.M.Jr:

God, there is all kinds of space down there.

Thompson:

A hundred and forty thousand square feet.

H.M.Jr:

You can get space at a dollar a foot in downtown New York today.

Gaston:

We can get whole buildings downtown.

ThompsonL

We will move a hundred percent.

H.M.Jr:

I would move a hundred percent.

Gaston:

As far as our agencies are concerned, that is what we ought to do.

H.M.Jr:

You can get all the space you want. Just whisper it, and you will have all of the New York people here.

Anything else, Herbert?

Gaston:

I would still like to talk to you for a minute or two sometime today, if you have any chance.

H.M.Jr:

On what?

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Gaston: About that matter of this coordinating the exchange of war information. I don't want to have anything to do with it, if you can let me out.

H.M.Jr: You are out.

Gaston: So we will have another - you wrote a letter designating me. It is a matter I know nothing about, and I don't want it, if you don't mind.

H.M.Jr: You have reasons? You won't tell me?

Gaston: No, I think whoever - if anybody cooperates on that thing, he should know something about what the problem is, and I don't.

H.M.Jr: Well, which don't you know?

Gaston: The sources of information, what information and how much we want to give those people or whether we want to go into any scheme at all for the exchange of information.

H.M.Jr: What I don't get is, you don't know the Treasury sources or what?

Gaston: That is right.

H.M.Jr: Oh, it is the Treasury sources?

Gaston: Yes.

H.M.Jr: You mean, what Merle gets from me?

Gaston: What anybody gets. I know nothing about it.

H.M.Jr: Are you sore? You sound sore.

Gaston: Well, I wanted to talk to you about it.

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H.M.Jr: All right, I will give you a chance. O.K.
You and Peter Odegarde. I mean, you both
want to see me on separate matters.

Gaston: All right.

H.M.JrL O.K.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 9, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At the 9:30 Staff Meeting this morning I mentioned my conversation with Mr. John G. Erhardt, Chief of the Division of Foreign Service Personnel, regarding Mr. Donald Heath. The Secretary told me that the Treasury imposed no objection to Mr. Heath's transfer.

I also reported to the Secretary that Ambassador Winant had written a personal letter indicating his interest in having a financial adviser in London, such as Dr. Winfield Riefler. I had told Mr. Erhardt that Dr. Riefler is eminently qualified, and has served as Special Adviser to the Treasury Department. I doubted, however, whether Dr. Riefler would be interested in going to London.

After the meeting I telephoned Mr. Erhardt and waived any objection to Mr. Heath's transfer from Berlin. I gave him Riefler's background, and told him that the Secretary of the Treasury had no objection to the State Department or Ambassador Winant ascertaining directly whether Riefler might be interested in going to London.



May 9, 1941
10:15 a.m.

RE TAXES

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

H.M.Jr: Well, "I am Mr. Doughton. What was that you said, John?"

Sullivan: I guess if he had wanted you to hear it, you would have heard Mr. Doughton. He called a little while ago and wanted to be sure everything was hotsy-totsy. He wanted to know if I had heard what had happened yesterday afternoon and if I appreciated his position.

H.M.Jr: That is nice.

Sullivan: Yes. Of course, I gave it to him. He wanted to know what time Monday I wanted to go on. I told him I am ready any time, we hope.

I don't think we can go ahead discussing this problem as we have done up to now without making a major decision which I think

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cuts across all discussion we have had thus far, and that is whether or not the present excess profits tax should be thrown out the window and an attempt made to rewrite the whole thing; and I think that before we decide what the Treasury's position is going to be, we have got to make that decision.

H.M. Jr:

Well, would you, as the Assistant Secretary in charge of tax legislation, make a recommendation?

Sullivan:

Yes, I will make a recommendation. This present tax is raising a great deal more money than we had any idea it would last year. If there is no change in the rates in either excess profits or corporations this year, the calendar year '41 excess profits tax liabilities will be a billion and twenty-five million dollars, which is a great deal more than we had any hope of getting last summer while we were working on it.

Bell:

I thought the estimates were what, between eight and nine hundred million?

Sullivan:

Eight hundred.

Bell:

That is a collection item. The liabilities would be greater.

Sullivan:

On fiscal '42, the estimate has been raised to six hundred seventy-five million dollars.

O'Donnell:

That is correct. You are both correct. The estimate on the basis of what we forecast corporate incomes to be, though, was about eight hundred fifty; but since then, you have increased the defense program so that the business estimates are up and that is the difference between the present estimates

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that John is giving you and what Dan is speaking about.

Bell: That isn't a lot. I mean, it is eight fifty to a billion twenty-five. That isn't a big jump, I don't think.

Sullivan: It will be a very easy matter by such a change as we have suggested or by lowering the credits or increasing the rates to get another six hundred fifty million out of it, which would give us a billion seven hundred million on calendar '41 liabilities, which is a lot of money.

Now, neither Mr. Tarlean nor Mr. Blough nor I believe that there is any chance of throwing out the present system and substituting therefor our original plan unless the President were to call in the leaders and tell them that was his desire, and make a terrific fight for it.

We are not confident that he would win if he did. We think he would have a chance. We are pretty sure that even if we win, it would mean a very substantial delay in the entire Revenue Act, which won't be as important as the excises - as it would be under the present proposal because under the present proposal every month's delay costs us about a hundred million dollars.

(Mr. White entered the conference.)

H.M.Jr: Don't you want to get in on this, White?

White: I do. I had forgotten about the hour.

Sullivan: I think it is perfectly possible for us to present these changes if the Congress prefers not to rewrite the law but merely to so revise it that the revenue is increased. In that way we can protect ourselves so that any time

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in the future we want to go after it, we still can do so.

H.M.Jr: Say that again, John.

Sullivan: I think it is quite possible for us to make such a suggestion as we have proposed, making it in the manner of a slight change in the present law to increase the revenue from the present law without going into the question of a general revision, so that our rights are protected and if, at any other time, the President decides he wants to revise it, we still would be able to do that.

H.M.Jr: Well now, when you go up, are you proposing to recommend that the excess profits be taken off first?

Sullivan: I am afraid I don't understand, sir.

H.M.Jr: Well, as a deduction.

Foley: Yes.

Sullivan: No, they are swapped simultaneously.

H.M.Jr: But you deduct them first?

Sullivan: Oh yes, yes.

H.M.Jr: You are proposing that?

Sullivan: That is right.

H.M.Jr: Well, after having had time to study the thing, do you think that that is a more equitable way?

Sullivan: Yes, we do.

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H.M.Jr: In what way does it affect dividends of companies? What way will it hit some companies more or less high?

Sullivan: Well, I don't think you can lay down a general rule. I think when you pick out individual cases and figure them, you get results that don't lay down a general rule. The net result would be to decrease the credits on invested capital companies down to five point six, and with the average earnings companies, it would decrease their credit which is now ninety-five percent of their average earnings in the base period from ninety-five percent down to seventy-nine percent.

Now, there have been fifty-five hundred excess profits tax returns filed already.

H.M.Jr: How many?

Sullivan: Fifty-five hundred that we have had an opportunity to go over. Of that number, eighteen hundred filed under invested capital and thirty-seven hundred under average earnings. That is two to one. The amount of money paid by the average earnings company, the average earning companies, is about four times the amount of tax paid by those eighteen hundred invested capital companies, but none of the big boys on either side are in there.

H.M.Jr: I see. Well, who wants to cross examine Mr. Sullivan?

Bell: John, have you had an opportunity yet to go over the cases to find if there are any glaring injustices or administrative difficulties in the Act that need to be amended - I mean, Excess Profits Tax Act.

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- Sullivan: No, we don't get any very great complaint, Dan, because almost everything along that line that was glaringly bad was cured in the amendment this spring. That ironed out a great deal of the inequalities.
- Bell: Then the only thing you need to do now is to decide whether you want additional revenue and you need to amend it for that purpose.
- Sullivan: When I say, Dan, that the inequities are ironed out, that is comparatively speaking. There are, and there always will be, a lot of inequities in an Excess Profits Tax Act.
- Bell: What I meant, you wouldn't seek the amendments at this time to correct those? They are not such that they need to be taken care of immediately?
- Sullivan: No, but I mean we are beset by all kinds of problems. For instance, Jewett, of the Chamber of Commerce, was in pleading for fifteen small airplane companies without very much invested capital who had no average earnings to speak of at all during the base period, many of them running at a loss, and, of course, they are in a hopeless competitive position against the bigger companies that were making a lot of money during those years. But generally speaking, it is a vastly improved bill over the one that was passed last September.
- White: John, I am wondering if it is possible or if it is too late to recanvass the position from a more fundamental point of view. It appears to me that there are good arguments that can be advanced on the grounds of public policy and on the grounds of ethics and on the grounds of economics to stand for an excess profits tax based on capital earnings with some modifications

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to take care of some of the most serious criticisms. The most serious criticisms would be, one, the small man can be taken care of by being given preferential treatment. How much can be easily decided on in discussion. You can take care of the new companies, such as the last one you suggested, by some flexible - some provision which would allow them - allow a company that has just started or allow a company that has low capital invested under certain conditions gain a higher rate of return, in other words, distinguishing between those companies.

You might even take care of the - if you wish - the larger companies that have, for some special reason, a low or a high capital invested. You can treat them differently, I think. But assuming that those three modifications are possible to take care of the worst criticisms and admitted that there still would be inequities left, which, as you say, is inevitable in any system of general application of a rule, if you approached the tax principle on the basis of an excess profits tax on an earnings basis, selecting some figure, whether it be five or five and a half or six or six and a half or seven or seven and a half - it can be determined at a conference - it would be a compromise in any case - then you can claim the following, it seems to me, for that position. On grounds of policy, public policy, it would be popular with the mass of the people because it is easy to understand, it seems reasonable to expect corporations to make sacrifices just as individuals during wartime.

You can strengthen that position by having a tax applicable only during the emergency period. Have that so stated in the bill. At least, that is your present intentions. So that upon

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cessation of the emergency, then a defense principle is involved. It would certainly be popular with, as I say, the soldiers and the workers and so on, and I think that with that kind of a bill you can go further in the direction of taxing the others, either through indirect taxation, and you can go further in taking strong positions demanding sacrifices of the others, because the public can understand it. That is one point.

On the grounds of economic policy, it has this advantage. I think it will yield more revenue or it can be so devised to yield more revenue. It will in no way discourage expansion because you are going to discriminate between new capital, and you can indiscriminate - you can even make a distinction on the basis of the very company you spoke of; and the fact that a corporation has had large earnings in the past will not influence its activities now if the earnings are lower except so far as new capital, and you would take care of that, so it will not discourage enterprise.

The same thing is true of the point you raised about people who have bought stocks on the basis of anticipated earnings, and now you impose a tax which falls more heavily, and therefore the value of their shares diminishes.

Well, in the first place that is true of any tax. It is always true. You have got to expect that. You don't guarantee that taxes will remain the same when a person buys a capital asset.

In the second place, you can minimize that by making it clear that is an emergency tax, and the tax holds true only during wartime. Therefore, the investment which took place before the war will continue to have the same capitalization value on a peacetime basis later, whenever

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that may be.

In other words, the new tax applies only during the emergency. So that - and a grounds of - on ethical grounds, certainly you can make a much stronger case for abiding by a principle of that kind than you can by any other principle. And moreover, it seems to me, you are in a strong position, because you have got a principle which is the guiding light. You can divert from it as the occasion requires, but at least, you have got something to hang your hat on instead of being deprived of a principle to defend any position you take.

Sullivan: Now that peg you are going to hang your hat on, Harry, is that every dollar that is made above a certain percentage of invested capital is going to be subject - is going to be deemed to be excessive.

White: Not necessarily. I mean, make that fifty - seventy - it would constitute the taxable base. We are not discussing the question whether the rate of taxation on the excess profits shall be twenty percent, fifty, or a hundred. That is another problem.

Sullivan: All right. You are going to say that every dollar that is earned in any kind of a business above five and a half or six percent, or whatever figure you pick out, is going to be subject to an excess profits tax, regardless of the type of business.

White: With these modifications --

Sullivan: Oh, well now. That is something else, Harry. Regardless of the type of business and regardless of whether it is connected with the defense program in any way and regardless of how much money it made in a --

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White: Definitely.

Sullivan: in a previous experience. In other words, a corporation that had a ten-year lease or had leased a piece of property for ten years at a stated amount of rent, although it had received twenty thousand dollars a year for that particular property in '36, '37, '38 and '39, would be subject to excess profits although it received no more.

White: If you are speaking of profits, yes, and it applies right through, again with the understanding that ingenuity will be required to introduce modifications to take care of both the economic necessities and some of the worst inequities.

Sullivan: Well, once you get into that, Harry, you are into everything and that is the underlying difficulty of an excess profits tax in which you try to lay down one formula that applies to all different types of businesses and different kinds of situations.

White: Well, the problem in any case is not simple, John, you said that yourself.

Sullivan: That is right.

White: Therefore it is a question of choosing among difficult possibilities.

Now, it appears to me, and I admittedly haven't gone into the administrative angle, so I don't know, but it appears to me that it should be possible to make, whether three, four, five or a half dozen different classifications, under which the tax would apply which would not remove all the inequities but would take care of the most serious ones.

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Blough: You are very close, Harry, to the plan which the Treasury presented last summer, are you not?

White: I think I was close to the principle but I am not familiar enough with the details to know, but I think that as I remember reading it over, it could have been modified and improved but - and if that is so, I am very much in favor of fighting to a principle that you think is right and if you are going to be overridden, let somebody else override you; but let the Treasury stand for the best tax proposal - not under ideal circumstances, but that is politically feasible as well with the masses of the people. That is an important consideration, and I think that the public would be behind you in that whereas in this other thing, in the first place they won't understand it and in the second place, after they do understand it they will find such glaring inequities as to make difficulties.

Sullivan: There are far fewer inequities in the proposal than there are in the present law, Harry.

White: Well, I am comparing your proposal with the suggestion which I very roughly - very briefly outlined as a principle.

I don't think we should confine grounds for criticizing it to ethical grounds. I think it could be substantiated on economic grounds and I certainly think it would be a wise political gesture.

Sullivan: All right, now to allow a reasonable rate of return to a company that has been making twenty or twenty-five percent on its capital through the years, Harry, you would have to allow a set amount of credit on invested capital that

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would let out United States Steel, American Car and Foundry, and all the fellows we are trying to get.

White:

I think that even there you might take some of the large companies. You might be justified in making the decision that many of these larger companies ought to have a different rate.

Tarleau:

John, we presented the Secretary with a bill on the twenty-first day of last July that had precisely what you (White) are talking about.

We took into account the size of the companies, both with respect to their capital and with respect to their borrowed capital.

We paid some attention, though not very much, to their condition just prior to the defense expenditure period by allowing them a very small differential for their earnings during that period.

In other words, we had every single one of the things you are talking about. We had an excess profits tax which was as good an excess profits tax as I think you will find in the statute books of any country, even though we worked under tremendous pressure.

The Secretary will recall that last July we did the thing in twenty-one days, because you called your conference on the thirtieth day of June and on the twenty-first day of July he had that bill. I am willing to stand by that bill today.

White:

You felt that that was a desirable bill then?

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Tarleau: Now, if you are talking about me personally - if you want an excess profits tax, I think that is a good excess profits tax, as good a one as you can have.

Well, we went up there, and I think that it was as bitter a fight as we have ever had.

White: I am laying down the circumstances of changes. You have got some new allies.

Tarleau: John said just before you came in to the Secretary, that he feels that if you want to go back to that plan, the plan we had last July, modified as our experience indicates it should be modified since that time, the thing to do is to very carefully lay our plan of campaign and to at least start with the utmost push on Congress from the Secretary and from the President in order to give us some breathing chance at least of getting this bill through.

The conference we had on this second Revenue Act of 1940, Mr. Doughton told me in his thirty years of experience on the Hill was the bitterest conference he ever attended, and by means of that conference fighting tooth and nail, and you have got to give Jere Cooper credit for it, we managed to knock down the average earnings from a hundred percent to ninety-five percent.

Now, if you are going to kick the whole average earnings concept out, you will certainly have to do an awful lot more backing for John Sullivan before he even has any prayer of getting by even the Ways and Means Committee.

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- White: Well, obviously that is a matter of policy. For myself, I would rather have the Treasury be licked defending a sound proposal than win defending one that is more or less indefensible.
- Sullivan: Well, I think that is the question we have to decide, whether we are going in here and fight for a principle we fought for last summer and then quit on it or whether we are going to do the best we can revising the present law.
- Foley: Well, I didn't think we quit, John. I thought what we said was this: "This isn't what we want, and this isn't what we asked the Congress to give us. It is second best any way you look at it. Now we are going to put it into effect. We have no alternative. We are going to wait until the returns come in on the fifteenth of March, and we are going to take a good clean look at them, and if we are not satisfied at that time with the way the thing is operating and the way it falls on the different companies, then we are coming back, and we are going to tell the committee what we think the committee ought to do." Now I don't see--
- Sullivan: I don't recall any such statement as that, do you, Tom?
- Tarleau: No, not in those words, and I don't even know, Ed, to be very frank with you, whether, after the battle was all over, whether we left that impression, because at the end we--
- Foley: That was the impression that I had.
- H.M.Jr: What was the letter that John Sullivan

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read?

Sullivan: In the Senate Finance?

Foley: Yes.

Sullivan: That was when everything was going out the window. Everything in the bill was going out the window at that time.

H.M.Jr: John, let me just offer this as a possible suggestion. Supposing you went up there - I am going to say something and let me finish the statement, and what I may say may not hold water, you see. I will simply say this: "Now, look, gentlemen, you have asked us to come up here and talk about excess profits. We have had a chance to see what effect excess profits takes on some of the companies. These larger companies have not yet made their returns, so we don't know, and we have only got a partial picture, but those that we have, I would like to point out how unevenly it hits them," giving how unevenly some of them pay. "Therefore, as far as we have gone, we simply feel that this is not - the way the bill is drawn now, that it is not an equitable bill. Now, we realize perfectly that in appearing, we said so in connection with the debt limit last year, that we can't always get what we want, but on the other hand, we would like to point out that we feel, with no undue pride of authorship, that the suggestion which we made a year ago was a better one. It had more merit to it. And we feel that way especially in view of what we know now. Now, we want to point that out. Because, after all, we are here as your guests. We can simply make this thing and the position. Now, if you don't want to take our advice,

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that is your privilege. You are the elected members responsible to the people. Now, we have made that - that is the way we feel. Now, if you will say to us, 'All right, you have said your piece, we are going to disregard it', and you want us to make recommendations on the existing law, and after carefully deciding, you want to go ahead and apply the existing law, we have certain suggestions to make to modify the existing law, and we would like to make those now."

Now something along that line. How does that hit you?

Sullivan: I think that is somewhat in accordance with what I first suggested.

H.M.Jr: How does that hit you? My facts may not just be right, but as to the principle involved?

Sullivan: I think we can amply protect the position we took last summer, and leave plenty of room for future revision and make suggestions as to changes of the present act.

H.M.Jr: Well, that wouldn't quite satisfy me.

Sullivan: What you want is for us to renew our objections to the present law.

H.M.Jr: Yes, I wouldn't put it - I would just - that might be a little bit too bald. I would put it this way, "That in view of the returns which have come in, we find that there are certain inequities, and we feel that if Congress had taken our suggestion which we made before this committee last June and July, in view of the evidence that we have, we think that that would be a more

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equitable one," if that is true, you see. And then give them definite examples. "Now, gentlemen, we have got to tell you what we think. You don't have to take it. If you don't want to take it, after we have given you the examples - " give them the examples, how it would hit different kinds of companies if they had taken your recommendation of last spring. "Now, this is what would happen in view of the year which has passed. We think this is fair and will satisfy the people better. We think this will satisfy the fellow who has had to give up his business and go and work for a dollar a year. That is what we honestly believe, that they are the examples of how these companies would have been treated if you had taken our suggestion of last year." I am going always on the assumption that that is so. "And if you don't want to take it, if you want our suggestions and you say, 'Well, we don't want it,' we are prepared to give you suggestions how to change the existing law."

Sullivan:

I would like to ask Roy a question here. There isn't any doubt that we can pick out individual returns that will show that, but I am wondering whether or not they couldn't pick out individual returns that would show that under the other it would be just as inequitable in the other direction.

Blough:

The great difficulty is in what you will understand to be normal. A great many people down there do not accept the definition of normal profits which Harry mentioned a while ago as a certain percentage return on invested capital. They constantly talk about normal in terms of a war profits tax, not in terms of an excess profits tax. They talk about normal as what we earn during the

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base period. Now, if their definition of normal is correct, then our suggestion of last summer was not correct, and the suggestion that Harry made is not correct, and would give rise to terrific inequities because the concern that was making, say, 50 percent on its invested capital during the base period, and that was considered to be its normal profit, could point out that the plan we proposed and the plan Harry proposes would be extremely inequitable. Now, if you accept the return on invested capital as the correct basis, then you can point out other things which are equitable and are inequitable.

Now, if you can get an agreement on the part of the committee as to what they mean by normal and as to what they mean by excessive, we certainly can point out how these various measures and various proposals compare in their equitability. But until you get them to agree as to what they mean by normal, with you, for every example you present as a horrible example, they will come back with another horrible example. You don't think their example is horrible, and they don't think your example is horrible, and so there is no meeting of the minds because there is no basis understanding of what is meant by normal and what is meant by excessive.

White:

Exactly. That is why I think you are licked before you begin when you use the word "normal." It is not the defense of your tax program--

Gaston:

That concedes the main argument, if you will excuse me. It makes it--

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- Foley: There is nothing normal about it.
- Gaston: It makes it a war profits, not an excess profits.
- H.M.Jr: Wait a minute. Give Herbert a chance.
- Gaston: I am sorry. But when you use the word "normal" in the sense in which Roy uses it, you are conceding the main argument. You are saying, using the word "normal" in the sense of profits that they have been accustomed to make or that they hope to make in the series of profitable years, and that makes it, when you superimpose taxes only above that level, that makes it a war profits bill, an extraordinary war profits bill and not an excess profits bill. Now, if you use some other word of justifiable profits, reasonable profits, or something like that--
- White: Under the circumstances.
- Gaston: But I think, too, that a better argument for going back to this conception of an excess profits tax bill as against a war profits tax bill is the great change in the economic situation, Harry.
- White: In the political situation.
- Gaston: New developments, the country has engaged in an all-out effort toward full production to support the democracies and that changes the situation.
- White: There is no such thing as normal to be used as a criterion.
- Sullivan: All right, it doesn't make any difference, Harry, what adjective you use.

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White: It makes a great deal.

Sullivan: Whether you call it reasonable or justifiable, or what label you hang on it, you have the same fight.

White: You have the fight, of course you have the fight.

H.M.Jr: Could I interrupt a minute?

White: I am sorry.

H.M.Jr: No, I am trying to keep my day, and I want to be clear in my own thinking. Supposing you (Sullivan) do this. We will meet again at a quarter of three, you see. What I would like to do is, if it is agreeable to you, let's take some of these things, examples, applying the principle that you advocated before the Congress, how would it apply, and let's have a mock court here and let Roy take the answers - let Tarleau take - come in this afternoon with some cases and argue for the bill as you presented it last year to the House, you see, and present some cases. And let Roy take the committee's point, "Well, this is no good, and these are abnormal," and do the other side, you see.

Sullivan: Yes, sir.

H.M.Jr: And they can certainly get a half dozen cases between now and a quarter of three on both sides.

Schwarz: May I express a thought?

H.M.Jr: What?

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Schwarz: Could I express a thought?

H.M.Jr: Yes. But let me just - hold it a minute.
Do you see what I mean?

Tarleau: Yes, Mr. Secretary.

H.M.Jr: I mean, you, Tarleau, take the case of the bill as it was presented and bring in some arguments of what you know this afternoon, you see, why we should go back to the old bill, and then Roy says for every example you show, he will show another horrible example why it won't work. Well, let him bring in some. Is that agreeable to you?

Sullivan: Yes, it is.

H.M.Jr: Is that agreeable to you, John?

Sullivan: Yes, it is.

Tarleau: Yes, I think we ought to be able to.

Blough: As long as I am understood just to be the Devil's advocate, that is all right.

Tarleau: Well, that goes on both sides.

H.M.Jr: Well, would you rather switch? (Laughter)

Tarleau: Oh, no, no.

H.M.Jr: I don't care. Would you rather switch?
You talk it over and just as long--

Sullivan: Instead of promising the chairman they will get together, I promise you they will keep apart.

H.M.Jr: I don't care just as long as one keeps each side.

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Gaston: I think they are both on both sides anyway.

H.M.Jr: Maybe you have been insulted. (Laughter)

Sullivan: After last summer, that isn't any kind of an insult at all. We don't even pay any attention to those.

H.M.Jr: Has anybody got anything - I will give you a chance in a minute, Chick. Is there any better - is there any way to get forward quicker than that?

Sullivan: I think that is a good idea. That is a direct answer to the observation I made.

H.M.Jr: Isn't that good?

Sullivan: Yes, it is.

H.M.Jr: I mean, if you go up there and take the suggestion I made and Roy says, "Well, they will bring others." Well, let's have horrible examples on both sides.

Sullivan: That is right.

Bell: How does this question come up at this time? It has just been injected in here?

H.M.Jr: No, because he has to testify.

Bell: Originally we had no thought of doing anything on excess profits, had we?

Sullivan: We knew we would have to do something to get more money out of excess profits, Dan.

Bell: Was that in your estimates?

Sullivan: Four hundred million.

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- Bell: Four hundred million excess profits?
- Sullivan: That is right.
- H.M.Jr: Does that answer your question?
- Foley: I think Dan has got in mind the same thing I have got in mind. Instead of making the proposal that you make, why can't John go up there and say, "We want to pass it this time on excess profits. We haven't had sufficient time to go into this. We have made our recommendations on individual rates. We have made our recommendations on excise taxes. In so far as the excess profits tax is concerned, it may well be that the Treasury will want to recommend a very fundamental change here, and we are not ready now because we haven't had an adequate opportunity to study this problem, and in so far as the Treasury is concerned, we don't wish to make a recommendation at this time."
- H.M.Jr: Does that mean - then I will answer you, acting as chairman - does that mean, Mr. Foley, you are coming up later in the season with another tax bill?
- Foley: It means we would like to reserve the right to come back here when we have completed our study and lay our conclusions before this committee.
- H.M.Jr: Then you are going to recommend another tax bill later in the season?
- Foley: I believe, sir, that that is what we will do, and this committee will be in session undoubtedly continuously throughout the year.

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- White: What do you mean, you haven't had time to study this problem? What has the Treasury been doing all these months? (Laughter)
I am speaking as chairman now.
- Foley: I am in the same position as Roy Blough.
- White: Which side do you want to take now?
- Haas: A lot of the returns haven't come in yet.
- Bell: That is exactly what I was coming to. I think we should have no bill if we don't need it. I don't think we ought to go into it.
- Foley: It is a very complicated and difficult subject, and we need a little more time.
- Gaston: Well, Ed, I would suggest it wouldn't necessarily mean a new tax bill, because this committee has got plenty to work on ahead of the excess profits tax, if they will be considerate enough to put the others ahead of the excess profits. It might be a matter of 10 days or two weeks, and you might come down there following a letter from the President to the Chairman of the Ways and Means Committee.
- H.M.Jr: Or you might say, "In view of the unexpected testimony of Mr. Eccles and Mr. Henderson, we haven't had time to study their testimony." (Laughter)
- Bell: Well, I am wondering if you couldn't ask for the additional revenue you want with whatever amendment you need and say you are going to study this bill further when the returns are fully in, and that you may be down later, but you are certain you will

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not apply the new law to the present calendar year incomes. It may be that even in the next session you will ask for a change in the law. I think business is entitled to that chance to work along under the present bill and get familiar with it anyhow before you start changing it on this year's returns.

H.M. Jr: Now, Mr. Schwarz.

Schwarz: Thank you. I came in as an observer, but I would like to bring up this thought. Instead of thinking in terms of going back to what we did last year, I think there is some responsibility on us to look ahead. We are planning on another tax bill, and I think we ought to think of the same kind of bill, but think of it as applying to the future. Maybe we are premature, but by the time this gets passed, a lot of things might have happened, and I think we can make that positive approach rather than the negative one that this didn't work out. That is past history, and I think Harry is right that we have allies in the public. I know, I could make a much better fight publicly and help, and even if we don't make it this time, I think our record is better.

H.M. Jr: Well, now, may I just say this, because I have got this other meeting at eleven. Come in at a quarter of three, will you, John, and - I don't know if this has helped you at all. Everybody is invited to be back at a quarter of three.

May 9, 1941
10:30 a.m.

H.M.Jr: Hello.

Senator
O'Mahoney: Henry.

H.M.Jr: Yeah.

O: You may remember that the T.N.E.C. checked a little bit on our American investments in foreign countries.

H.M.Jr: Yes.

O: Among others I have a table here showing investments of about a dozen big companies in Axis-controlled countries. This, no doubt, has been coming to your attention too. You don't overlook very much. But what I had in mind was checking on whether or not there would be any possibility of the Hitler regime to bring any sort of pressure to bear on some powerful groups in this country releasing to them income from their investments.

H.M.Jr: Well, I think that is a very good point.

O: Now, International Harvester, for example, has about eleven million invested in Axis controlled countries and they are not getting any income so far as I can see.

H.M.Jr: Yeah.

O: The Chicago Tribune has a certain policy that you may know about.

H.M.Jr: I've heard about it.

O: Of course General Motors has big investments in Germany, 34 million according to my information, and there is the Texas and the Eastman Kodak and the rest of them. Have you done anything to check on that possibility?

H.M.Jr: No, I have not.

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O: I tell you what I'm going to do, Henry, I'll make you a copy of this table that I have showing this information and I think you might want to have somebody check into that possibility of what could be done by the German Government in intimating to some of these people, well, now if such and such were done, maybe we could release some income.

H.M.Jr: Well, I think it is an excellent point. I don't think we've approached it.

O: Is that so.

H.M.Jr: They may have but I think you've got a new idea.

O: Well, it's something worth looking into, I think.

H.M.Jr: Well, I'm tickled to death and if you'll send it down to me we'll put somebody on it right away and let you know.

O: All right, Henry.

H.M.Jr: I think you've got a good idea.

O: O.K.

H.M.Jr: Thank you.

May 9, 1941
11:05 a.m.

RE DEPARTMENT OF SUPPLY

Present: Mr. Thompson
Mr. Bell
Mr. Foley
Mr. McReynolds
Mr. Spingarn
Mr. Cochran
Mr. Kuhn

H.M.Jr:

Why I asked you gentlemen over, I am trying to do something over here and keep it quiet as long as possible, for the President. The President doesn't know I am doing it, but he will when I send this over to him.

It occurred to me about a week or ten days ago that just as long as this whole question of manufacturing guns and ships is left in these various hands, we will never get them in time to be of any use, and the conception I had is that if the appropriation goes through, the Army will have their thousand planes.

The Army says what kind of planes it wants, specifies them, but from that time on, Procurement and everything else will be handled by a new department to be called the Department of Supply, a new Cabinet post, and that this would make things very much easier for the President and would stop all this fighting,

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and the thing that I am so desperately worried about is, every time I go into this picture, are we getting guns and ships, I find we are not, and the situation is just desperate. I can't put it any better than to quote David Lloyd George, December 20, 1915, as Chancellor of the Exchequer.

"Too late in moving here, too late in arriving there, too late in coming to this decision, too late in starting with enterprises, too late in preparing. In this war the footsteps of the Allied forces have been dogged by the mocking spectre of 'too late.'"

See if you can put it any better.

Now, as I say, I am doing this as I have before, for the President. I haven't read this yet but I would like to read it out loud and then you fellows can stop me any place you want to. Do you see, Mac?

McReynolds: Yes.

Cox: I think if you read the letter first it will sound like a contribution from David Lloyd George. I haven't seen the report.

H.M.Jr: This is an inscription. The book was given to me by Harry and he inscribed that to me with that book.

This is the suggestion I gave Oscar this morning a little bit before eight, and Oscar is here in his capacity as a Treasury official and not in his capacity as a counsel to Harry Hopkins. Harry doesn't know anything about this.

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"Dear Mr. President:

"The action of the House yesterday in amending the Vinson priorities bill to provide for a Director of Priorities and a detailed legislative handling of the priorities problem is another symptomatic illustration of the dangers of handling the supply problems of the Government in a piece-meal fashion.

"The supply problems of the Government have grown and will grow to such an extent that unless they are centralized at one point so much of your time and energy will be continuously used up trying them together that you will not have sufficient time to pass on other equally important problems.

"In addition to conserving your time, a coordinated and stream-lined Department of Supply could doubtless do a speedier and more effective job than is now being done by the sprawled-out departments and agencies presently engaged in handling the many related phases of the supply problem. At least that has been the experience of every government in modern times when it was faced with the critical situation of arming itself quickly. It is one of the unfortunate things of our time that the British did not create their Ministry of Supply until July 13, 1939 - only a few months before they were at war.

"In order that you may give consideration as soon as possible to the creation of a Department of Supply, I am sending you herewith a first draft of a bill to set up such a Cabinet Department together with a brief covering memorandum summarizing the need for it and what powers it should have.

Sincerely yours,"

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Well, for a first draft it is very good. We will just get the idea. I would want to change it a little bit.

Now, I will read this.

"Department of Supply.

"1. At the heart of the defense program is the compelling necessity to get enough of the best planes, guns, tanks and other sinews of war as fast as possible.

"2. The present diffused and uncoordinated production and procurement policies and methods are far from the best way of getting the necessary military and naval equipment.

"3. Daily the need for a centralized and streamlined handling of the supply functions of the Government becomes more apparent.

"4. In terms of the present necessities, the time is now doubtless at hand to consider the creation of a new Cabinet Department of Supply.

"5. The major functions of such a Department of Supply should be:

a) Over-all Requirements

To obtain from time to time our over-all needs for military, naval and other equipment and supplies and to see that they are matched by productive facilities and manufacture.

At the present time, for example, it is well-nigh impossible to ascertain with any accuracy what aluminum capacity we need to do the job adequately. One of

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the principal reasons for this is that our over-all requirements are not ascertained in time.

b) Manufacture

To have jurisdiction over the manufacture of all supplies for the Government:

The specifications for guns, ships, etc. can be prepared by the users of them - the Army and Navy - or they can participate in their formulation. To a degree this is what is done now in the Army and Navy."

(Mr. Kuhn entered the conference.)

H.M.Jr: Sit down. We are talking about a Ministry of Supply.

"Thus, for example, Ordnance collaborates with Infantry in the design and manufacture of infantry equipment.

Full utilization could be made of existing personnel. Army and Navy officers skilled in the manufacture of guns and ships, could, for example, be detailed....."

This is too much detail, Oscar; I think these sentences.....

"to the Department of Supply to work in the arsenals or shipyards.

c) Procurement

To coordinate procurement under one centralized purchasing agency:

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Many of the defense articles used by the Army and Navy are the same and should doubtless be purchased at the same time. Many more which are not now the same could doubtless be standardized through a central Department of Supply.

d) Production Expansion

To tie together expansion of productive facilities:

In the past few years, particularly, there have been many instances where uncoordinated plant expansion for Army and Navy materiel has taken place. If this expansion had been properly tied together, greater speed and efficiency would unquestionably have resulted. Today, funds for the expansion of plant facilities are available to the War and Navy Departments, to the RFC, Maritime Commission and the Lend-Lease appropriation."

I would leave out the examples of the failures because after all, the fact that this setup of the seven and all that was the President's responsibility - I don't want him - "Well, what is Henry doing, telling me I don't know how to run the thing?" Don't you agree, Mac?

McReynolds: I was going to suggest that.

H.M.Jr: Leave the criticism out but look at the gains.

McReynolds: What you want to do, not what you should have done.

H.M.Jr: Do you check with me?

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McReynolds: I do.

H.M.Jr: I mean, the gains.

"In many instances these funds are available for the same or similar purposes. They can most effectively be used through a central source.

"e) Storage:

To plan and coordinate storage facilities:

Department of Supply storage depots at key spots would doubtless be more efficient and safer than the present methods of storage.

f) Priorities

To coordinate and centralize the handling of priorities:

A Department of Supply should obviously have the power to determine priorities between civilian consumers as well as between the Government and others. It should also be the central source to exercise priorities in transportation by rail, air, ship, etc.

g) Price Control

To handle price control:

In addition to the control over prices which a Department of Supply can exercise by its powers to expand the supply of any article and through cumulating and timing its purchasing, it should also have the power to control prices through the fixing of ceilings, etc.

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h) Requisitioning

To handle the requisitioning powers of the Government:"

Foley: Why don't you read the bill, Mr. Secretary? You get a better idea.

H.M.Jr: Yes. This isn't too good, Oscar, if you don't mind.

Cox: Oh no.

H.M.Jr: "A Bill to establish a Department of Supply in order more effectively to coordinate and expedite the national defense program of the United States, and for other purposes.

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the 'Department of Supply Act of 1941.'

"Sec. 2. Where used in this Act, unless the context clearly indicates otherwise --

"(a) The term 'agency' --"

Foley: We can skip the definitions.

H.M.Jr: I think so.

"There shall be at the seat of government an executive department to be known as the Department of Supply and a Secretary of Supply (hereinafter referred to as the Secretary), who shall be the head thereof, and shall be appointed by the President, by and with the advice and consent of the Senate, and have a tenure of office and salary like those of the heads of the other executive departments.

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Section 158 of the Revised Statutes, as amended (U.S.C., title 5, sec. 1), is amended to include such Department, and the provisions of Title IV of the Revised Statutes, including all acts amendatory and supplementary thereto, shall be applicable to such Department if not inconsistent with this Act.

"Sec. 4(a) There shall be in the Department of Supply an Under Secretary of Supply, a General Counsel --"

God, I knew you would get that in. (Laughter)

".... and seven Assistant Secretaries of Supply, who shall be appointed by the President, by and with the advice and consent of the Senate, all of whom shall exercise such functions as may be prescribed by the Secretary or required by law. The Secretary is authorized to exercise any function now or hereafter conferred or imposed upon him through any of the foregoing officers, or any other officer of his Department whom he may designate. The Under Secretary of Supply, the General Counsel, and the Assistant Secretaries of Supply shall each receive a salary of \$10,000 per annum.

"(b) In the absence or disability of the Secretary, or in the event of a vacancy in that office, the Under Secretary of Supply shall act as Secretary."

I think we will go to Section 5.

"There shall be in the Department of Supply such major Divisions as the Secretary shall by regulations prescribe, which regulations shall be approved by the President. In addition, there shall be in the Department of Supply such lesser subdivisions, sections, and offices, as the Secretary shall by regulations prescribe. All

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regulations under this section shall be published in the Federal Register.

"Sec. 6. There shall be at the head of each major Division of the Department of Supply --"

That is all right.

"Sec. 7(a). The President is authorized to transfer by Executive Order to the Department of Supply any agency or function relating to any one or more of the following activities:

(1) The manufacture or production of any property by or under the supervision of any agency;

(2) The management, coordination, and stimulation of expansion, of the manufacture or production of any property by private industry, private persons, or other persons or entities;

(3) The procurement, warehousing, transportation, and distribution of any property for national defense or other governmental purposes;

(4) The establishment of priorities with respect to:

(i) deliveries of property under any contracts, orders or suborders;

(ii) the carriage of any property, or classes of property, by any means of transportation;"

Does that put railroads under this?

Cox:

Yes. This is priorities.

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"(iii) the carriage of any message -"

Is that again just priorities?

Foley: Yes. Establishing priorities with respect to these three things.

H.M.Jr: "(5) The allocation of property for defense or for export, in the public interest or to promote the national defense;"

Again, that is just priorities?

Foley: That is allocations.

Cox: It is like priorities.

H.M.Jr: Does that mean that General Maxwell will go under this?

Cox: No, Stettinius and his fellows.

Foley: In other words, all the aluminum goes to Boeing and Consolidated rather than to the fighter plants.

Spingarn: I understand the English use the allocation system more extensively than the priorities system. I think they come out the same.

Cox: No, they come out differently.

H.M.Jr: "(5) The allocation of property for defense, for private account, or for export, in the public interest or to promote the national defense;

"(6) The requisitioning of any property;

"(7) The control of prices and the protection of consumers; and

"(8) Such other activities as the President

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may deem so closely related to one or more of the foregoing that they should be administered in the Department of Supply.

(b) The President is authorized to transfer by Executive Order any agency or function of the Department of Supply to any other agency."

Well now, is there anything else except on that one page?

Cox:

The only other one is the transfer of appropriations and personnel and handling of details. That is just routine. Section 7 is the guts of it.

H.M.Jr:

That is the guts?

McReynolds:

Of the bill, yes.

Spingarn:

In other words, Mr. Secretary, this bill just sets up a hollow shell and authorizes the President to transfer certain types of functions enumerated in Section 7 into it.

McReynolds:

The same procedure followed when we split Labor and Commerce.

H.M.Jr:

At first blush, Mac, what do you think of it? You have been in the hotbed of this thing.

McReynolds:

Well, of course the thing that you have missed has been a responsible head that the President would rely upon in this field and without Cabinet status, of course, there would always be the heckling. We would still have some heckling with Cabinet status, but the President would be expected to turn the thing over.

It gets to the right man and comes up in the right way. It is the only way I can see to relieve him of a burden that is getting to be more than he can carry.

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H.M.Jr: What have we missed?

Foley: He said up to now the thing in the picture that hasn't been there is a responsible head with statutory authority that the President could hold responsible for all of these things.

H.M.Jr: I thought Mac said we had missed something.

Foley: No, and he is leading up to a blessing of this.

McReynolds: I think it is an excellent idea.

H.M.Jr: I thought you meant what I had missed.

McReynolds: No, what the President has missed on the program now. It has been scattered, as you say, and there has been nobody that had the standing in this administration to resist the disintegration of this thing. It has been split here and split there and this guy wants this and the other one wants that and there hasn't been - there has been a good deal of cooperation from Army and Navy but there hasn't been the responsible leadership that is necessary in order to get a thing done.

Now, I think this is a good way to do it. I don't know of any way to put the thing in the position where the President will turn it over and let the head of the organization run it unless you can get an officer of that class, a man who sits in the Cabinet.

H.M.Jr: Do you think this is a good idea?

McReynolds: I think it is a good idea.

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H.M.Jr: Dan?

Bell: I think it is a good idea. I think you will have a terrible time getting it through Congress because of their opposition to creating any more departments, first, and then you will have a terrible fight on between Army and Navy opposing it, particularly the officers.

McReynolds: I wouldn't expect great opposition to the additional Cabinet member because I think there is a good deal of opposition to the way this thing runs now, but I do think that you will find the Army and Navy group opposing it. They are always opposed to giving away authority.

Bell: I am wondering if you haven't got most of this authority now in the Procurement Division as it was originally set up. All of the authority to procure in Army and Navy is now delegated, isn't it, from the Secretary of the Treasury to the Army and Navy. Wouldn't it be a good start for that delegation to be withdrawn for the present to set up a strong organization in Procurement and then say, "Let's make a Cabinet out of it." I mean, take the step --

Cox: That is the one we discussed originally.

Bell: There wouldn't be any delay here and confusion.

H.M.Jr: Could I answer that, Dan? I have come to the decision - I have got nobody in mind, see, but whoever the man is, Mr. Brown, that he puts in there, unless this man is in the Cabinet and has the full authority --

McReynolds: It will kill you if you put it in Procurement under Treasury.

Bell: No, I was thinking of that as a preliminary step.

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- Foley: The Army and the Navy would just cut to ribbons the fellow that you put in that spot in Procurement, Dan. You have got to make him of equal stature with the Secretary of War or the Secretary of the Navy.
- Bell: Eventually, but I am wondering if we can't do it as a preliminary step.
- McReynolds: I think you would kill it and Dan, I have gone through a half dozen investigations of new things on that very problem.
- Foley: You would never get it off the ground.
- McReynolds: You just can't do it because it is killed immediately.
- H.M.Jr: The way I feel is this. I don't know any situation which is more desperate. They brought the thing up. I don't think it is any more difficult to get the President to make up his mind that he wants to do this, which is the right way to do it, than it would be to get him to change the present setup.
- McReynolds: It would be harder for him to change the present setup than it would be to do this, in my opinion.
- H.M.Jr: That is what I think.
- Bell: That is probably true.
- McReynolds: I have seen it tried before.
- H.M.Jr: This is so drastic that he could do this and say, "I am sorry --"
- Foley: This is the answer to his critics who say that he hasn't centered responsibility in so far as the defense program is concerned in any particular individual.

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- H.M.Jr: On the other hand, the beauty of this is, and that is why I want to keep it so secret, it would be the President's plan and it isn't Arthur Krock's plan or Bernie Baruch's plan, and they can't say, "This is what we have been telling the President," because nobody has suggested it and this is the President's plan. There has been no one suggested this thing publicly.
- McReynolds: It isn't even Henry Morgenthau's plan.
- H.M.Jr: You know me by this time. It is the President's plan.
- McReynolds: Sure.
- H.M.Jr: I mean, you know me. I give these things tied up in a pink ribbon, and it is the President's plan, and no Krock or any of these so and so's can say, "Aw, we have been suggesting that for six months."
- McReynolds: I think it is a good idea. I don't know what the result will be. I don't know how much - you see, that Army and Navy gang have a hell of a lot of influence with the committees up there on the Hill, but if the boss would take it and say, "This is what I want," and put pressure enough on, I think he could get it.
- H.M.Jr: Let me see if I can't write a very short letter from the heart on this thing without any summary. The Bill is good enough.
- Cox: Yes. Well, I think you just have to take that fight on and I think when the Commander in Chief says he wants it, you are going to stop the Army and Navy procurement offices.
- Foley: It will be the most salutary thing that has

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been done in a long time, Dan, because so long as they have got hold of the program, it isn't going to flow the way the President wants it to flow.

- McReynolds: That is true. You see, on Lend-Lease --
- H.M.Jr: This wouldn't cut across the Lend-Lease.
- Foley: No, he is giving another example.
- McReynolds: You won't get - you have got to depend on --
- H.M.Jr: This is to the President: (Dictating letter to Mrs. McHugh)

"My dear Mr. President:

I have been lying awake nights trying to think of some way to make things easier for you in these extraordinary - in these most difficult times.

It seems to me that if you were to ask Congress to create a new Department of Supply, with a new Cabinet member at its head and throwing into this department everything that has to do with the procurement and production of materiel for national defense --"

Hell: Do you want everything else in there?

H.M.Jr: Well, I mean I am just getting it now.

".....that this would be a real contribution toward lightening your great responsibilities.

I have had in the Treasury prepared a bill carrying out these ideas. On page four, Section 7(a), are the guts of the bill; and if this thought appeals to you, and I most sincerely hope it will, I would like to discuss it with you further at your convenience."

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(Speaking to Mrs. McHugh) Now, I will tell you what you do. Supposing you write that out and then let Cox and Kuhn smooth it up, the two of you, see, so I can have something a little bit before one o'clock, see. But isn't that about the idea?

Cox: That is right.

H.M.Jr: Smooth it up a little bit. Don't you think that would appeal to him, Mac?

McReynolds: I think that is the best way to approach it.

H.M.Jr: Don't you think so?

McReynolds: Yes. It is between you and him. That is the only way I know of --

H.M.Jr: Having been in this thing, isn't that a step in the right direction?

McReynolds: I am thoroughly in favor of it because - he has had a lot of boys working hard. Some of them I have no criticism of, but there is always the lack of standing, officially, and also politically. There is somebody dropping in between and they are hectic and they make it - they confuse the issue so far as the boss is concerned, and I don't know any way to eliminate that except if you could put a place - a Cabinet place, right next to the President, and nobody can get in.

H.M.Jr: You know, leaving out my good friend Walker, it is perfectly asinine today to have a Cabinet position of Postmaster General and not to have one of Supply.

Cox: That is right, it is amazing.

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H.M.Jr: I mean, if you stop to think. If you say it is only limited to ten. Well, hell, don't have a Cabinet position. Why should there be - Frank Walker is a swell guy and so is Jim Farley. They come in and the President says, "Well, what have you got, Boys?"

"Well, our first class post offices have increased their business so much over last week."

"Anything else?"

"No, that is all."

"Anything else, Frank?"

"No."

"All right, next man."

Now, that is no exaggeration.

Kuhn: Is it the right way to appeal to the President, to speak first of lightening his load of responsibility? Mightn't it be better to speak first of speeding up or making more efficient the production and then lightening his load?

H.M.Jr: No.

Kuhn: You know best.

H.M.Jr: I don't think so.

McReynolds: I think he is at a point now where that is the approach, because after all, it is getting to be a killing job for him.

H.M.Jr: No --

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McReynolds: And he knows it.

H.M.Jr: If I do that, then he says, "Oh, Henry is critical of me." He will say, "Henry is saying production isn't so good and this isn't so good and this isn't right and he is blaming me," but if I say I am worrying how I can make things easier for him - the man has been sick for two weeks and he gets this today. That is why I want to hurry it.

And he says, "Well, maybe Henry is right and why the hell haven't I thought of that," and he will call me up and say, "You know, I dreamed of that the other night."

Then I know we are on our way. (Laughter)

Kuhn: He is ready for something now which will lighten that load?

H.M.Jr: He will do it - Ferdie, he will think of the - if he reads this thing, is, "Heavens, he is like all the rest of the God damned columnists. He just says this isn't going right and he is blaming me;" but he says, "Henry is worried about me, I have got too much and God knows he is right, and if I can get a good man, and he has somebody in mind, I won't have to be seeing Henderson and Miss Elliott and Stettinius and Nelson and Knudsen and Biggers and have all those scraps and getting phoney figures on production and all the rest of the stuff."

He may say, "Well, I will just see the one man. That is ten people less I have got to see." And if in his heart he knows, which he must now, that the original committee of seven was wrong, and Mac knows and God knows I didn't want it --

McReynolds: We tried hard enough to keep it from starting.

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- H.M.Jr: And he has got a hodge-podge and he knows he hasn't got the planes. He knows what he hasn't got, because I have fed him enough figures. It may just hit him right. And if it doesn't, we can take it up again in a day or two, but Mac has been in the center of this thing.
- If he would say, "Well, Boss, you are wrong, everything is going lovely -- "
- McReynolds: I think you are right. I think it will appeal to him. You never can tell, but I think it certainly ought to be tried.
- H.M.Jr: Is there anybody that you know of, Budget or anybody else, who has got something like this up their sleeves?
- Thompson: It might counteract some of the Army and Navy sabotage, so to speak --
- Cox: They are not thinking about it except on this priorities business which we have and the OPM and all the different branches of OPM, this morning, all had a vague hunch that you ought not to freeze by statute the handling of priorities but nobody, as far as I can find out, had any idea as to why it shouldn't be frozen.
- The relation should be with one fellow handling the priorities.
- McReynolds: But it is scattered in too many places.
- Kuhn: If Stimson and Knox were in favor of this really whole heartedly, would that sway the Army and Navy officers?
- Cox: No effect at all.

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Foley: It is the generals and admirals who will be opposed to it.

McReynolds: It is the gold braids that do the damage up there.

Foley: That is the thing. They have the most entrenched kind of bureaucracy there is. You can talk about the rest of it, but you don't know what it is all about until you run up against that kind. It is the worst there is.

Dear Mr. President:

The action of the House yesterday in amending the Vinson priorities bill to provide for a Director of Priorities and a detailed legislative handling of the priorities problem is another symptomatic illustration of the dangers of handling the supply problems of the Government in a piece-meal fashion.

The supply problems of the Government have grown and will grow to such an extent that unless they are centralized at one point so much of your time and energy will be continuously used up trying them together that you will not have sufficient time to pass on other equally important problems.

In addition to conserving your time, a coordinated and stream-lined Department of Supply could doubtless do a speedier and more effective job than is now being done by the sprawled-out departments and agencies presently engaged in handling the many related phases of the supply problem. At least that has been the experience of every government in modern times when it was faced with the critical situation of arming itself quickly. It is one of the unfortunate things of our time that the British did not create their Ministry of Supply until July 13, 1939 — only a few months before they were at war.

In order that you may give consideration as soon as possible to the creation of a Department of Supply, I am sending

- 2 -

you herewith a first draft of a bill to set up such a Cabinet Department together with a brief covering memorandum summarizing the need for it and what powers it should have.

Sincerely yours,

MEMORANDUM

To: The President
From: Secretary Morgenthau
Subject: A Department of Supply

1. At the heart of the defense program is the compelling necessity to get enough of the best planes, guns, tanks and the other sinews of war as fast as possible.
2. The present diffused and uncoordinated production and procurement policies and methods are far from the best way of getting the necessary military and naval equipment.
3. Daily the need for a centralized and streamlined handling of the supply functions of the Government becomes more apparent.
4. In terms of the present necessities, the time is now doubtless at hand to consider the creation of a new cabinet department of supply.
5. The major functions of such a Department of Supply should be:
 - a) Over-all Requirements
To obtain from time to time our over-all needs for military, naval and other equipment and supplies

- 2 -

and to see that they are matched by productive facilities and manufacture.

At the present time, for example, it is well-nigh impossible to ascertain with any accuracy what aluminum capacity we need and shall need sufficiently in advance of the need to do the job adequately. One of the principal reasons for this is that our over-all requirements are not ascertained in time.

b) Manufacture

To have jurisdiction over the manufacture of all supplies for the Government:

The specifications for guns, ships, etc. can be prepared by the users of them — the Army and Navy — or they can participate in their formulation. To a degree this is what is done now in the Army and Navy. Thus, for example, Ordnance collaborates with Infantry in the design and manufacture of infantry equipment.

Full utilization could be made of existing personnel. Army and Navy officers skilled in the manufacture of guns and ships could, for example, be detailed to the Department of Supply to work in the arsenals or shipyards.

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c) Procurement

To coordinate procurement under one centralized purchasing agency:

Many of the defense articles used by the Army and Navy are the same and should doubtless be purchased at the same time. Many more which are not now the same could doubtless be standardized through a central Department of Supply.

d) Production Expansion

To tie together expansion of productive facilities:

In the past few years, particularly, there have been many instances where uncoordinated plant expansion for Army and Navy materiel has taken place. If this expansion had been properly tied together greater speed and efficiency would unquestionably have resulted. Today, funds for the expansion of plant facilities are available to the War and Navy Departments, to the RFC, Maritime Commission and the Lend-Lease appropriation. In many instances these funds are available for the same or similar purposes. They can most effectively be used through a central source.

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e) Storage

To plan and coordinate storage facilities:

Department of Supply storage depots at key spots would doubtless be more efficient and safer than the present methods of storage.

f) Priorities

To coordinate and centralize the handling of priorities:

A Department of Supply should obviously have the power to determine priorities between civilian consumers as well as between the Government and others. It should also be the central source to exercise priorities in transportation by rail, air, ship, etc.

g) Price Control

To handle price control:

In addition to the control over prices which a Department of Supply can exercise by its powers to expand the supply of any article and through cumulating and timing its purchasing, it should also have the power to control prices through the fixing of ceilings, etc.

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h) Requisitioning

To handle the requisitioning powers of the Government:

Upon the payment of just compensation, the Department of Supply should be empowered to requisition any plant, facility or article useful for defense. This is a much needed power which does not exist now, but legislation is pending to grant this power to you.

6. Annexed is a draft of a bill to create a Department of Supply.

A BILL

To establish a Department of Supply in order more effectively to coordinate and expedite the national defense program of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Department of Supply Act of 1941".

SEC. 2. Where used in this Act, unless the context clearly indicates otherwise--

(a) The term "agency" includes any executive department, independent establishment, commission, office, board, bureau, service, administration, authority, Federally owned or controlled corporation, agency, division, or activity of the United States, whether in the District of Columbia or in the field service, or any part thereof.

(b) The term "functions" includes any rights, privileges, powers, immunities, duties, authority, or functions, or any part thereof.

(c) The term "property" includes any articles, goods, materials, things, facilities, structures, improvements, machinery, equipment, stores, supplies, or any other property or rights in property, real or personal, tangible or intangible, including (without any limitation of the foregoing) any defense article or defense information as defined in section 2 of the Act of March 11, 1941 (Public No. 11, 77th Congress).

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SEC. 3. There shall be at the seat of government an executive department to be known as the Department of Supply and a Secretary of Supply (hereinafter referred to as the Secretary), who shall be the head thereof, and shall be appointed by the President, by and with the advice and consent of the Senate, and have a tenure of office and salary like those of the heads of the other executive departments. Section 1353 of the Revised Statutes, as amended (U.S.C., title 5, sec. 1), is amended to include such Department, and the provisions of Title IV of the Revised Statutes, including all acts amendatory and supplementary thereto, shall be applicable to such Department if not inconsistent with this Act.

SEC. 4(a) There shall be in the Department of Supply an Under Secretary of Supply, a General Council, and seven Assistant Secretaries of Supply, who shall be appointed by the President, by and with the advice and consent of the Senate, all of whom shall exercise such functions as may be prescribed by the Secretary or required by law. The Secretary is authorized to exercise any function now or hereafter conferred or imposed upon him through any of the foregoing officers, or any other officer of his Department whom he may designate. The Under Secretary of Supply, the General Council, and the Assistant Secretaries of Supply shall each receive a salary of \$10,000 per annum.

(b) In the absence or disability of the Secretary, or in the event of a vacancy in that office, the Under Secretary of Supply

- 3 -

shall act as Secretary. In the absence or disability of both, or in the event of vacancies in both offices, one of the Assistant Secretaries of Supply or the General Counsel shall act as Secretary, and another Assistant Secretary or the General Counsel shall act as Under Secretary, in such order as may be determined by the Secretary. The Secretary may designate any officer of his Department to act as the Under Secretary, an Assistant Secretary, the General Counsel, a Director of Division, or an Assistant Director of Division, in the absence or disability of the officer involved, or in the event of a vacancy in the office involved. Any officer filling another office in an acting capacity under this subsection may exercise any function which might be exercised by the regular incumbent of that office.

SEC. 5. There shall be in the Department of Supply such major Divisions as the Secretary shall by regulations prescribe, which regulations shall be approved by the President. In addition, there shall be in the Department of Supply such lesser subdivisions, sections, and offices, as the Secretary shall by regulations prescribe. All regulations under this section shall be published in the Federal Register.

SEC. 6. There shall be at the head of each major Division of the Department of Supply a Director, who shall be appointed by the Secretary without regard to the civil service laws and shall receive a salary of \$10,000 per annum, and one or more Assistant Directors (as the Secretary may find necessary), who shall be appointed by the Secretary

- 4 -

without regard to the civil service laws and each shall receive a salary of \$9,000 per annum.

SEC. 7(a). The President is authorized to transfer by Executive Order to the Department of Supply any agency or function relating to any one or more of the following activities:

- (1) The manufacture or production of any property by or under the supervision of any agency;
- (2) The assignment, coordination, and stimulation of expansion, of the manufacture or production of any property by private industry, private persons, or other persons or entities;
- (3) The procurement, warehousing, transportation, and distribution of any property for national defense or other governmental purposes;
- (4) The establishment of priorities with respect to:
 - (i) deliveries of property under any contracts, subcontracts, orders or suborders;
 - (ii) the carriage of any property, or classes of property, by any means of transportation;
 - (iii) the carriage of any message, or class of message, by any manner of communication facility;
- (5) The allocation of property for defense, for private account, or for export, in the public interest or to promote the national defense;
- (6) The requisitioning of any property;
- (7) The control of prices and the protection of consumers; and
- (8) Such other activities as the President may deem so closely related to one or more of the foregoing that they should be administered

- 3 -

in the Department of Supply.

(b) The President is authorized to transfer by Executive Order any agency or function of the Department of Supply to any other agency in the same manner and subject to the same provisions of this Act or other law as in the case of a transfer of an agency or function to the Department of Supply under subsection (a).

(c) Each Executive Order under this section shall be printed in the Federal Register, and shall also be printed in the Statutes at Large in the same volume as the public law.

SEC. 8(a) Any supervisory or other functions exercised by any officer of any agency with respect to any agency or function transferred to the Department of Supply under this Act are transferred to the Secretary.

(b) The Secretary shall administer the laws relating to any agency or function transferred to the Department of Supply under this Act or brought within the jurisdiction and control of such Department by or pursuant to any other provision of law.

SEC. 9(a) The Secretary shall cause a seal of office to be made for the Department of Supply, of such design as the President shall approve, and judicial notice shall be taken of such seal.

(b) The Secretary shall annually, at the close of each fiscal year, make a report in writing to the Congress, giving an account of all money received and expended by the Department of Supply and describing the work done by that Department. He shall also from time to time make such special investigations and reports as he may deem necessary or

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as he may be required to make by the President or requested to make by either House of Congress.

220. 10(a) The Secretary is authorized, subject to the civil service laws, to appoint such officers and employees as he deems necessary to enable him to exercise the functions now or hereafter conferred or imposed upon him or his Department by or pursuant to law, and the compensation of all such officers and employees shall be fixed in accordance with the Classification Act of 1923, as amended.

(b) Notwithstanding the provisions of subsection (a), the Secretary is authorized to employ such compensated or uncompensated persons as he in his discretion may deem necessary for part-time or special work, and any such person may be appointed without regard to the civil service laws, and, if compensated, may receive compensation without regard to the Classification Act of 1923, as amended.

220. 11. The Secretary may enter into contracts (which he is otherwise authorized to enter into by or pursuant to law) without advertising or competitive bidding. No contract which would otherwise be subject to the provisions of the Act of June 30, 1936 (49 Stat. 2036; U.S.C., Supp. V, title 41, secs. 35-45), shall be exempt from the provisions of such Act solely because of being entered into without advertising or competitive bidding pursuant to this section. The cost-plus-a-percentage-of-cost system of contracting shall not be used under this section, but this shall not be construed to prohibit the use of the cost-plus-a-fixed-fee form of contract when such use is deemed

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necessary by the Secretary. The Secretary shall report every three months to the Congress the contracts entered into by his Department without advertising or competitive bidding pursuant to this section. This section shall be supplementary to, and not in lieu of, all other provisions of law authorizing officers of the United States to enter into contracts without advertising or competitive bidding. The authority conferred by this section shall terminate June 30, 1953.

SEC. 12(a) Each Executive Order under this Act transferring agencies or functions shall contain appropriate provisions for the transfer or other disposition of records, property (including office equipment), personnel, and unexpended balances of appropriations or other funds, affected by such transfer.

(b) The Secretary may appropriately change the name of any agency or the title of any officer transferred to the Department of Supply.

(c) In the case of any commissioned officer or enlisted man of the Army, Navy, or Coast Guard transferred by any such Executive Order to the Department of Supply, such transfer shall be regarded as a detail, reversible at any time by the President. In addition, the President, or the head of any agency at the request of the Secretary, may at any time detail any officer or employee of his agency (including commissioned officers or enlisted men of the Army, Navy, or Coast Guard) to the Department of Supply, such detail to be reversible in the same manner in which it was made.

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SEC. 13 (a) All orders, rules, regulations, permits, or other privileges, made, issued, or granted by or in respect of any agency or function transferred under this Act, and in effect at the time of the transfer, shall continue in effect to the same extent as if such transfer had not occurred, until modified, superseded, or repealed.

(b) No suit, action, or other proceeding lawfully commenced by or against the head of any agency or other officer or employee of the United States, in his official capacity or in relation to the discharge of his official duties, shall abate by reason of any transfer of functions from one officer, employee, or agency of the United States to another under this Act, but the court, on motion or supplemental petition filed at any time within twelve months after such transfer takes effect, showing a necessity for a survival of such suit, action, or other proceeding to obtain a settlement of the questions involved, may allow the same to be maintained by or against the head of the agency to which the transfer is made.

(c) All laws relating to any agency or function transferred under this Act shall, insofar as such laws are not inapplicable, remain in full force and effect.

SEC. 14. No transfer under this Act shall have the effect-

(a) of continuing any agency or function beyond the date when it would have terminated if such transfer had not been made;

(b) of continuing any function beyond the time when the agency in which it was vested before its transfer to the

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Department of Supply would have terminated if such transfer had not been made; or

(c) of authorizing the Department of Supply, the Secretary, or any other agency or officer, to exercise any function which is not authorized by or pursuant to law.

SEC. 14. There is hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

EJW/cfo

3/8/41

May 9, 1941.

My dear Mr. President:

I have been lying awake nights trying to think of some way to make things easier for you in these most difficult times.

It seems to me that if you would ask Congress to create a new Department of Supply as a part of your Cabinet, and throw into this Department everything that has to do with the procurement and production of defense articles, and other related functions such as priorities, requisitioning, and price control, this would go a long way towards lightening the great load you are carrying so magnificently.

I have had prepared in the Treasury a draft of a bill to carry out this idea. On page four of the enclosed draft you will find the guts of the bill.

If this thought appeals to you, and I most sincerely hope it will, I should like an opportunity to discuss it with you at your convenience.

Sincerely yours,

(Signed) Henry

The President,

The White House.

Enclosure.

By Messenger / 25
-pm

HM Jr.:mp 5/9/41

May 9, 1941.

My dear Mr. President:

I have been lying awake nights trying to think of some way to make things easier for you in these most difficult times.

It seems to me that if you would ask Congress to create a new Department of Supply as a part of your Cabinet, and throw into this Department everything that has to do with the procurement and production of defense articles, and other related functions such as priorities, requisitioning, and price control, this would go a long way towards lightening the great load you are carrying so magnificently.

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Sincerely yours,

(Signed) Henry

The President,
The White House.

Enclosure.

By Messenger

HM Jr.:mp 5/9/41

A BILL

To establish a Department of Supply in order more effectively to coordinate and expedite the national defense program of the United States, and for other purposes.

As it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Department of Supply Act of 1941".

SEC. 2. Where used in this Act, unless the context clearly indicates otherwise--

(a) The term "agency" includes any executive department, independent establishment, commission, office, board, bureau, service, administration, authority, Federally owned or controlled corporation, agency, division, or activity of the United States, whether in the District of Columbia or in the field service, or any part thereof.

(b) The term "functions" includes any rights, privileges, powers, immunities, duties, authority, or functions, or any part thereof.

(c) The term "property" includes any articles, goods, materials, things, facilities, structures, improvements, machinery, equipment, stores, supplies, or any other property or rights in property, real or personal, tangible or intangible, including (without any limitation of the foregoing) any defense article or defense information as defined in section 2 of the Act of March 11, 1941 (Public No. 11, 77th Congress).

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SEC. 3. There shall be at the seat of government an executive department to be known as the Department of Supply and a Secretary of Supply (hereinafter referred to as the Secretary), who shall be the head thereof, and shall be appointed by the President, by and with the advice and consent of the Senate, and have a tenure of office and salary like those of the heads of the other executive departments. Section 138 of the Revised Statutes, as amended (U.S.C., title 5, sec. 1), is amended to include such Department, and the provisions of Title IV of the Revised Statutes, including all acts amendatory and supplementary thereto, shall be applicable to such Department if not inconsistent with this Act.

SEC. 4(a) There shall be in the Department of Supply an Under Secretary of Supply, a General Counsel, and seven Assistant Secretaries of Supply, who shall be appointed by the President, by and with the advice and consent of the Senate, all of whom shall exercise such functions as may be prescribed by the Secretary or required by law. The Secretary is authorized to exercise any function now or hereafter conferred or imposed upon him through any of the foregoing officers, or any other officer of his Department whom he may designate. The Under Secretary of Supply, the General Counsel, and the Assistant Secretaries of Supply shall each receive a salary of \$15,000 per annum.

(b) In the absence or disability of the Secretary, or in the event of a vacancy in that office, the Under Secretary of Supply

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shall act as Secretary. In the absence or disability of both, or in the event of vacancies in both offices, one of the Assistant Secretaries of Supply or the General Counsel shall act as Secretary, and another Assistant Secretary or the General Counsel shall act as Under Secretary, in such order as may be determined by the Secretary. The Secretary may designate any officer of his Department to act as the Under Secretary, an Assistant Secretary, the General Counsel, a Director of Division, or an Assistant Director of Division, in the absence or disability of the officer involved, or in the event of a vacancy in the office involved. Any officer filling another office in an acting capacity under this subsection may exercise any function which might be exercised by the regular incumbent of that office.

SEC. 5. There shall be in the Department of Supply such major Divisions as the Secretary shall by regulations prescribe, which regulations shall be approved by the President. In addition, there shall be in the Department of Supply such lesser subdivisions, sections, and offices, as the Secretary shall by regulations prescribe. All regulations under this section shall be published in the Federal Register.

SEC. 6. There shall be at the head of each major Division of the Department of Supply a Director, who shall be appointed by the Secretary without regard to the civil service laws and shall receive a salary of \$10,000 per annum, and one or more Assistant Directors (as the Secretary may find necessary), who shall be appointed by the Secretary

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without regard to the civil service laws and each shall receive a salary of \$9,000 per annum.

SEC. 7(a). The President is authorized to transfer by Executive Order to the Department of Supply any agency or function relating to any one or more of the following activities:

- (1) The manufacture or production of any property by or under the supervision of any agency;
- (2) The management, coordination, and stimulation of expansion, of the manufacture or production of any property by private industry, private persons, or other persons or entities;
- (3) The procurement, warehousing, transportation, and distribution of any property for national defense or other governmental purposes;
- (4) The establishment of priorities with respect to:
 - (i) deliveries of property under any contracts, sub-contracts, orders or suborders;
 - (ii) the carriage of any property, or classes of property, by any means of transportation;
 - (iii) the carriage of any message, or class of message, by any manner of communication facility;
- (5) The allocation of property for defense, for private account, or for export, in the public interest or to promote the national defense;
- (6) The requisitioning of any property;
- (7) The control of prices and the protection of consumers; and
- (8) Such other activities as the President may deem so closely related to one or more of the foregoing that they should be administered

- 3 -

in the Department of Supply.

(b) The President is authorized to transfer by Executive Order any agency or function of the Department of Supply to any other agency in the same manner and subject to the same provisions of this Act or other law as in the case of a transfer of an agency or function to the Department of Supply under subsection (a).

(c) Each Executive Order under this section shall be printed in the Federal Register, and shall also be printed in the Statutes at Large in the same volume as the public law.

SEC. 8(a) Any supervisory or other functions exercised by any officer of any agency with respect to any agency or function transferred to the Department of Supply under this Act are transferred to the Secretary.

(b) The Secretary shall administer the laws relating to any agency or function transferred to the Department of Supply under this Act or brought within the jurisdiction and control of such Department by or pursuant to any other provision of law.

SEC. 9(a) The Secretary shall cause a seal of office to be made for the Department of Supply, of such design as the President shall approve, and judicial notice shall be taken of such seal.

(b) The Secretary shall annually, at the close of each fiscal year, make a report in writing to the Congress, giving an account of all money received and expended by the Department of Supply and describing the work done by that Department. He shall also from time to time make such special investigations and reports as he may deem necessary or

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as he may be required to make by the President or requested to make by either House of Congress.

SEC. 10(a) The Secretary is authorized, subject to the civil service laws, to appoint such officers and employees as he deems necessary to enable him to exercise the functions now or hereafter conferred or imposed upon him or his Department by or pursuant to law, and the compensation of all such officers and employees shall be fixed in accordance with the Classification Act of 1923, as amended.

(b) Notwithstanding the provisions of subsection (a), the Secretary is authorized to employ such compensated or uncompensated persons as he in his discretion may deem necessary for part-time or special work, and any such person may be appointed without regard to the civil service laws, and, if compensated, may receive compensation without regard to the Classification Act of 1923, as amended.

SEC. 11. The Secretary may enter into contracts (which he is otherwise authorized to enter into by or pursuant to law) without advertising or competitive bidding. No contract which would otherwise be subject to the provisions of the Act of June 30, 1936 (49 Stat. 2036) U.S.C., Supp. V, title 41, secs. 35-45), shall be exempt from the provisions of such Act solely because of being entered into without advertising or competitive bidding pursuant to this section. The cost-plus-a-percentage-of-cost system of contracting shall not be used under this section, but this shall not be construed to prohibit the use of the cost-plus-a-fixed-fee form of contract when such use is deemed

- 7 -

necessary by the Secretary. The Secretary shall report every three months to the Congress the contracts entered into by his Department without advertising or competitive bidding pursuant to this section. This section shall be supplementary to, and not in lieu of, all other provisions of law authorizing officers of the United States to enter into contracts without advertising or competitive bidding. The authority conferred by this section shall terminate June 30, 1943.

SEC. 12(a) Each Executive Order under this Act transferring agencies or functions shall contain appropriate provisions for the transfer or other disposition of records, property (including office equipment), personnel, and unexpended balances of appropriations or other funds, affected by such transfer.

(b) The Secretary may appropriately change the name of any agency or the title of any officer transferred to the Department of Supply.

(c) In the case of any commissioned officer or enlisted man of the Army, Navy, or Coast Guard transferred by any such Executive Order to the Department of Supply, such transfer shall be regarded as a detail, revocable at any time by the President. In addition, the President, or the head of any agency at the request of the Secretary, may at any time detail any officer or employee of his agency (including commissioned officers or enlisted men of the Army, Navy, or Coast Guard) to the Department of Supply, such detail to be revocable in the same manner in which it was made.

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SEC. 13 (a) All orders, rules, regulations, permits, or other privileges, made, issued, or granted by or in respect of any agency or function transferred under this Act, and in effect at the time of the transfer, shall continue in effect to the same extent as if such transfer had not occurred, until modified, superseded, or repealed.

(b) No suit, action, or other proceeding lawfully commenced by or against the head of any agency or other officer or employee of the United States, in his official capacity or in relation to the discharge of his official duties, shall abate by reason of any transfer of functions from one officer, employee, or agency of the United States to another under this Act, but the court, on motion or supplemental petition filed at any time within twelve months after such transfer takes effect, showing a necessity for a survival of such suit, action, or other proceeding to obtain a settlement of the questions involved, may allow the same to be maintained by or against the head of the agency to which the transfer is made.

(c) All laws relating to any agency or function transferred under this Act shall, insofar as such laws are not inapplicable, remain in full force and effect.

SEC. 14. No transfer under this Act shall have the effect-

(a) of continuing any agency or function beyond the date when it would have terminated if such transfer had not been made;

(b) of continuing any function beyond the time when the agency in which it was vested before its transfer to the

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Department of Supply would have terminated if such transfer had not been made) or

(c) of authorizing the Department of Supply, the Secretary, or any other agency or officer, to exercise any function which is not authorized by or pursuant to law.

SEC. 15. There is hereby authorized to be appropriated such sum as may be necessary to carry out the provisions of this Act.

EJS/mfw

5/8/41

May 9, 1941
11:15 a.m.

H.M.Jr: Hello, Bob.

Robert Jackson: Hello, Henry. How are you this morning.

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

J: Well, that's good deal of an accomplishment these days.

H.M.Jr: I think so.

J: I wanted to ask you whether you know anything about this matter of the use that is made of marine insurance through the re-insurance. You have probably seen the articles that have appeared lately.

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

J: More than a year ago I called attention in a speech to the danger of this insurance situation because they do send great details of information for insurance purposes and of course

H.M.Jr: I'm not familiar with it. Do you want us to get in on it?

J: Well, I wondered if you'd - it impressed me as being very strange that the British, the biggest re-insuring company in the world hadn't been in on it and I didn't know - I thought if you knew anything about it - no, we're putting the men on it, have had them on it for some time, but the difficulty is of getting any information as to what happens to information after it goes abroad. See what I mean?

H.M.Jr: Well, let me inquire around. Some of our boys might be on this, I don't know.

J: We know that a certain amount of information does go abroad from that source.

- 2 -

H.M.Jr: Well, I'll inquire from Herbert Gaston who looks after that for me and if he has anything I'll have him get in touch with you direct.

J: Thank you very much.

H.M.Jr: Thank you.

J: That was a nice meeting the other night.

H.M.Jr: What was that?

J: That was a nice meeting the other night.

H.M.Jr: Yes. Oh, you mean at Judge Lehman's.

J: Yes.

H.M.Jr: Yeah, that was very nice.

J: I was glad to see Arthur Goodhart again.

H.M.Jr: Yes, he's fine.

J: Great chap. Well, I'll be seeing you.

H.M.Jr: Thank you, Bob.

J: Good-bye.

May 9, 1941
12:14 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

Jesse Jones: Hello, Henry.

H.M.Jr: How are you?

J: Pretty good. Henry, you have nothing but the highest regard for - opinion of Bill Myer have you.

H.M.Jr: Bill Myers?

J: Yeah.

H.M.Jr: Oh, he's a swell guy.

J: That's what I thought. His name had been mentioned in connection with some work down here and I

H.M.Jr: Oh, no. I think Bill is

J: I think awful strong of him myself.

H.M.Jr: What have you got in mind for him?

J: Well, confidentially, strictly, I suggested when Stettinius came over here to talk about Sohran to help him I suggested Bill Myer.

H.M.Jr: You mean for R.F.C.

J: No, for Ed.

H.M.Jr: As assistant to Ed?

J: On that priorities thing.

H.M.Jr: Oh, oh, oh.

J: See? I thought that Bill Myer is - in the first place I think he has got as good a mind and is as clear a thinker as anybody I know.

- 2 -

- H.M.Jr: That's right.
- J: I know he is thoroughly honest, he's not involved in any industry of any kind and I thought he was ideal for that kind of a job, and so I suggested him to Ed but Ed had his heart set on Emil.
- H.M.Jr: Oh, yes.
- J: And, frankly, I called Bill up the night that Ed came to see me, I guess two weeks ago or three, and just visited with him. I didn't tell him what the job was. I told him that things were getting pretty serious down here and that he might have to ask his boss to lend him to the Government again for a few months, something like that.
- H.M.Jr: I see.
- J: And he hoped that we wouldn't ask him to come - anybody - and that was as far as I went with him and so the thing is up again now and I see - I don't know what Congress did yesterday about that priorities job but if you agreed with me about it I'd be glad
- H.M.Jr: Well, I'll put it this way: I'd endorse Bill Myers for any job.
- J: Well, what I was going to say was that I don't see in the hell if they make that a regular job up there why Bill wouldn't be a good man for the place. That's what I want to talk to you about.
- H.M.Jr: Well, he's a good man anyway you put it.
- J: Anyway you ^{put} it. Well, that's what I thought.
- H.M.Jr: All right, Jesse.
- J: Feeling all right?
- H.M.Jr: Friday afternoonish, you know.

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J: Yeah. Are you going away for the weekend?
H.M.Jr: Yeah.
J: Well, good luck.
H.M.Jr: Thank you.

May 9, 1941
2:45 p.m.

RE TAXES

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

Sullivan: The gladiators have changed uniforms. They have swapped sides.

H.M.Jr: What do you mean?

Sullivan: Well, they haven't any seconds either. Isn't Ed coming?

H.M.Jr: I don't know. I think he has overslept.

Sullivan: I delivered your message to the gentleman across the street. He thought he would have to get direct orders.

H.M.Jr: He thought he would?

Sullivan: Yes.

- 2 -

- H.M.Jr: I think it is about time some of the boys across the street did get some direct orders. Was he sore?
- Sullivan: He was disappointed.
- H.M.Jr: Well, let him get some orders.
(Mr. Foley, Mr. Kades and Mr. Schwarz entered the conference.)
- H.M.Jr: Ed, last night you overslept. What have you been doing since lunch?
- Foley: Trying to get down here, sir.
- H.M.Jr: Can't you wait until over the week-end?
- Foley: I went to that dinner where I listened to your house guest last night.
- H.M.Jr: That is where you went first.
- Foley: Well, I went from there home. Congressman Summers from Texas made the worst speech I ever heard in my life.
- Sullivan: You ought to hear him when he isn't brief.
- Foley: Well, it got me down. I slept until nine o'clock.
- H.M.Jr: Well, who comes first?
- Blough: I suppose I should come first since I am attacking the war profits idea and defending the invested capital idea.
- H.M.Jr: Yes.
- Blough: I think for both of us I might say that the problem of selecting actual examples from the

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data available proved too much for our limited time. We have some actual examples, but we will have to give you some hypothetical cases. We shall not, however, give any hypothetical cases that we do not - that we are not sure exist. I mean, we are sure these things exist and we can get the cases if we have any more time.

Because the Treasury plan of last summer was essentially an excess profits tax plan rather than a war profits tax plan, I will devote myself primarily to advocacy - or pointing out examples in which the excess profits plan would be necessary in order to cure the difficulty which is complained of.

(Mr. Bell entered the conference.)

Blough:

You recall that the plan last summer provided that the corporation would be able to earn in the taxable period, free from tax, what it earned - the rate on invested capital which it earned during the base period with a maximum allowance of ten percent and a minimum of four percent.

In other words, if in the base period it earned on the average less than four percent, it was allowed to earn four percent on its capital free from tax. If in the base period it earned more than ten percent, it was allowed to earn in the taxable period ten percent without tax. If during the base period it earned between four percent and ten percent, it was to be allowed to earn free from tax the percent it did earn, so it was an invested capital plan but with a scale of credit between four and ten percent, six percent on the first five hundred thousand dollars of capital; between four and ten percent it was a - we had a sliding scale there, but otherwise it was an invested capital plan.

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Now what, then, is wrong with the war profits type of thing which we now have in the law; namely, a tax in which the average earnings of a pre-emergency or pre-defense period are set up as standards of normal profits and above that standard, any profits above that standard are to be subject to tax; but no profits are to be subject to tax until they are in excess of that standard.

Now, one of the horrible examples that is to come up is the case of the corporation with very high return on invested capital. During the base period and now.

We have some figures on the Coca-Cola Company, which has figured in these proceedings to some extent. The figures I am giving are quite approximate. The rate on invested capital appears to have been about forty-eight and one half percent during the base period, so the concern is allowed in the taxable period to earn about what it earned during the base period, which figures to about forty-eight and a half percent on invested capital before it would be subject to any tax; and at the present rates of taxation without change, Coca-Cola Company would pay about three and one half million dollars in tax on the estimated 1940 earnings, which means that it did earn more in 1940 than it earned during the base period.

H.M.Jr: Excuse me. You are now talking dollars. A minute ago you were talking percentages. It is kind of confusing.

Blough: I am sorry, Mr. Secretary. I will try to straighten that out.

H.M.Jr: You were talking forty-eight percent and now you are talking three million dollars.

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Blough:

What I really was doing was hunting papers and letting my mouth talk. I beg your pardon. The forty-eight and one half percent represented about twenty-six million dollars, which it would be allowed to earn during the base period. Some slightly more than that. So until it earns more than the twenty-six million dollars, it isn't going to be subject to tax.

Now, that twenty-six million dollars represents a very high percentage on its invested capital. Now, the question there is this. It comes down to this. Should Coca-Cola with such a high return on its invested capital pay a special tax, an excess profits tax, not only on any increase in profits above what it made in the base period, but also on some of those profits it made during the base period?

Should we say to Coca-Cola that, "You will be allowed ten percent return on your invested capital, maybe nine or ten million dollars, and on everything above that, you will be subject to tax"?

Now, an argument which can be made in favor of that, I think a strong one, is that a concern does not need more in many cases than six or eight or ten percent income to keep it in business, to keep it operating at its present level, and to keep it going. Some concerns with high risk do, but certainly very few concerns in the situation of Coca-Cola need forty-eight percent in order that they may continue to function and an excess profits tax needed in the time of emergency to be taken from the economy where it will hurt less certainly can come from some of those profits above the level of six or eight or ten percent, and that is one of the criticisms which is made of the present law and which I think is a valid one.

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Coca-Cola is not a bad example. Now, do you want me to proceed to the end of my statement or do you want to stop at this point?

H.M.Jr: We will just try this. This is new. Would you (Tarleau) like to try to break down his case on Coca-Cola or would you like --

Tarleau: Well, I want to break down his case on Coca-Cola and demolish it, but I think I had better do that after he has completely stated his position.

H.M.Jr: The only trouble is if you wait too long, maybe my mind will close and I will think he is O.K.

White: I thought he was going to present the other side.

Sullivan: They switched.

White: Oh, I see.

H.M.Jr: I gave them the option.

White: Oh, I didn't know you did.

Blough: The reason for the switch was not primarily one of intellectual honesty but because many of the objections come more closely in Mr. Tarleau's field than they do in mine.

Well now, a second argument, aside from this first one, which is that there are many profits - there are many companies with profits which can be subjected to a special tax in an emergency of this kind without hurting the economy, and that those profits should be taxed, even though they are not in excess of the base period earnings,

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that is the first point.

The second point is this, that the present tax is not a tax on defense profits. It just pretends to be a tax on defense profits. It takes 1936 to '39, averages the profits of those four years and says, "Now let us assume that those profits are normal profits and anything that is earned over that in the taxable year is due to defense," and having made that primary assumption, they go on as if that were true when as a matter of fact it is not true in numerous cases.

For instance, we know that business cycles have different intensities in different industries and in different concerns. We know that the lows are lower in some concerns than in others. We know that the date when business is depressed is different in some businesses than in others, so that company "A", let us say, was abnormally depressed during the base period. It may have had low prices for its product. The Spanish Civil War may have had some effect on it, the drouth or something else. It had very low earnings.

H.M.Jr: The Democratic party?

Blough: Well, we wouldn't admit that, I am sure. (Laughter) I will come to that in my next illustration.

It would have earned more in this taxable year regardless of the defense program. It might even have earned, and there are many companies that would have earned more in the taxable year if there hadn't been any defense program than they will earn.

Now, the assumption that all increases in earnings over that period are defense profits

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is simply not tenable. It isn't so.

Or take company "B". Company "B" had abnormally high earnings during the base period. That is due to the Democratic Party, shall we say? (Laughter) It had abnormally high earnings. Its cycle of business was high then or some circumstances were such as they often are in a business that many types of abnormalities gave it high earnings.

In a taxable year it would have expected in the normal course to have earned less than it earned during the base period, but due to defense it doesn't earn less. It earns as much as it did during the base period. That amount is surely really defense profits.

It is not subject to tax under this plan. Now, the point is this, that if you could chemically strain or precipitate out or separate defense profits from other profits and say, "These are defense profits," then certainly they would be suitable for very special heavy taxation; but if you can't do that, if what you do is a rough approximation, hits many profits that are not defense profits, misses many profits that are, wouldn't it be better, is a valid suggestion, I think, to go to some other system of determining what is excessive and not try to rely on what is a profit for defense.

Now, the third and the last point I am going to try to make here, and we will keep this to most important matters, is this, that the tax in its present form operates to maintain old established businesses and monopolies in their present positions.

H.M.Jr:

You mean the present tax law?

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Blough:

The present tax law, the present type of law, on the average earnings basis, operates to maintain monopolies and other established businesses in their position and to hold down growing - new and growing competitors from being able to take a position - a competitive position.

Suppose we take again some hypothetical companies. Take company "D", which during the base period has had heavy profits due to monopoly, let's say. There are many such. Or, due to frictions, or what have you. Maybe due to good management, for that matter. But it has had heavy profits and it is an established business. It has been earning fifty percent a year on its capital.

Now, it can go into this taxable period continuing to earn its fifty percent with no special tax.

Company "E", its competitor, was, during this base period, struggling for a foothold, earning very little money, increasing its reputation, and was just getting into a position to compete successfully with the big company and to grow strong on its earnings during the taxable period.

Company "F" didn't start in to business until the taxable period. To company "F" we allow a certain percent, eight percent, seven percent, or whatever it is. Under the present law it is eight percent.

Company "E" we allow eight percent, or if that is reduced in some subsequent time as is proposed, we would allow it even less.

Company "D" is allowed fifty percent. I think it is not hard to see that companies "E" and "F"

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will have a whole lot harder time trying to compete successfully, develop their position, grow strong and break the monopoly grip of company "D" than they would have in the absence of this tax.

So that the tax as it operates at present in this contention establishes monopoly businesses in their position and makes it difficult for new competitors to come along and dislodge them.

Now, there are other points that could be made. I think these are the most important, and in order not to unduly complicate the situation, I will just stop at that point.

H.M.Jr: I think it is a very able and not too passionate presentation.

Bell: Very good.

H.M.Jr: Now, how about you?(Tarleau)

Tarleau: Mr. Secretary, it is the position of the persons taking the opposite side from Mr. Blough that the object of this bill is to raise an excess profits, or war profits, call it what you will, as against the normal corporate tax and the ordinary surtax is to prevent war profiteering. It is to see to it that persons don't get wealthy, don't grow fat, as the President said and as you have said before the Ways and Means Committee, because of the acceleration of the economy due to national defense expenditures.

It is our position, therefore, that if corporations earn more today than they earned during a normal base period, we can with fairness and we can with some justice state that they are benefiting directly or indirectly in a great number of cases because of the

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acceleration of the economy due to the defense expenditures, even though they are not directly affected by war contracts themselves.

In other words, in times of stress such as we are undergoing now, if a person is more prosperous in the time of stress than he is in his normal times, we can fairly levy an excess profits tax upon him.

On the other hand, it should be borne in mind that corporate profits already to the extent that they are profits over and above expenses are subject to thirty percent taxes, that everyone who is making money, whether they are making more or less than they did prior to the defense period, is paying heavy Government taxes and should continue to do so, but he is not escaping tax.

The question is, should he bear an additional tax because of some excess profits concept.

Now, for example, let us take two companies. There is one company that during the base period, 1936 to 1939, earned thirty percent on its invested capital. As soon as the war broke out it became immediately cut off from half of its foreign markets. It was very adversely affected by the war situation, such as the moving picture companies, for example, and some other companies. Its profits were immediately cut from thirty percent on its invested capital to fifteen percent on its invested capital.

There is a corporation in another line of business. Prior to the defense period it was making, like American Car and Foundry, for example, a very small amount, two or three or four percent on its invested capital.

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Immediately upon the war situation developing, it goes up and makes fifteen percent on its invested capital. Giving a credit to both of those companies of approximately the same amount, it would be taxing almost as heavily a corporation which lost about one half of its return on its invested capital due to defense expenditures as you are taxing a corporation that has doubled or tripled, perhaps, its income due to defense expenditures.

In other words, the return on invested capital alone does not reflect the position of the company or the change in the position of the company due to the war situation and the way my side views it for the purposes of this argument, our endeavor ought to be that no company should prosper, that there should be no acceleration of profits due to the expenditures that we are making now for national defense.

That is the first point that we have to make in opposition to an invested capital concept. We feel that we will be even worse off now than we were hitherto. We feel that the very purpose of the tax is not achieved thereby.

In the second place, assuming that you wanted an excess profits tax, the Treasury plan nor no plan that has yet been suggested gives you an excess profits tax which will sustain any rates which with good conscience you can at this time put on in excess of a thirty percent rate.

Now, I am getting into what may be the more legalistic part of this argument, but I think it is something overwhelmingly important if we go from an average earnings over to a purely invested capital concept that it should be pointed out. It should be striking that

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Mr. Blough cites, as a return on invested capital of Coca-Cola, forty-eight percent.

Now, of course, that to an ordinary investor is a very unreal concept. He isn't buying a share of Coca-Cola and getting a forty-eight percent return. That is very obvious to everybody. Consequently, the first thing that requires attention would be, what is your concept of invested capital.

Now, in the law itself we have defined invested capital in the old Treasury plan and in the law as it now stands, we have defined invested capital as money or property paid in for stock, Money or property paid in for stock, Mr. Secretary, at any time, money or property paid in for stock in 1890, 1900 or 1939. That makes no difference.

Moreover, because of the difficulties of evaluation of the money or property paid in for stock - of course the question comes in on property paid in for stock - what was the value of the property at the time it was paid in for stock, we have had to arbitrarily assign a basis to that property and that basis is, what the basis of the property is in the hands of the corporation for the purpose of determining gain or loss on the sale of the property, which leads to the following hypothetical illustration.

Suppose in 1900, back at the turn of the century, "A" and "B", both brothers, inherited real estate from their father, equal sized blocks of real estate, each worth a hundred thousand dollars in 1900.

In 1920 brother "A", whose real estate was worth one million dollars at the time, put that real estate into a corporation in exchange for the stock of the corporation.

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Brother "B" waited until 1924 to do exactly the same thing. He took his real estate, which was worth a million dollars, and put it into the hands of a corporation.

In 1925 both brothers sold their stock to outsiders, so that they are completely out of the picture and now we are concerned with the invested capital in 1941 of "A" corporation, which was the corporation of "A's" real estate, and "B" corporation, which was the corporation that incorporated "B's" real estate.

In the case of "A", who incorporated his real estate in 1920, the invested capital of that company is one million dollars, the value of the real estate at the time it was incorporated.

In the case of "B", who incorporated his real estate in 1924, instead of the real estate - instead of the invested capital being a million dollars, the invested capital is a hundred thousand dollars.

H.M.Jr: Why?

Tarleau: The invested capital is a hundred thousand dollars, Mr. Secretary, because the cost of the land that was transferred to the corporation in exchange for the stock of the corporation, while worth a million dollars at the time, cost "B" only a hundred thousand dollars back in 1900.

Bell: Is that by reason of the revenue legislation?

Tarleau: Yes. In the Revenue Act of 1924, we provided that where such a transaction took place, the corporation did not take the property at the value of the property at the time it was put into the corporation, but took the property at

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the cost to that predecessor owner.

In 1920 the law was just to the contrary. The law of 1920 said, "We disregard the basis of the predecessor owner," and you take the value of the real estate as of that time.

This is just one example of many that could be cited and many that have been called to our attention whereby the very concept of invested capital is creaking and is loose and leads to inequities.

In the second place, the amount of invested capital itself in a corporation and the amount of return that that invested capital in a corporation should have in order to have a fair return, as even Mr. Blough admitted, varies tremendously from one industry to another. A spread of two percent or even of four percent isn't adequate to take into account the different risks between different businesses.

Capital put in some business demands a much greater return than capital put into other businesses. So far as the Treasury plan is concerned, the differential as between businesses is only taken into account on what they earned during the base period, that is, we allow between six and ten percent, depending upon what they earned in the base period.

I think the testimony at the hearings and what we have heard from taxpayers indicates that that is far from sufficient to take into account the risks between different types of business. Therefore, I think the invested capital concept hasn't proven itself sound on that point.

The third--

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H.M.Jr: How much more time would you want, Tarleau?

Tarleau: I am willing to drop it now.

H.M.Jr: I mean how much more do you want to go? Five minutes more?

Tarleau: No, I am willing to stop it now, Mr. Secretary.

H.M.Jr: What was your third?

Tarleau: Well, I was going to take into account the point that Mr. Doughton and the others feel so keenly about, the inequity of persons buying into the corporations --

H.M.Jr: Go ahead and develop that.

Tarleau: Well, going back to the point where we had two corporations each having the same types of assets but acquired in different years, exactly the same type of real estate, one having an invested capital of a million, the other having invested capital of a hundred thousand, both of the brothers have disappeared out of that picture many years ago. Investors have bought in, thinking they had a million dollar corporation and figuring their return on a million dollar basis.

When we put this act through, why of course one group is treated on a million dollar basis and the other group of investors is treated on a hundred thousand dollar basis.

H.M.Jr: Let me ask you a question. I realize it is a difficult thing that you have gone through. You have done it very well. But these particular questions, couldn't those be corrected legally? I mean, can't you correct those things? I mean, supposing you went through

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what we call the 1940 plan of the Treasury. Wouldn't there be provisions made for cases like this and any others which would be hit particularly on account of peculiar circumstances, so that there would be some compensating factor?

Tarleau: Yes, certainly - we must make provisions for a great many of those types of cases if we go back to the Treasury plan. That is undoubtedly true.

H.M.Jr: Couldn't that be done?

Tarleau: A hundred percent, ninety percent, eighty percent, I don't know. To a certain extent it can be done.

H.M.Jr: Seventy-five percent?

Tarleau: To a certain extent it can be done.

H.M.Jr: It can be done as they develop. We got through one relief provision very quickly this spring.

Bell: For the purpose of excess profits tax, could they all be put on a somewhat comparable basis, such as the "A" company you spoke of?

Tarleau: You see, they are placed on a comparable basis today because of the fact that I have assumed that here is the same type of real estate earning the same amount of money. Both of them appeal to their base period experience, which is, of course, the same; and consequently, that inequity doesn't play any part today.

The other countries have been faced with the same problem on invested capital, isn't that true? The whole question is one of evaluation. It is one of the monumental obstacles to a

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fair excess profits tax.

Bell:

I feel a good deal like the justice of the peace. Blough made his argument and I said, "You win." No use of you arguing, Tarleau. Now that you have argued, you win. (Laughter)

Blough:

It is what we have been struggling with for the last year, Dan.

H.M.Jr:

Well, the way I feel is this. I don't suppose any tax law can be written so that we can ever be entirely fair. I mean, not as long as you have got the present structure. Although, as I say, you can make special provisions for exemptions.

But just as I accused the Congress of remaining static in their thinking on non-defense spending, there are an awful lot of waters gone over the dam since we appeared there last summer, and the situation is a great deal different and a lot of people are talking about - so far, rather glibly, about all our effort and everybody is, before we get through, going to have to make sacrifices, depending upon their positions and I frankly - I just couldn't face a group and explain that we had acquiesced to a law which would freeze the profits of the corporation, never mind when the money was put in, but whenever it was put in, whether it was 1800 or 1900 or whenever it was, that if a man should be fortunate enough to be one of the original stockholders, that that profit should be frozen at thirty or fifty percent and that those people who have bought in more recently will be the sufferers.

On the other hand, the people who did buy their Coca-Cola and held it, and there are such people, would be given an advantage which

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they are not entitled to, particularly if they take their earnings or the dividends and then invested those over a number of years in totally tax exempt securities.

I really think, John, unless it goes against your fundamental beliefs - if it does you don't have to - nobody has to do anything he doesn't believe in - that after listening to this and everything, I would like you to point this out to Congress.

Sullivan: You mean to --

H.M.Jr: That under the present system, the way it is written now, that it gives certain people - freezes them at an advantage and makes it so that they do not contribute their fair share of their wealth through taxes to this national defense program, and that we here believe that there should be some kind of law devised that everybody as near as possible should make their fair contribution, whether he is in the ten thousand dollar bracket or the half million dollar bracket or - and the way it is devised now, it not only exempts certain people but freezes that situation.

Sullivan: You mean corporations?

H.M.Jr: Corporations.

Now, is that a request which you can intellectually feel free to present?

Sullivan: I presented that same argument for three months last summer, as forcefully and as strongly as I could; and I think I was in a better position to present it last summer than I am now, because there was no doubt in my mind last summer that as a result of freezing the base period excess profits we

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would be confirming a monopoly in the hands of an old, well-established concern as against a new or developing concern.

I don't think that we have seen any evidences of the operation of that competitive advantage so far, and I know we will be asked that.

H.M.Jr: I didn't mention that in my statement just now. If you listened carefully, I didn't talk about competitive advantage among operators. I didn't mention that.

Sullivan: Well, I mean that is the essence of the complaint, sir.

H.M.Jr: If you didn't notice, I very carefully avoided that.

Sullivan: I know it, but that is the reason for the complaint, isn't it?

H.M.Jr: No. Did anybody follow me very closely on what I said?

Sullivan: I followed you closely, but I thought that must be --

Gaston: Yes, you were talking about the competitive advantage of two concerns, one of which was able to freeze earnings based on their other earnings. You weren't speaking of competitive advantage. You were speaking of just the inherent injustice, as I get it, of being allowed to make profits on that scale simply because they always have made them, and that other industries generally, not their competitors, but other industries generally are being taxed on a different basis.

Sullivan: On the assumption that their increase in tax is due to the defense program.

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- H.M.Jr: In part. John, we are talking here about profits and I think that we are on unsafe ground in a tax bill to be talking about monopolies, you see.
- Sullivan: Yes.
- H.M.Jr: I mean, I don't think that that is particularly a place to talk about it. I mean, if you want to go up and talk about profits, we should not talk about monopolies. We can each have our own opinion about it. The thing that I was thinking about was this, from listening to them.
- The man who invested in Coca-Cola in 1910, one hundred dollars, will be getting a forty-eight dollar a year dividend.
- Sullivan: No, I don't think that is so.
- Tarleau: Well, that is close enough.
- Sullivan: All right, go ahead.
- Tarleau: That is close enough to be fairly accurate. The original man who put in a hundred dollars in cash for a share of Coca-Cola, on that one hundred dollars of invested capital, they are earning a return you (Blough) say, of forty-eight percent.
- Haas: It might be seventy-five on the first one, because that forty-eight is the average.
- H.M.Jr: You say it is close enough?
- Tarleau: I think so, don't you, Roy?
- Blough: It is very large. Everyone will agree to that.

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Sullivan: Go ahead.

H.M.Jr: Now, for us to say or for us to acquiesce by keeping our mouths shut that this company should be permitted in these times to continue to make earnings at that rate without making a heavier contribution than those companies who are earning ten percent on their original investment, I just say I think we are not asking them to do everything that they might under the present program. Whether those additional earnings are due to national defense or one thing or another, the fact remains that they are doing it and that we need a tremendous amount of money to pay for the armaments to defend this country.

Now, these people - if we stayed that way - would continue to do just that, and I realize perfectly it is tough on the fellow who bought his stock yesterday, and is only going to get six dollars on his hundred, but that is his hard luck just the way the fellow who was earning thirty-six hundred dollars a year has to go in the Army and earn three hundred and sixty. That is his privilege or hard luck, whichever way you want to look at it. I mean, you can put up just as big an argument that the fellow - because during '36 to '39 his individual earnings averaged four thousand dollars a year, why shouldn't he continue to get it? I mean, if you want to carry it out. Why should he have to only go out and get a dollar a day? And I see Jere Cooper foaming at the mouth about the fellow who made a couple of hundred thousand dollars while he was oversea getting gassed four times and I - I think one is as logical or illogical as the other. But I should say I will

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never - I mean, I am not going to - you just continue. I will be back in a minute.

(The Secretary left the conference.)

Bell: Is the definition of invested capital, as Tarleau explained it, a little narrow? Why should it be what the man actually puts in? Why shouldn't it be what they have ploughed back? That is the invested capital.

Tarleau: Our definition of invested capital is money paid for stock plus reinvestments.

(The Secretary returned to the conference.)

K.M.Jr: What do you think, John?

Sullivan: I think this, sir. I think we are all convinced that there are things that are wrong with both systems. Roy and Tom and I are convinced that whatever we do to either system, there will be inequities left in it that we won't be able to iron out. We started a revenue bill. We were beaten overwhelmingly on this thing last year, and the question is whether to leave one system which has its defects for another system in which we know there will be other defects. Now, if we are to renew the fight we waged last year, I think it would be folly to start until we put it up to the Congressional leaders and have gotten their opinion. We had two friends, one in each body, last year, Jere Cooper in the House and Senator LaFollette in the Senate. I think if we were to start without any warning to the Congressional leaders, it would be very much more of a bombshell than anything that happened last year, and I think it might very seriously jeopardize the standing of the Treasury in regard to the

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rest of the revenue bill.

H.M.Jr:

Then let's do it this way. It is time to get out of here at a quarter of four. Supposing you go up on the Hill and see Doughton and you can put it entirely on me, you see, if you want to, and say that I feel that I would like to have the Treasury express itself and point out some of these things. Say, "A year has gone by. Four billion dollars last year looked like it would take care of the national defense, and now it is forty billion, or just ten times as much. We have gone just that far. You have got a million and a quarter men under arms at a dollar a day. The situation is just as different today - it is ten times worse today than it was less than a year ago. If we expect the people to buy our bonds and put their savings in there and the boys to go out and work like hell ten or twelve hours a day, and these fellows to work in the factories and all that, that the people who are getting fat out of this tremendous program have got to make a bigger share of contribution than we had contemplated before," and that is the way I feel. How to do it, I don't know. But I do feel very, very strongly that I would like to express that opinion, but I don't want to do it without first talking to him.

Now, would you be willing to carry that message to him?

Sullivan:

Yes, I would be willing to carry the message to Garcia, but I think it would be very much more effective if you could have Jere and Mr. Doughton down here.

H.M.Jr:

Well, I can't do it before Monday.

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Sullivan: I didn't know whether you were going to be here tomorrow or not.

H.M.Jr: No, I am not. I am more tired mentally than I have been any time since we last had a tax bill.

Sullivan: Right. So am I. I started tired and I have never relapsed. I know exactly what you mean.

H.M.Jr: So if they will wait until Monday morning and postpone seeing you, I will be back bright and early Monday morning and put the thing up to them.

Sullivan: I think that we should do that, sir.

H.M.Jr: All right.

Sullivan: Because this is--

H.M.Jr: Were you going away tonight anywhere?

Sullivan: No, sir, I am not leaving town until this thing is through except the twenty-eighth of June.

H.M.Jr: You call me up after supper, call me up about - I will still be awake around eight o'clock your time. It is nine o'clock daylight saving. Are you out for dinner?

Sullivan: No, sir. Oh, you are going home to New York tonight?

H.M.Jr: The minute we get through, I am getting in the plane. I have held the plane since two o'clock to have this meeting.

Sullivan: You want me to call you at eight o'clock?

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H.M.Jr: Standard time.

Now, just before I do this, let me ask you a question. In what I am preparing to put, is there any fundamental difference between you and me?

Sullivan: Just this, that you are proposing this change so that no one will get fat out of this defense program, and that is not consistent with forsaking average earnings.

H.M.Jr: That is not consistent?

Sullivan: No, sir, it is not, because if a man is not - is allowed to earn no more than he earned in the four base period years, without subjecting it to tax, then he is not getting rich out of the defense program.

Gaston: I think rather you meant to say that nobody should make extravagant earnings. Nobody shall make extravagant earnings during this defense period.

H.M.Jr: That is all I am saying.

Foley: It isn't a question of making extravagant earnings. It seems to me it is a question of making people who have ability to pay, pay for this program.

White: That is the point.

Foley: I mean, if you are going to double or multiply by four the taxes that I have to pay, and my income is still the same, why the hell isn't it just as fair to do the same thing with the corporations? They can pay. They are making money. It has nothing to do with what the guy was making before.

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moved up before you know it. But we beat the gun on the question of going after people's savings. We beat the gun on the three and a half billion dollar people's taxes. We beat the gun on a billion dollar savings of non-defense expenditures, and I think the other thing, the important thing, as I see it now - God knows I make enough mistakes, but I have had enough time - that I would be derelict in my duty if I didn't go up there - and I am perfectly willing to go myself, I mean publicly, and simply talk about the principle of the thing, that the people who are making the money, whatever it is, the fellows that are making the big sums should contribute in a large way toward making this country strong. Now, I can't write a bill and I shouldn't have to, but I can have the feelings. I think one thing after another. I have been lucky enough, through hard work and by listening to my advisers to have been right up to now, and I think the biggest contribution that we can make toward national unity in making this nation strong is to go after these fellows that have been getting unduly fat out of the existing situation, no matter how it hits them. Now, that is principles. It isn't law.

Sullivan:

I am in thorough accord with that principle, Mr. Secretary. There isn't any doubt about that at all, and if this proposal goes through with these surtax rates - you speak of a fellow getting fat. A corporation doesn't get fat. It has to distribute those funds and that fellow is going to get it and he is going to get an awful sock.

H.M. Jr:

Well, John, but you do. You let the corporation get fat because it doesn't begin

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to pay until its earnings exceed the '36 to '39 basis.

Sullivan: It doesn't being to pay in excess profits.

H.M.Jr: That is right.

Sullivan: But it pays a corporate tax, and then it pays out its dividends, and the people who own the corporation then pay through the nose.

H.M.Jr: It may pay out the divididends; it may.

Sullivan: Well, we haven't any evidence yet that they have failed to do that.

Foley: We have got Viscose, with sixty-five million dollars of accumulated surplus. They weren't paying out the dividends.

H.M.Jr: Well, the point - what I think is going to happen, what it looks like to me is this, that if we go to 30 percent and all this other, you have got General Motors and U. S. Steel, Chrysler, up to a certain point, but then the jump from there on this year isn't going to be like what I think it should be. It looks to me as though their increase is very small. Is that right or is that wrong?

Tarleau: I think that is right.

H.M.Jr: General Motors' and Chrysler's and DuPont's and those companies'.

O'Donnell: First quarter Chrysler earnings are down from last year quite radically. They are down, I think, in the neighborhood of fifteen million to about nine million,

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but personally, I can't reconcile it with their great increase in unit sales, and I think there are some charges in there that are perhaps quite different from last year.

General Motors shows the reverse picture.

H.M. Jr: And so does U. S. Steel.

O'Donnell: And shows they are advancing up.

H.M. Jr: John, that is the point, you see, and if, for instance, U. S. Steel and those others will show twenty-five, fifty percent more earnings this year than they did last year and we sit here and don't take as much of the increase in '41 calendar as we did in '40, I think it is a weak link in our armament.

Sullivan: Then the thing for us to do and the only way we can get United States Steel is to abolish the invested capital and then they have to pay on whatever their increase is over the base period here.

H.M. Jr: But you see, John, here is the thing. All I am asking to do is, for you or me--

Sullivan: Yes, sir.

H.M. Jr: I agree with you we should warn the fellows. You get in touch with them and tell them just how I feel. I don't want to be dragged into the technical discussion, but I am more than willing Monday to go up there and talk about principles, and if they say, "Why didn't you say this thing when you were up here two or three weeks ago," couldn't I say, "Gentlemen, to be just as frank as I know how, I wasn't wide enough awake to the situation then, and I didn't realize

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it until these returns came in and this thing has been brought to my attention. Now I know. Maybe I should have seen it two weeks ago. What of it? I didn't know that defense was going to be forty billion dollars last June or July and nobody else did. I didn't know that Greece was going to fall, either, or Yugoslavia, or Rumania. And nobody else did. But I see it now, and I want to say it."

Let me say it. But put them on notice this afternoon, will you, John?

Sullivan: Yes, sir, I will.

H.M.Jr: That certainly on the principles you and I must see eye to eye.

Sullivan: Absolutely, sir, and--

H.M.Jr: And I would love to say it on Monday.

Want to say something, Tarleau?

Tarleau: No. I think - if I may just give a personal word about this thing, I think your position is as defensible now as it was when we argued the thing out last June, John. I think the Treasury bill that we put up there last June and on which we got licked was a bill that we can, with good conscience, go up there and work for. I don't think the issue is as completely black and white, however. I don't feel, personally, it is as completely black and white as Harry and the Secretary and Ed feel about it. I think they have a good many arguments on their side of the picture. But if the Secretary, having heard both sides presented to him, wants to go up on the Treasury program of last June, we certainly have enough

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prepared to back him up on it. We have got enough right to go up there morally and legally, I think.

H.M. Jr:

Tarleau, again, I don't care whether it is last summer or the 1918 program or the 1941 program, but I see it clearly now. We have been wrangling around, and I have taken it out on myself and I have taken it out on John, but I see it, and I see how I feel.

Now, it is like any other situation. I shouldn't be Secretary of the Treasury if I knew how to write a tax bill. That isn't my job any more than I ought to know how to make out my own income tax. That isn't my job. I am here as the President's representative, and I know when I am saying it, if I could see the man, that he would be in entire sympathy, and I have seen these other things in time, and I see this clearly, and I don't have to run for reelection and that is why I can say, and these Congressmen who have to run for the next election won't say it - but I shouldn't know how to write a tax bill, and if these people say, "Well, how would you do it, Mr. Morgenthau?" all I can say is, "I know what I feel as far as principle, but it is your job, Mr. Congressman, plus your technical staff, to write this bill, if you agree with me."

Tarleau:

That is it, if they agree with you. The writing of the bill, Mr. Secretary, is secondary. That will be done, whatever the determination is. It has been done in the past. We did it last year, and we will do it next year, and--

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H.M.Jr:

That is the point. It is like my cousin, Arthur Goodhart, said last night, "The people in England, most of them, were delighted about the high taxes, it is such a relief. They don't any more have to worry about how they are going to keep their property." He said, "It is such a relief." He said, "It is one less worry we have. We don't have to worry. The Government takes it all anyway, so we can think about winning the war."

This thing, every single day I am impressed more and more that this country is not unified. The people haven't got their heart in this thing, and I don't see why they should have at the present time if - it is strictly Treasury business - we don't say to these corporations, "You have got to make even a bigger contribution of your earnings in the form of taxes."

Now, how it should be done and how the big and the little and all the rest of them can lie down in the same bed, I don't know, but there are enough people in this country smart enough who do know, who were trained that way.

Herbert?

Gaston:

I was going to say I objected to - I thought it was an error to say that the proposal of last year is as defensible now as it was last year. I think that is a woeful understatement. The situation is wholly different. The need is tremendously greater. We are engaged in a different kind of an effort, so much greater that it is totally different in kind and character, so we are facing a wholly different economic and

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political situation, so I would say that if there were any justification for this proposal last year, there is a thousand times more justification now. I wouldn't talk about being as defensible.

- Sullivan: If our problem is that every corporation making money shall pay a larger proportion of its earnings to the Government in taxes because of the present situation, and we want to avoid the inequities we know are inherent in either system, we have a very easy way of solving that problem, Mr. Secretary. All we have to do is put the regular corporate rate up to fifty percent or sixty percent or seventy percent, and we get that money, and it comes from every corporation making money.
- H.M. Jr: What is the argument against that?
- Sullivan: I don't know.
- Foley: There isn't any.
- White: It is right.
- Sullivan: And there isn't any "but" in it, Harry, and I am telling you that American business would gladly agree to a corporate rate of fifty percent with a repeal of excess profits.
- White: Well, there are so--
(Mr. Kuhn entered the conference.)
- H.M. Jr: I am sorry. Sit down here a minute. I want to talk to you personally. You had better get your hat because you are going to have to ride down with me. Do you wear a hat?

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- Kuhn: Yes, but it is not important.
- H.M.Jr: Get a hat. I will be leaving in two or three minutes. I want to tell you something.
- John, I wish either I did or didn't have a couple of hours. Maybe the fact that I don't - but what the hell is the matter with that?
- Sullivan: I don't know, sir. This thing started on the first of July. We had Randolph Paul and Ros. Magill and Carl Shoup down here and those men had spent years studying excess profits, and they gave you as their conclusion that there wasn't any such thing as a fair excess profits tax bill. We had to go ahead anyway. Every day I have done anything on excess profits or thought about it, I have become more and more convinced that it is impossible to have an excess profits tax that applies fairly and equally to everybody.
- White: There are two disadvantages to that that I think need be mentioned right at the start. One is, they may not distribute the dividends.
- Foley: Yes.
- White: That is the most important objective. How you raise the tax, that is enough to kill it, in itself, unless it is coupled with an undistributed profits tax.
- Sullivan: You are right about that.
- White: Therefore, unless you couple with an undistributed profits tax, that is out the

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window. Because it will aggravate people rather than cure it.

Secondly, and of secondary importance, is the fact that it doesn't have the same popular appeal, doesn't have the same - shall I say, the same arguments that appeal to the mass of the people as does the idea that you are going to tax excess profits very highly.

Sullivan: Then if it doesn't, Harry, it is our fault because the total number of companies that pay an excess profits tax this year will not be over thirty thousand and the total number that pay a corporate tax will be over a quarter of a million.

H.M.Jr: I think John is right.

White: I do too.

H.M.Jr: It isn't - well, after all, it is my fault that we haven't gone out and sold these tax programs to the country, because we have always had such a hodgepodge and it has been so damn complicated that you couldn't explain it, at least I couldn't.

White: I think there is more serious criticism of our policy than that matter and that is, if I may say so, the position that you have taken from time to time that you have been reluctant to sell tax programs, and I think more or less as time goes on, you back what you consider a good tax program.

H.M.Jr: Harry, I am glad you made the statement because it gives me a chance to answer you.

Up to this year I wouldn't have gone up and

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talked about three and a half billion dollars on my own, more or less, or the billion dollar savings, either. I mean, I have changed on the whole front. Let's be fair. And - I mean, I have changed as the situation has changed.

White: That is right. It is more--

H.M.Jr: I mean--

White: more urgent, more serious.

H.M.Jr: I have changed, and I haven't worried about what the other heads of the other financial agencies think or do, and I wouldn't have dreamt - was it you or Ed or somebody, when I was talking about the thing - yes, about the statement I was going to give. It was either you or Ed. "Well, you can't do this without showing it to the President." Which one of you said that?

White: We might both have said it. We both feel that way.

H.M.Jr: I am going to do it anyway, so I mean, on the whole business, as I feel the seriousness of the situation, I have tried to rise to the occasion, and the tax thing is only part of it.

White: I think that is a very fair statement.

H.M.Jr: So I mean, where I wouldn't have dreamt last year of going up and recommending a thing as drastic as this thing, I would do it this year because I don't care about the consequences personally any more. They are too unimportant. I mean, the thing is too big and it is too tragic. So the tax thing is only part of the whole

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change which I have gone through in the last two or three months. So I am still not going to recommend a definite program to Congress.

- Gaston: I think a flat corporate tax, say a percentage for everybody, would be a very hard thing to defend. It would be considered comparable to taxing the man who makes a thousand dollars a year fifty percent and the man who makes a million dollars a year fifty percent.
- White: It is not progressive in nature.
- Sullivan: Well, I don't think a corporation tax should be progressive, Harry.
- White: You could defend that on the basis that there is a progressive element in your income tax.
- Sullivan: You have a hundred shares of United States Steel through a corporation tax, and you pay just as much out of your interest in the earnings of that company as J. P. Morgan does if he has a hundred shares.
- Gaston: You can think of progressive from another point of view in relation to the earnings. The question of whether you want to tax a company that is making three percent on an investment, one half of their earnings and, at the same time, tax one who is making forty-eight and a half percent, one half of its earnings, and have that the only corporate tax.
- White: I think the Secretary's position, which I feel is just as important, and he makes it even more so, lies in the impact of the

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proposal which the Treasury could make setting forth those principles on the various elements in the public, the workers, the farmers and others, that it is extremely important when we are going to demand of them sacrifices, and sacrifices, when we are going to try as we should try to keep wages of labor down, when we are going to try to get them behind the Government's foreign policy, that you are able to come to them in their language and in terms which they understand, show that you are advocating at the same time the kind of sacrifices for corporations which they can understand, even though in your bill you have modifications which greatly iron out inequities and modify the basic principle.

In other words, I think in this particular consideration, as never before, the public must be won over.

H.M.Jr: John, let me leave it this way.

Are you through, Harry?

White: Well, I would like to see the Secretary go further. I personally don't feel it is a responsibility that he can pass on to an assistant secretary. I think the Secretary of the Treasury, in a matter of this kind, ought to go before the public and state what his idea is in principle. I don't mean in detail. That is your job.

H.M.Jr: I agree with you.

White: Either before the public or before Congress or before the committee. Confine himself to the principles and show that the Treasury

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is behind those principles, and then you can work out the details.

H.M.Jr: John, supposing you do this. Supposing you get these people and tell them that I have got some very definite ideas, that I started the other day when they came down here, but I got off on the wrong foot.

Sullivan: The same two men?

H.M.Jr: Yes. Let's say - if I say ten o'clock Monday, that means that the hearings might be postponed, but you know, after all, we waited week after week last year. They wouldn't move until the two experts, so to speak, were ready.

Sullivan: We won't have any trouble on that.

H.M.Jr: I don't want them to postpone the hearings, but I don't want to get back before, because I have just got to rest. If they don't want to postpone them, we could do it right after lunch.

Sullivan: All right, sire. Do you want me to tell them what your ideas are?

H.M.Jr: Yes, and I think of all the things which have come out, I think that idea of a higher corporate tax hooked up with an undistributed profits tax sounds to me like the most reasonable thing.

White: That is different.

Foley: You can do that and you can repeal your excess profits tax.

H.M.Jr: John, you and I are faced with this thing.

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They had another thing up on the pedestal, you know, this thing on airplanes at twelve percent, what was that?

Sullivan: Vinson-Trammell.

H.M.Jr: And when the thing got hot enough, it just melted, even though the great Louis Johnson had promised the airplane manufacturers of America twelve percent. It was so hot you couldn't touch it, you know. I mean, it was vested property, wasn't it?

Sullivan: That was before I got into it, almost.

H.M.Jr: It was considered a sacred thing, and we couldn't touch it. Now, this thing is wrong and the public and everybody else has got an idea of excess profits as something to do with the distribution of excessive earnings that doesn't work, just the way the Vinson-Trammell thing didn't work, and after thinking about it and everything else, why shouldn't we say so, and I think I am the person to say so. I don't think it is fair to ask you to say so.

Sullivan: I am not afraid of it.

H.M.Jr: No, I know you are not, but I mean, the last suggestion comes from you anyway, but I agree with you that these people should be on notice. I would love to put the President on notice. But I would rather wait a week and be blamed for waiting a week.

Sullivan: I don't think you need to concern yourself about that at all, sir, because a day saved now might cost a month and a half on

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the other end, and I don't think we should hesitate at all to ask for a postponement now of a day or three days or a week, and I am very sure that they would much prefer to have us discuss this with them and arrive at some conclusions rather than have us come up--

- H.M.Jr: I personally think the meeting should take place in the Speaker's rooms, with McCormack there and Doughton and Cooper. The fellow that has given me the most disinterested advice on the Hill has been Sam Rayburn.
- Sullivan: Now, John McCormack--
- H.M.Jr: I would rather have the meeting in Sam Rayburn's room because he has given me more disinterested advice than anybody else.
- Sullivan: Then after I see those two, I should get in touch with the Speaker and also with John?
- H.M.Jr: That is right.
- Sullivan: John was one of those who fought the undistributed profits tax most bitterly, and John last year, sir, proposed in committee that we substitute undistributed profits for excess profits.
- H.M.Jr: I feel pretty good.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 9, 1941

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Airplane Deliveries to the British

Summary

1. Shipments for the latest week reported totalled 106 airplanes. This is the second highest weekly total reported (141 being the highest, for the week ended February 15 by air and January 18 by sea).

2. In this week, 41 reconnaissance bombers were shipped. This is more than triple the average weekly shipments of these planes.

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Division of Monetary
ResearchAirplane Shipments to the British
(From January 11 to April 12 by sea
February 1 to May 3 by air)

Table A. - Shipments by Area

	Latest Week	Total Reported To Date
<u>To the United Kingdom</u>		
Bombers	10	81
Heavy bombers	1	9
Reconnaissance bombers (Lockheed)	38	138
Naval patrol bombers (Consolidated PBY)	1	33
—	—	—
Total to United Kingdom	50	261
<u>To the Middle East</u>		
Bombers (Martin 167)	10	111
Pursuit (Curtiss P-40)	15	240
Total to Middle East	25	351
<u>To the Far East</u>		
Reconnaissance bombers (Lockheed)	3	6
Naval patrol bombers (Consolidated PBY)	1	5
Pursuit (Brewster F2A)	0	82
Trainers (to New Zealand)	27	55
Total to Far East	31	148
<u>Totals</u>		
Bombers	20	192
Heavy bombers	1	9
Reconnaissance bombers	41	144
Naval patrol bombers	2	38
Pursuit	15	322
Trainers	27	55
Grand Total	106	760

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Division of Monetary
Research

Table B. - Total Shipments by Types

	Latest Week	Total Reported To Date
Boeing B-17	0	5
Brewster Buffalo (F2A)	0	82
Consolidated Catalina (PBV)	2	38
Liberator (B-24)	1	5
Curtiss Tomahawk (P-40)	15	240
Douglas - Boston	10	81
Glenn Martin Maryland (Martin 167)	10	111
Lockheed Hudson I	0	1
Hudson III	1	36
Hudson IV	0	18
Hudson V	40	86
Electra	0	3
North American Harvard II	<u>27</u>	<u>55</u>
Grand Total - All Types	106	760

Table C. - Plane Deliveries to the British by Weeks

Week ended	Bombers	Heavy Bombers	Recon- naissance Bombers	Naval Patrol Bombers	Pursuit	Trainers	Total
Feb. 8 *	17	-	5	3	-	-	25
Feb. 15 *	33	-	9	-	100	-	142
Feb. 22 *	30	-	5	-	27	-	62
Mar. 1 *	5	-	2	5	25	-	37
Mar. 8 *	13	-	3	3	10	-	29
Mar. 15 *	14	1	12	4	-	-	31
Mar. 22 *	5	-	12	2	22	-	41
Mar. 29 *	12	-	13	3	18	-	46
Apr. 5 *	15	-	6	7	73	-	101
Apr. 12 *	12	2	9	2	27	-	52
Apr. 19 *	6	3	14	4	5	-	32
Apr. 26 *	10	2	13	3	-	28	56
May 3 *	<u>20</u>	<u>1</u>	<u>41</u>	<u>2</u>	<u>15</u>	<u>27</u>	<u>106</u>
	192	9	144	38	322	55	760

* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending May 3 would report the shipment of planes by water for the week ending April 12.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

May 9, 1941

MEMORANDUM TO THE SECRETARY:

Weekly Report - Lease-Lend Purchases
(5/3 - 5/9/41)

Purchases to 5/2/41.....	\$ 1,916,619.83
Purchases 5/3 to 5/9/41.....	565,751.53

Total to 5/9/41.....\$ 2,482,371.36

<u>Requisitions Pending</u>	<u>Estimated Cost</u>
Cleared by O.P.M.	\$ 138,606,433.71
Awaiting clearance by O.P.M.	5,298,389.60
Total pending requisitions (Including steel, equipment, chemicals, etc.).....	\$ 143,904,823.31

Nine purchases (\$550,751.53) have been made this week for China Defense Supplies, Incorporated, and deliveries are now being made to ship scheduled to sail next week.

The President allocated \$118,800,074 on May 2 and authorized commitments for Metals, Road-Building Equipment, Electrical Equipment, and Chemicals and Acids.

Clifton E. Mack
Clifton E. Mack
Director of Procurement

May 9, 1941.

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

Today: Friday, May 9.

Time: 3:45 P.M.

Station: WRC, Washington, D. C., and National Broadcasting
Company, Red Network.

Program: "The Guiding Light"

May 9, 1941

Files

Mr. Cochran

Mr. John Russell of Honolulu called at my office yesterday morning just as I was departing with the Treasury group for hearings on the Stabilization Fund. He was then received by Assistant Secretary Gaston. Mr. Gaston spoke to me of this visit and gave me a memorandum thereon. In agreement with Mr. Gaston, I asked Mr. Russell to come to my office yesterday afternoon, which he did. He outlined the proposition which he had in mind. I asked him to give us a memorandum thereon, and arranged for Mr. Foley to receive Mr. Russell this morning. As we came out from this morning's Staff Meeting, Mr. Foley stopped by in my office to meet Mr. Russell. The latter left with us the attached letter addressed to me. Mr. Foley and I promised to study this and give Mr. Russell an answer on Monday or Tuesday next, since it appears that Sir Edward Peacock does not desire that the transaction be consummated unless the Treasury approves. It is my suggestion that we might desire to telephone Sir Edward Peacock before giving our final answer to Mr. Russell at Courtland 7-0640, New York City.



EMC:dm:5.9.41

May 9, 1941

Mr. H. Merle Cochran
 Technical Assistant to
 The Secretary of the Treasury
 Washington, D. C.

Dear Mr. Cochran:

I am digesting here the plan that I have in mind which will enable us to release certain shares of American companies in Hawaii owned by members of the Davies Family and their associates in England from control of the British Treasury.

I list here what I believe to be the shares involved but there may be a few less in each case:

Theo. H. Davies & Co., Ltd.	48 $\frac{1}{2}$	13,000 Shares Common
	66.38	4,338 " Preferred
Honolulu Iron Works Co.	34.39	9,864 "
Waiakea Mill Co.	54.18	4,063 "
Laupahoehoe Sugar Co.	98	9,800 "
Hamakua Mill Co.	45.36	6,431 "
Kukaiua Rancho Co.	16.66	260

A brief description of each company follows:

T. H. Davies & Co., Ltd. operates a merchandise business in Hawaii and Manila and manages Sugar Plantations and Ranches in both places. It also acts as fiscal agent of Honolulu Iron Works Co.

Davies & Co. own a majority of the shares of Kukaiua Rancho Co. and a minority interest in Honolulu Iron Works and Hamakua Mill Co. which combined with the holdings of the Davies Family gives control of both companies to the Davies interests. Davies & Co. own no part of Laupahoehoe Sugar Co. or Waiakea Mill Co. which are controlled by the Davies Family holdings.

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Honolulu Iron Works Co. operates a large merchandise business as wholesalers of Iron ware and plumbing supplies in Hawaii and in the Philippine Islands. Shops are maintained in Honolulu, Hilo, and Manila. The Company also controls a small shop in Sagua Le Grande, Cuba.

Waialakea Mill Co. operates a sugar plantation and mill adjacent to Hilo on the Island of Hawaii. Their annual production is approximately 17,000 tons.

Laupahoehoe Sugar Co. operates a sugar plantation and mill on the Island of Hawaii and has an annual production of perhaps 20,000 tons.

Hemauka Mill Co. operates a sugar plantation and mill on the Island of Hawaii with an annual production of approximately 14,000 tons.

Kukaiou Rancho Co. This is a small but profitable ranch on the Island of Hawaii with a herd of about 5,200 head of beef cattle.

The fact that the parent Company, Theo. Davies & Co., Ltd. control the management of the other companies listed results in a large amount of merchandise, insurance and commission business to Davies & Co. The association of all the units as at present is mutually beneficial to all the companies but is absolutely essential to the profitable operation of the parent Company.

It is my purpose to release all the shares listed for the largest sum I can arrange to raise; at the moment the outside figure is two million dollars.

I propose to raise this in a capacity as Agent under full powers of attorney, or as Trustee for all the English shareholders concerned -- they have agreed to this plan, and Sir Edward Peacock is also sympathetically aware of it.

Actually, I propose to obtain the money by pledging all the shares mentioned, together with a mortgage of the lands and properties of the Laupahoehoe Sugar Co. In this way it may be possible to raise \$1,350,000 and the other \$650,000 will be furnished by advances from Theo. H. Davies & Co. and the Honolulu Iron Works Co.

All the above shares will then be held by Laupahoehoe, or Honolulu Iron Works, or by Davies & Co. -- that detail has not yet been worked out, but the point is that after the deal is completed there will in fact be no change of ownership, for

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the Trustee or Agent will really represent the original ownerships. The difference will be in the fact that these securities will be held as collateral for a loan of two million dollars, which will be served and repaid by all of the dividends which remain after American income taxes to non-resident aliens have been withheld. We figure that it will take the English shareholders almost twenty years to pay off the debt and in this period they will get no income at all from their American investments. They will, however, be building up an equity in America and the protection thus afforded is sufficient warrant for their entering the deal.

I have worked earnestly to raise as much money as possible. The highest loan value obtained has been \$1,350,000, but we have added to that by committing the two companies to furnishing 650 to 700 thousand, as indicated previously.

The question is: will the Secretary of the Treasury look with favor on the transaction as outlined. I understand that it is not very different from the loan recently made by R.F.C. to the owners of Brown & Williamson Tobacco Co.

I am deeply obliged to you for permitting me to see you yesterday and for the privilege of arranging today's meeting for me.

Sincerely,

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 9, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

By appointment, Mr. Coyne, Financial Attache of the Canadian Legation, called on me at three o'clock today. He presented the attached studies which he has been making, one with respect to the Hyde Park Declaration of Policy and the other on U.S. Components of U.K. Orders in Canada. Mr. Coyne hopes to receive data from Ottawa early next week to enable him to complete a memorandum with respect to specific contracts which might be taken over under the Lease Lend Act. Furthermore, Mr. Clarke, the Deputy Minister of Finance of Canada, is expected to arrive in Washington on Monday or Tuesday next. Mr. Coyne hopes that we in the Treasury may have opportunity to study the attached memoranda and perhaps have a conversation with him before Mr. Clarke or he might take up the subject with Secretary Morgenthau. I promised to call Coyne on Monday or Tuesday with respect to our plans.



(Handed by Mr. Coyne, Financial Attache of the Canadian Legation to Mr. Cochran in the Treasury at 3:30 p.m., May 9, 1941.)

Washington,

May 8, 1941.

The Hyde Park Declaration of Policy

Canadian purchases in the United States required for Canadian production for the United Kingdom.

A large part of the drain on Canada's available U.S. funds has been caused by the necessity to make certain purchases in the United States of machinery, parts, materials, etc., needed in Canadian production for the United Kingdom. The President and the Prime Minister agreed at Hyde Park that, rather than have Canada continue to pay U.S. funds for U.S. goods to be supplied to Britain, the latter should obtain these goods under the Lease-Lend Act and forward them to Canada. Technical and financial details are now to be worked out.

In considering this matter it has become apparent that to attempt to deal only with specific individual articles in which the U.K. interest or title would be clear and continuous, would present many administrative difficulties and would cause much unnecessary work involving time, trouble, expense and delays for the procurement officials in the United States as well as for the Canadian and U.K. purchasing missions and the munitions factories themselves. It also seems that only about 50% to 60% of the amount involved could be dealt with on this basis and some other basis would in any event have to be found for the remainder. Moreover, while the principle that the Hyde Park agreement applies to purchases being made under uncompleted existing contracts in the United States has been recognized, it is a major task to arrange for the cancellation of hundreds of contracts and the substitution of more or less similar contracts by the U.S. War Department and other agencies.

It is accordingly suggested that this particular approach to part of the problem be not made, but instead that a simpler method be adopted with a view to the overall amount of these purchases rather than to individual items. Under this method, the United Kingdom would hereafter simply obtain under the Lease-Lend Act for transfer to Canada defense articles equal in value to the amount of U.S. funds paid out by Canada, or which otherwise would have to be paid out by Canada, for the purpose of producing war supplies for Britain. In this manner the full degree of the problem can be met, as is desired by all parties, but each individual article obtained will not have to be specifically identified and followed through to the finished Canadian product supplied to Britain. Moreover the Lease-Lend

- 2 -

machinery will not have to cope with hundreds of additional contracts, but can be concentrated on such larger items as will make up the total amount involved without regard to whether any particular item, considered by itself, is ultimately supplied to Britain or to Canada.

Canada will provide all possible information to establish the overall estimated amount of U.S. funds required to be spent on U.S. goods in connection with Canadian production for Britain.

COPY - dm

COPY
(Handed by Mr. Coyne, Financial Attache of the Canadian Legation to Mr. Cochran in the Treasury at 3:30 p.m., May 9, 1941.)

261

May 6, 1941

J.E.O.

U.S. COMPONENTS OF U.K. ORDERS IN CANADA

1. Available statistics are inadequate, particularly as to orders placed in the U.S. by private Canadian firms. Timing is based on scheduled delivery dates of the finished article in Canada. In certain cases the amount declared to be on U.K. account is simply a mathematical calculation based on the U.K. share of deliveries of the finished article - the actual machine tools, for example, cannot be divided physically in the case of a Canadian plant producing similar munitions for Canada and the U.K.; in many such cases the plant has a single order from the Department of Munitions and Supply, and the allocation of deliveries as between the U.K. and Canada is not finally settled, or is changed from time to time. The same applies to some extent in the case of the allocation of aircraft for the British Commonwealth Air Training Plan. (A small amount for Australian and New Zealand orders is included in the figures which follow.)

2. The most inclusive estimates include a large amount for components which cannot be specifically identified in any particular case. The totals are as follows, in millions of U.S. dollars, cumulative from May 1, 1941 to June 30, 1941, December 31, 1931 and June 30, 1942 respectively:

	<u>June</u>	<u>Dec.</u>	<u>June 1942</u>
Orders by the Government (already placed)	7	25	30
Orders by contractors			
(a) with existing U.K. orders	21	86	121
(b) assuming renewal orders	1	19	65
Allowance for price increases	<u>0</u>	<u>3</u>	<u>11</u>
	29	133	227
	—	—	—

The foregoing does not include any machine tools that may be required under extensions of the capital assistance and defence construction programmes that may be undertaken but are not yet determined.

- 2 -

3. The following estimates are more useful for present purposes, as being confined to readily identifiable components (but still subject to the qualifications mentioned in paragraph 1). Orders placed by contractors cannot be definitely classified as existing or future commitments, but this is probably very similar to the available classification between components of present U.K. orders in Canada and of expected renewal orders.

	<u>Cumulative totals</u>		
	<u>June</u>	<u>Dec.</u>	<u>June 1942</u>
<u>Machine tools</u>			
Government - already placed	4	10	10
to be placed (a)	0	3	11
Contractors - for present U.K.			
orders	1	3	5
for renewals	0	0	1
<u>Aircraft</u>			
Government - already placed	3	15	20
to be placed	0	0	0
Contractors - for B.C.A.T.P.			
present orders	0	5	10
renewals	0	1	2
for U.K. direct			
present orders	2	6	8
renewals	0	1	3
<u>Tanks, Universal Carriers, Mechanical Transport:</u>			
Government - already placed	1	2	2
to be placed	0	0	1
Contractors - present orders	1	11	11
renewals	0	10	31
<u>Summary of machine tools, aircraft and tanks, etc.</u>			
Government orders already placed	8	27	32
to be placed (a)	0	3	12
Contractors - for existing U.K.			
orders	4	25	34
for renewals	0	12	37
	—	—	—

- 3 -

Total orders already placed or required for existing U.K. orders	12	52	66
Total orders to be placed	<u>0</u>	<u>15</u>	<u>49</u>
Grand total	12	67	115
	—	—	—

In addition, estimates for iron and steel, petroleum and its products, and coal and coke are as follows (no distinction possible between existing orders and new orders).

Iron and steel	5	24	41
Petroleum and products	2	9	13
Coal and coke	2	9	14

TO:

The Secretary - 5/9/41

Senator Glass' office
called and said the
Banking & Currency
Committee would like
to hear you at 10:30
on next Monday or
Tuesday, whichever is
convenient to you -
on pending bill 1438
extending certain
powers of the R.F.C.

From: LIEUT. STEPHENS

JS

Note: The Secretary did not appear as the matter was
handled by the letter to Secretary Jones of 5/12.

May 8, 1941 ✓

or

May 9, 1941

From Mr. Bell:

Mr. Bell said Cong. Cochran called him and said he had asked Celes to appear before the Committee on Monday. Celes declined, said he would if he had to, but would make a frank statement. Celes said he wasn't interested in the stabilization fund but he did not like the devaluation power.

Cochran is going to try to get Anderson to withdraw his motion for Celes's appearance - if not

he will line up the
Democrats to vote
against it.

JR

PLAIN

London

Dated May 9, 1941

Rec'd 12:40 p.m.

Secretary of State,
Washington.

1835, ninth.
FOR TREASURY.

1. The approval by the Banking and Currency Committee of the House of Representatives of legislation to authorize the Reconstruction Finance Corporation to lend on security of British direct investments is as favorably commented on in this morning's press as would be expected. The TIMES city editor emphasizes particularly the time advantage because "it is much quicker and easier to arrange than an outright sale" and notes that the step "is in line with the series of recent measures that the United States have taken to accelerate the delivery of war supplies to this country".

The TELEGRAPH financial editors also emphasize the time factor, stating that the method, besides relieving the United States financial system of the task of absorbing large blocks of shares, should also benefit American industry by accelerating advances to Britain and consequently

-2- #1835, May 9 from London,

consequently speeding up the placing of British orders, the FINANCIAL TIMES quoting Reuter makes the same point in almost the same words,

The FINANCIAL NEWS points out that the measure tears through the Neutrality and Johnson Acts, but that these were both side-stepped by the Lease and Lend Act and pronounces the development as evidence of cooperation and a tribute to the "generous spirit in which the American administration has always met the problem of mobilizing our available dollar assets".

The DAILY TELEGRAPH states that the purpose of Keynes' visit is to establish a clearer definition what is to be included in the Lease and Lend Plan and has no direct connection with deals relating to direct investments. The FINANCIAL TIMES considers the House Committee's action as lending additional interest to Keynes' visit which it believes to be primarily concerned with lease and lend matters and with payment for current needs not purely of a war nature. This comment concludes; "Some quarters expect the emergence of some schedule of materials for inclusion under Lease-Lend from the talks. It is agreed on all sides that Mr. Keynes is a man of constantly fresh ideas whose freedom from any hidebound economic tradition fits him peculiarly well for the job

of

-3- #1835, May 9 from London.

of placing new suggestions before American minds to solve the common problem of financial cooperation under the new system now envisaged".

2. Two bank of England notices to banks are intended to close loopholes in the exchange control. One requires specific approval of all withdrawals from their sterling accounts by members of the British foreign service and forces serving in the United States, Canada and Newfoundland.

The other notice is worded as follows:

"All applications for foreign exchange or for the transfer of sterling to countries outside the sterling area by residents of the United Kingdom who on account of their nationality are exempt from certain defence (finance) regulations, must be referred to the Bank of England, this has been done in order to make it easier for banks receiving such special applications to take a decision as to whether or not they should be granted. In many cases persons of foreign nationality with funds in this country, on wishing to transfer, have made application direct to the Bank of England instead of going to their bankers. Cases have also been frequent of such persons keeping two or more banking accounts with different institutions

so

-4- #1835, May 9 from London.

so that it could never be definitely certain that all or any of their bankers were in possession of knowledge of what transactions were being effected".

The British Treasury has explained to the Embassy that this provides merely a change in administrative procedure deemed necessary to secure that when foreign residents in the United Kingdom have payments to make in their own countries (such as insurance premia, etc.) they shall use any available foreign exchange which is exempted by the concessions reported in the Embassy's 2014 of October 12, 1939, in lieu of obtaining permission to exchange or transfer sterling.

WINANT

RR

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 9, 1941

TO Secretary Morgenthau
FROM Mr. Pehle

You may be interested in the following:

Indo-China has substantial amounts of blocked funds in the United States. Under the arrangements now in effect Indo-China can get funds to pay for exports from the United States only by sending to this country strategic materials such as rubber.

There is now pending before the Foreign Funds Control an application to use \$460,000 of blocked funds to pay for the manufacture in this country of 50,000 trench mortar shells (81 mm.) ordered by the Government of French Indo-China.

On May 6, I had a conference with counsel for the exporter, Messrs. Briggs and Diggs of Culbertson and Leroy, and a Mr. Dodge who represents Lehigh Foundries, Inc., who are to make the shells. It was pointed out to me that the manufacture of such shells had been approved by the State Department and we were urgently requested to release blocked funds to pay for them. Mr. Dodge stated that he can obtain certain high-carbon steel necessary for the manufacture of these shells at the present time, but that if the steel is not taken immediately Lehigh Foundries, Inc., will not be able to get another lot at least until October. He went on to state that Lehigh Foundries, Inc., has a plant at Lancaster, Pennsylvania, which is equipped with gauges and tooling to make 81 mm. shells of the type in question and that at present the part of the plant equipped to make such shells is completely idle.

When I asked Dodge whether he had tried to obtain an Army contract to manufacture 81 mm. shells, I was advised "off the record" that he was not interested in an Army contract because the Indo-Chinese would pay him 50% in

advance and the Army would not. When I asked him whether he could not obtain adequate credit facilities on the basis of an Army contract he admitted as much but stated that he was sure the Army knew of the facilities which his company had available to make these shells, and that neither our Army nor the British had shown any desire to use his company's facilities for making this type of shell.

I indicated that in view of the nature of the transaction, this Department would not approve the use of any blocked funds for this purpose unless we received a written request from the Secretary of State that such a license be issued.

I am bringing this matter to the attention of Oscar Cox.



C O P Y

CULBERTSON & LEROY
Attorneys and Counsellors at Law

Colorado Building
Washington, D. C.

April 30, 1941

Mr. Charles P. Curtis, Jr.,
Department of State,
Washington, D. C.

Re: Indo-China Funds

Dear Mr. Curtis:

The American authorities have allotted to Indo-China production capacity to produce arms to the value of approximately \$1,200,000.

As I have said to you, these orders were placed with American manufacturers at least on the belief,--we thought on the understanding,--that these and subsequent orders for arms would be paid for out of the blocked funds which belong to Indo-China. Unfortunately, decision has been delayed upon this point.

In the meantime the Indo-China Government, under the necessity of meeting its urgent need as well as its obligations to American manufacturers, has been compelled by the delay in the American Government's decision in the matter of blocked funds to use approximately \$700,000 of free funds to make the payments for arms.

In this connection we were gratified to learn that in a conference in Mr. Acheson's office the assurance was given that when the present free funds are exhausted the Treasury would release blocked funds to meet Indo-China's needs. It should be noted that, while there appears at present to be a substantial sum in the Free Account, this is not in fact the case since practically all of this account is earmarked for authorized purposes. See for example our memorandum of April 16, 1941. In addition to the items therein mentioned, the above-mentioned \$700,000 comes out of the present Free Fund Account.

In the meantime there remains unprovided for so far as financing is concerned the following P.N.R.'s: I-3 and I-4, amounting approximately to \$500,000.

In view of all the circumstances in this case, we express the hope that the American Government will authorize immediately the release of \$500,000 from the Blocked Fund Account to meet these payments.

Respectfully yours,

WILLIAM S. CULBERTSON

DEPARTMENT OF STATE
WASHINGTON

Refer to

April 17, 1941.

Re: P.N.R. No. I-4.

Dear Mr. Rondon:

In accordance with the procedure established for handling Preliminary Negotiation Reports, you are advised that the following report is approved as of this date:

Report No. I-4, involving 50,000 complete projectiles with American fuses for 81 mm. Mortars from the Triumph Explosives Company, the Pollack Manufacturing Company, and the Lehigh Foundries, Incorporated, subject to the following provisions:

- (a) That neither the delivery of orders nor allocations of the War Department relating to said company be delayed or affected by the aforesaid procurement;
- (b) That said contracts be placed within 45 days of this clearance;
- (c) That a copy of the procurement contract be furnished to the War Department for its files;
- (d) That there is no interference with current Navy procurement through the facilities involved.

Mr. Jean L. Rondon,
c/o Culbertson and Leroy,
Colorado Building,
Washington, D. C.

It is further recommended that the supply of
materials be limited to those sources not required
for United States defense purposes.

Sincerely yours,

Charles P. Curtis, Jr.

Charles P. Curtis, Jr.
Special Assistant to
the Under Secretary of State

C. GERARD DODGE
20 Exchange Place
New York

May
Seventh
1941

Mr. Paley,
U. S. Treasury Department,
10th Floor - Raleigh Hotel,
Washington, D. C.

Dear Mr. Paley -

Just a line to thank you for
your courteous reception yesterday and for the amount
of time you kindly gave the writer and Messrs. Diggs
and Briggs.

I still hope that it may be
possible for us to get the French Indochina order for
31's as we would like to put our plant in operation
while it is still possible to get the necessary com-
ponent parts without very serious delay and, of course,
we would be glad to get the advance payment of 50% and
the irrevocable letter of credit for the balance, which
they have promised to give us, in accordance with our
Letter of Intention signed some days ago.

Again thanking you for your
courtesy, I am

Very truly yours,

/s/ C. Gerard Dodge

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vicky

DATE: May 9, 1941, 3 p.m.

NO.: 520

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

The JOURNAL OFFICIEL has just published a law whereunder the Treasury is authorized to retire various bonds guaranteed by the Government which the Credit National had issued. The latter is a semiofficial organization which lends money to property owners so they can repair damages suffered because of military action. The amount of the bonds to be retired is 11 billion francs, and they carry interest rates of from 4 1/2 to 6 percent. The Treasury is authorized to raise the funds necessary for this operation by floating a 4 percent long term loan.

The estimate of the Ministry of Finance is that there will be a reduction of 250,000,000 francs a year in the public debt charges through this conversion operation.

This new law indicates that "easy money" conditions prevail in France at the present time.

It is the Embassy's understanding that a second long term issue, at 4 per cent, will be floated for the purpose of funding part of the floating debt if the above operation is a success. This second loan would involve between 15 and 20 billion francs, according to Guiney of the Foreign Finance Section of the Finance Ministry.

LEAHY.

EA:LMV

(Translation of code message received from the President of the Swiss National Bank, dated Zurich, May 9, 1941, by Mr. Cochran in the Treasury on May 9, 1941.)

H. M. Cochran

United States Treasury Dept. Wash. D.C.

CONSIDERING THAT SITUATION RENDERS IT ADVISABLE THAT WE HAVE REPRESENTATIVE IN THE UNITED STATES WE HAVE DESIGNATED FOR THIS APPOINTMENT OUR DIRECTOR VICTOR GAUTIER WHO WILL START AS SOON AS POSSIBLE STOP WE HOPE THAT NEW CONTACT WILL BE AGREEABLE TO YOU AND SERVE COMMON INTERESTS OF OUR COUNTRIES

WEBER

COPY:lep:5/12/41

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro, Brazil

DATE: May 9, 1941, 6 p.m.

NO. 1 286

The following telegram is confidential:

A telegram giving a report of a talk between our Minister to Canada and the Governor of the Bank of Canada has been received by the Department. The substance of this telegram is as follows:

Yesterday evening I was informed by Graham Tower that efforts were being made by the Canadian Foreign Exchange Control Board to persuade Brazil to accept sterling in place of American dollars in payment for the large amount of cotton which Canada is now buying from Brazil. No objection is being put up by the British Government in view of the fact that there is a shortage of sterling in Brazil. The sum involved would be large enough to affect directly the dollar exchange position of Canada. Tower told me that the competitive position between cotton from the United States and cotton from Brazil would not be affected in any manner by the currency of payment and that no efforts would be made artificially to divert future purchases of cotton by Canada from our country to Brazil.

It would be appreciated by the Department if the Embassy would transmit its comments on the above, particularly on the statement that there is a shortage of sterling in Brazil.

RA:EGG:MJC EA TA Ea HULL (POB)

EA:LMW

C
O
P
Y
4
THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Telephone: REpublic 7860

Box 680
Benjamin Franklin Station
Washington, D. C.

9th May 1941.

Dear Cochran,

We were asked the other day by Mr. Jones if we could let him have a list of British direct investments. I enclose a copy of the list which we are sending: it excludes insurance companies, since the Department of Commerce already have very full data about them.

Yours sincerely,

/s/ F Phillips

Mr. H. Merle Cochran,
U. S. Treasury,
Washington, D.C.

LIST OF BRITISH INVESTMENT IN U.S.A.

1.

Abington Textile Machinery Works
 Abnalla Corp. of America
 Ackroyd Bros. (Boston) Ltd.
 *A.C. Ainsley Packing Co. Inc.
 *Alabama State Land Co.
 Allen-Sherman-Hoff Co.
 Alliance Films Corp.
 Amalgamated Textiles Ltd.
 Amarel Co.
 American Association Inc.
 American British Chemical Supplies Inc.
 *American Development Co. of U.S.
 American Doucil Co.
 American Ecla Corp.
 *American Marsden Co.
 American Mat & Matting
 American Metal Co. Ltd.
 American Mining Co.
 *American Murex
 American Potash & Chemical Corp. (Del.)
 American Schuster Machine Co. Inc. (Formerly Smithdrum Schuster Machine Co.)
 American Thread Co.
 American Totalisator Co.
 H. Reeve Angel & Co.
 *Anglo-American Direct Tea Trading Co.
 *Anglo-Indian Investment Corp.
 Arkwright Finishing Co.
 *Arsaco Inc.
 Asbestos Cement Pipes Inc.
 Claudius Ash Sons & Co. Inc.
 *Asphalto-Concrete Corp.
 Associated Operating Co.
 Astra Bent Wood Furniture Co.

Atlantic & Danville Railway Co.
*Atlantic & St. Lawrence R.R. Co.
Atlantic Stevedoring Co. Inc.
Atlantic White Sea & Baltic Co.
Atlantis Sales Co.
Ayerst, McKenna & Harrison Ltd.
Ayres, William C. Jones, Inc. (Formerly S. L. Ayres & Co. Inc.)
Baird Television Corp.
Baker Perkins Inc.
Balfour Guthrie Co.
Jos. Bancroft & Sons Co.
Bank Line Oil Co. (Cal.)
Barker Bros. Silver Co.
Barry & Staines Linoleum Inc.
Bartholmay Co. Inc.
*Baxter's Leather Co. Ltd.
Bay State Stevedoring Co. Inc.
Beacon Realty Co.
Beecham's Pills Inc.
Bemax Laboratories Inc.
Bengol Trading Co. Inc.
*Jos. Benn Corp. (Previously called Greystone Mills Inc.)
F. W. Berk & Co. Inc.
J. Bishop & Co.
Henry Black Ltd.
Boosey & Hawkes Inc.
Booth American Shipping Corp.
Booth & Co. Inc.
Borax Consolidated Ltd.
*Border Line Transportation Co.
Bovril of America Inc.
Bowater Paper Co. Inc.
Bowring & Co.

Bradford Dyeing Association U.S.A.
Brandeis Goldschmidt & Co. Inc.
British American Fur Co.
British Ropes Ltd.
Jonas Brook & Bros. U.S.A. Inc.
Budd International Corp.
Euell Engineering Co.
Burberry's Ltd.
Burroughs Wellcome U.S.A. Inc.
Burt & Willis Inc.
W. J. Bush Citrus Products Co. Inc.
W. J. Bush & Co.
E. Butterworth & Co. Inc.
Cambridge Instrument Co. Inc.
Camp Bird Tunnel Mining & Transportation Co.
Casey & Casey Inc.
J. & J. Cash Inc.
Celanese Corp. of America
Chapel Donner Corp.
Chappell & Co. Inc.
Chevy Chase Land & Co.
*Cholmondley Realty Co. & Missouri Corp.
Ciro of Bond Street Inc.
*Civic Premier Pipe Co. N.J.
Clark Thread Co.
The Clark Thread Co. of Georgia
J. & P. Coats (R.I.) Inc.
Columbia Lace Co.
Combined Chemical Corp.
Commercial Molasses Corp.
Congoleum-Nairn Inc.
*Control Systems Ltd.
*F. W. Cook & Co.

BRITISH INVESTMENTS IN U.S.A. cont.

Thomas Cook & Son (Wagon Lita) Inc.
 William Cooper & Nephews Inc.
 Copeland Thompson Co.
 Cork Insulation Co. Inc.
 Cory Mann George Corp.
 Cosby Brush Co. Inc.
 Costa Rica Rly. Co.
 County Perfumery Co.
 Crittall Manufacturing Co. Inc. (Del.)
 Cross & Blackwell
 Crown Fastener Corp.
 Crown Mills
 *Dalraddy Ltd.
 Dampney Co. of America
 Danamith Corp.
 Darwin & Milner Inc.
 Theo. H. Davies & Co. Ltd.
 Davies Turner Co. Inc.
 Death Valley Hotel Co.
 Decca Records Inc.
 Deerfield Packing Ltd.
 Delta Planting Co.
 Delta & Pineland Co. of Mississippi
 Denston Felt & Hair Co.
 Dent-Allcroft & Co.
 Dentists' Supply Co. of N.Y.
 *A. W. G. Dewar Inc.
 Dick & Goldschmidt Inc.
 R. & J. Dick Co. Inc.
 W. B. Dick & Co.
 Distillers Co. Ltd. (Del.)
 Dixie Lumber Co. Inc.
 *Dodd-Simpson Press Ltd.

BRITISH INVESTMENTS IN U.S.A. Cont.

Dodwell Dock & Warehouse Co. Inc.
Dowty Corp.
D'Oyley Carte Inc.
Dufaycolor Co. Inc.
*Dunhill Razor Corp.
Duncan Fox Co. Inc.
Dunlop Tire & Rubber Corp.
*Durham Trading Co. Inc.
Ellerman's Wilson Line N.Y. Inc.
Ellis Silver Co. Inc.
*H.L. Eiterich Inc.
English China Clay Sales Corp.
J.C. Eno
Eneigh Bickford Ltd.
Escoese Finance Corp. Ltd.
Oscar Evin Inc.
Excess Management Corp. Inc.
F. & O. Standard Cedar Co. Inc.
*Fairbanks Gold Dredging Corp. Ltd.
Federal Composition & Paint Co.
Federal Debenture Co. Inc.
Fein & Co. Inc.
Fenchurch Export Corp.
Ferguson-Sherman Mfg. Corp.
Ferodo & Asbestos Inc.
Ferranti Electric Inc.
Alfred Fields Co. Inc.
Firth Carpet Co.
Firth Sterling Steel Co.
*M. Fisher Sons & Co. Inc.
Fleming Garless Lifeboat Corp.
*Ford City Machinery Sales Co.
R.T. French Co. & Atlantic Sales Co.

BRITISH INVESTMENTS IN U.S.A. Cont.

Thomas French & Sons Ltd.
 Prismar Inc.
 Fritz & Larus Inc.
 Funch Edye & Co. Inc.
 Furness House Inc.
 *Gasoline Anti-Oxidant Co. (Del.)
 *Gaspesia Sulphite Co. Ltd.
 Gausont British Picture Corp. of America
 General Register Corp.
 Genotherm Corp.
 Gerhard & Hey Inc.
 Anthony Gibbs & Co. Inc.
 W. & A. Gilby Ltd.
 Glendinning McLeich & Co. Inc.
 *Glow Investment Trust Ltd. U.S.A.
 Golf Ball Developments Inc.
 William Goodacre & Sons Ltd.
 John H. Graham & Co. Inc.
 Gregg Car Co. of N.Y.
 Gregg Car Co. of Del.
 Gregg Car Co. Panama
 Green Fuel Economiser Co. Inc.
 *Griffith Hughes Inc.
 *J.R. Guant & Sons Inc.
 Guiterman Co. Inc.
 H & B American Machine Co.
 Haffenreffer Brewing Co.
 H. Haigh & Co. Inc.
 *John T. Hardaker Inc.
 L. & C. Hardmuth Inc.
 T.B. Harms Co.
 Harriman Fifteen Corp.
 Harvester Office Co.

Havana Terminal R.R. Co. Inc.
Havana Central R.R. Co.
Hecht Levis & Kahn Inc.
*Heublein A-1 Sauce
John W. Higman Co.
The King & Harrison Plush Co.
E. & G. Hindle Ltd. Inc.
Holland & Sherry Ltd.
William Hollins & Co. Inc.
Hopes Windows Inc.
Horne Bros. Inc.
*Hotel Bermudina
House of Comoy Inc.
*Houghton Land Corp. Ltd.
Joshua Hoyle & Sons Ltd.
Hudson's Bay Co.
*Hudson Oil Co. Inc.
*Hun Glas Ltd.
Hunt & Winterbotham Mills Ltd.
Hunter Benn & Co.
Imperial Tobacco Co. of Kentucky Inc.
India House Inc.
*Innes Land & Lease Co. Inc.
Interlaken Mills
Innis Speiden & Co.
*International Ever Ready Co. Ltd.
International Paint Co.
Irwin-Harrisons-Whitney Inc.
M. & L. Jacobs Inc.
Jaeger Co. Inc.
Jessup Steel Coy.
Johnson Matthey & Co. Inc.
Justrite Co.

BRITISH INVESTMENTS IN U.S.A. (Cont.)

Jute Industries Ltd. Inc.
Kaylene Ltd.
Kensby & Mattison Co.
William Kenyon & Sons (America) Ltd.
Kern County Land Co.
Kern Oil Co.
*Kramer Gold Mining & Milling Co.
Kingan & Co. Inc.
Kistler Lash & Co.
Kohincor Pencil Inc.
Korena Airlight Quilt Co. Inc.
Lampson Fraser & Huth Inc.
LeHoi Co.
Lea & Ferrins Inc.
Lancock & Co. Inc.
Arthur H. Lee & Sons Inc.
T.B. Lee Inc.
Leeland Water & Land Co.
Lehigh Portland Cement Co.
William Liddell & Co.
Linen Thread Co. Inc.
T.J. Lipton Inc.
R.A. Lister
Lister Blackstone Co.
*Lithoprintex Corp. (Del.)
*London Bros. Ltd.
Longmans Green & Co. Inc.
Louisiana Tung Corp. (Del.)
MacDougalls of Inverness Inc.
*Mairs Investment Co.
*Marsali Estates Ltd.
Henry Matier & Co.
McComb Estates Corp.

McLaurin-Jones Co. of America
Macmillan Co.
Manila R.R. Co.
Matador Land & Cattle Co.
Mellins Food Co. of No. America
*Melling & Bevington Ltd.
Menley & James Co.
Mergenthaler Linotype Co.
Mersey & Hudson Wharfage Corp.
Metal Traders Inc.
Mexnorwest Holding Co.
Mica Insulator Co.
A. J. Mills & Co. Inc.
Mincing Trading Corp.
Missouri Kansas Pipe Lines Co.
Mitchell Hutchins & Co.
Moline Machine Co. Inc.
Monolity Portland Cement Co.
Morganite Brush Co. Inc.
Morton Sundour Co. Inc.
*Moull Products Corp.
Mountain Copper Co.
National Meter Co.
National Portland Cement Co.
Natural Chemicals Inc.
Nectar Wine & Liqueur Corp.
Thomas Nelson & Sons Inc.
Norma-Hoffman Bearings Corp.
North American Chemical Co.
North American Services Ltd.
North British Rubber Import Co. of America Inc.
North Georgia Processing Co. Inc.
O' Cedar Corp.

O'Cedar Holding Corp.
O'Konite Callender Cable Co. Inc.
Old Bleach Linens Inc.
Oldbury Electro Chemical Co.
Olympic Portland Cement Co. Ltd.
*Oxford Chemical Co. Ltd.
Pacific Coast Borax Co.
Pacific Commercial Cable Co.
Pacific Molasses Co.
Pantheon Oil Co.
*Paraguay Land & Cattle Co. Inc.
Parsons Marine Turbine Corp.
Patent Scaffolding Co. Inc.
Patons & Baldwins Inc.
Frank Patridge Inc.
Paulaboro Mfg. Co.
Fearce & Friedman Inc.
Fembroke Chemical Corp.
Fenfold Golf Balls Inc.
Pitman Publishing Corp.
*Pitter Trust
*Plews Oiler Co.
*Poors & Co.
*Potter Fine Spinners Inc.
Potter & Moore Ltd.
Pratt & Sons Inc.
Price & Pierce Ltd.
B. Priestley & Co. Inc.
Progress Petroleum Inc. (formerly Crusader Petroleum Inc.)
Pyrites Co. Inc.
*Radio National Corp.
Ralli Bros. Inc.
Ratsey & Lapthorn Inc.

BRITISH INVESTMENTS IN U.S.A. Coal.

Rawplum Co. Inc.
Beckitt (N.Y.) Inc.
Red Hand Composition Co. Inc.
Revertex Corp. of America
Richardson Scale Co.
*Rimmel Inc. N.J.
Ritchie & Janvier Co.
*Robb, Robertson & Birch Ltd.
Robinson, Butler, Hemingway & Co.
Roche Organon Inc.
*Roland Works Inc. (Wilmington)
Rolls Razor Inc.
Ross Bros. Inc.
*Roupy Models Inc.
Royal Society Inc.
Thos. M. Royal & Co.
Rycade Corp.
*Sahagi Corp.
Saint Louis Brewing Assn.
San Bernardino Borax Mining Co.
San Jacinto Land Co.
Sands & Co. Inc.
Scandinavia Belting Co.
Schiaparelli Parfum Inc.
J. Henry Schroder Banking Corp.
Schroder Rockefeller Inc.
Schroder Trust Co. N.Y.
Scott & Bowne
*Selby Valves Inc.
Selegna Petroleum Corp.
Arthur Seligman & Co. Inc.
Shell Union Oil Corp.
*Shield Developments Co. Ltd.

BRITISH INVESTMENTS IN U.S.A. Cont.

12.

Simons & French Co.
Smith & Nephew Inc.
L. Sonneborn Sons Inc.
Southland Cotton Oil Co.
H. R. Spandel Inc.
*Spear & Jackson Inc.
Spence Bryson Inc.
Spencerian Pen Co.
Spirella International Inc.
Spool Cotton Co.
Spratts Patent (Amer.) Ltd.
Constance Spry Inc.
Stanley Belting Corp.
Stein Brennan & Co.
*Stephens Estates Realities Ltd.
Sterling Offices Ltd.
*Stewart Orchard Co. (Operates in U.S.A. from Wisc.)
Stowell-MacGregor Corp.
Suckow Chemical Co.
Surpass Leather Co.
Sykes Inc. (Formerly Joseph Sykes Bros. America Inc.)
*Sylva Oil Co. Texas
*Talbot Non-Corrosive Ldg Co.
Tanners Trading Co.
Tannin Corp.
Tar Distilling Corp.
*Taylor, Law & Cartwright Ltd.
C. Tennant Sons & Co.
*Tennessee River Navigation Co.
Joseph Tetley & Co. Inc.
Texas Land & Mortgage Co.
Texas Mining & Smelting Co. (controlled by Cookson & Co. Ltd.)
Thermal Syndicate Ltd.

BRITISH INVESTMENTS IN U.S.A. Cont.

13.

Thomson-National Press Co. U.S.A.
 Tonopah & Tidewater Rlwy. Co.
 *Triplex Safety Glass Co. of North America
 *Turner Machine Co. Inc., Conn.
 Twenty-five Broadway Corp.
 Raphael Tuck & Sons Co. Ltd.
 Ulster Weaving Co. Ltd.
 United American Furs Inc.
 United Baltic Corp. Inc.
 *United Indigo & Chemical Co. Ltd.
 United Port Service Co. Inc.
 U. S. Borax Co. of W. Virginia
 U. S. Potash Co.
 U. S. Products Corp.
 Universal Gear Corp.
 Universal Pictures Corp.
 *Unwins Ltd.
 *Valleyfields Silk Mills Ltd.
 *Vickery Inc. U.S.A.
 Victaulic Co. of America
 *Wallbrook Tobacco Co. Inc. (Del.)
 Wander Co.
 Warner, William R., & Co.
 Josiah Wedgwood & Sons Inc. of America
 Wealey & Winter Inc.
 Weswin Holding Co.
 *Wessex Properties Ltd.
 West Coast Plywood Co.
 West Gas Improvement Co. of America
 *West Regent Oil Gas Co. Ltd.
 *Western Industries Inc.
 A. J. White Ltd.
 White, Lamb, Finlay Inc.

BRITISH INVESTMENTS IN U.S.A. Cont.

*B.J. Whitla & Co.

Benjamin Whittaker Continental Co. Inc.

Benjamin Whittaker Inc.

*Wilkinson Rubber Co. Ltd.

J.H. Williams & Co. Inc.

J. & R. Wilson Inc.

*Wirek

*Wireless Publicity

*Woodmore Producers Co.

Worcester Royal Porcelain Co. Inc.

Don Wuille & Co. Inc.

Yardley of London Inc.

York St. Flax Spinning Co. Inc.

* * * * *

Note: In all cases indicated by an asterisk (*) addresses are not known to date, May 7, 1941, and investigations for such are still being made.

TREASURY DEPARTMENT

295

INTER-OFFICE COMMUNICATION

DATE May 9, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
April 28	10,825	497,465	227,000	175,363
29	46,886	776,256	286,000	180,275
30	19,542	753,929	25,500	11,728
May 1	51,545	1,572,276	1,079,000	471,774
2	54,720	1,545,501	698,000	267,151
3	2,046	77,779	7,000	3,968
	<u>185,564</u>	<u>5,223,206</u>	<u>2,322,500</u>	<u>1,110,259</u>
February 11 Adjustment		100		
Sales from 2/22/40 to 4/26/41	<u>7,832,461-1/2</u>	<u>238,441,435</u>	<u>27,710,750</u>	<u>26,950,023</u>
Total 2/22/40 to 5/3/41	8,018,025-1/2	243,664,741	30,033,250	28,060,282

Miss Poate reported sales of non-vested securities for the week ending April 26 totaled \$500,000.

May 9, 1941

CONFIDENTIAL

Dear Mr. McKeen:

I have pleasure in acknowledging, on behalf of Secretary Morgenthau, the receipt of your letter of May 8, with which you enclosed your compilation for the week ended April 30, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,



E. Marie Cochran
Technical Assistant to the Secretary

J. W. McKeen, Esquire,
Assistant Vice President,
Federal Reserve Bank of New York,
New York, New York.

HMC:lap-5/9/41

C
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FEDERAL RESERVE BANK
OF NEW YORK

May 8, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing our compilation for the week ended April 30, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ J. W. McKeon
J. W. McKeon,
Assistant Vice President.

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

Enclosure.

COPY:mg:5/9/41

ANALYSIS OF RECEIPTS AND EXPENDITURES (IN MILLIONS OF DOLLARS)

Week ended April 30, 1941

OFFICE OF THE COMPTROLLER OF THE CURRENCY

PERIOD	DEBITS				CREDITS				BALANCE
	Total	Expands	Other	Debits	Total	Expands	Other	Debits	
First year of war (8/29/38-8/28/40)*	1,753.2	608.6	1,187.6	1,688.2	1,356.1	52.0	420.1	+ 35.0	866.3
1940	218.8	244.5	42.8	508.9	271.5	6.0	31.4	- 7.9	8.6
Avg. 29 - Oct. 2	196.7	169.8	26.9	198.5	160.5	6.0	32.0	+ 1.8	0.5
Oct. 3 - 30	197.7	169.8	26.9	198.5	160.5	6.0	32.0	+ 1.8	0.5
Nov. 21 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8
Dec. 28 - Dec. 31	234.5	206.6	27.8	189.0	111.4	25.0	60.6	- 36.6	2.1
The period through Dec. 31, 1941	2,782.2	1,452.6	1,356.75	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.5
Jan. 2 - 28	197.4	162.7	34.7	259.9	176.2	22.0	31.7	+ 62.5	1.7
Jan. 30 - Feb. 26	164.6	137.8	26.8	101.4	26.6	26.0	48.8	- 63.2	0.2
Feb. 27 - Apr. 2	229.7	167.6	38.1	237.9	103.7	72.0	62.2	+ 8.2	0.7
Apr. 3 - Apr. 30	126.0	101.9	24.1	218.9	125.6	15.0	78.3	+ 92.9	0.9
May 1 - May 28	-	-	-	-	-	-	-	-	-
May 29 - July 2	-	-	-	-	-	-	-	-	-
July 3 - July 30	-	-	-	-	-	-	-	-	-
July 31 - Aug. 27	-	-	-	-	-	-	-	-	-
Second year of war (8/29/40-8/27/41)	-	-	-	-	-	-	-	-	-
Avg. 28 - Oct. 1	-	-	-	-	-	-	-	-	-
Oct. 2 - Oct. 28	-	-	-	-	-	-	-	-	-
Oct. 30 - Dec. 2	-	-	-	-	-	-	-	-	-
Dec. 3 - 31	-	-	-	-	-	-	-	-	-
April 9	32.6	24.8	7.8	138.3	125.6	6.0	6.7	+105.1	0.1
16	29.2	23.8	5.4	69.0	-	2.0	47.0	+ 19.8	0.5
23	27.2	32.6	4.6	16.5	-	3.0	13.5	- 20.7	0.3
30	27.0	20.1	6.3	15.1	-	4.0	11.1	- 11.9	-
Yearly Expenditures Since Outbreak of War	\$19.6 million								
Transfers from Public Purchasing Commission to Bank of Canada for French Account									
Week ended April 30	27.6 million								
Commission from July 6	162.2 million								
For monthly breakdown see tabulations prior to April 23, 1941.									

Yearly Expenditures Since Outbreak of War \$19.6 million

Week ended April 30 27.6 million
 Commission from July 6 162.2 million

* For monthly breakdown see tabulations prior to April 23, 1941.

(a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition proceeds of official British sales, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Lorangeau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.

(c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently sterling dollar receipts.

(d) Includes payments for account of French Air Commission and French Purchasing Commission.

(e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.

(f) Includes \$2 million transferred from Yugoslavian account at this bank.

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC ANALYSIS

Week Ending April 30, 1941

Continued on Page 2

PERIOD	Transfers to		Total	Transfers from		Total	Transfers to		Total	Transfers from		Total	Net Invest.	Other	In Balance
	Official	Other		Official	Other		Official	Other		Official	Other				
1940															
Apr. 29 - Oct. 2	44.5	-	44.5	16.4	-	16.4	27.8	0.2	- 0.4	8.7	2.6	6.8	8.0	6.7	1.3
Oct. 3 - 20	86.7	-	86.7	28.6	-	28.6	14.8	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4
Oct. 21 - Nov. 27	30.8	-	30.8	35.2	-	35.2	8.5	3.6	+ 24.4	3.1	0.6	4.8	8.1	1.5	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	45.0	-	45.0	4.4	4.4	+ 18.6	4.8	4.8	4.8	4.8	4.8	+ 2.0
1941															
Jan. 2 - 28	23.7	-	23.7	23.9	-	23.9	15.0	2.0	+ 0.2	4.8	4.8	-	5.1	1.7	+ 2.0
Jan. 29 - Mar. 26	31.1	-	31.1	24.2	-	24.2	6.8	3.2	- 6.8	5.0	1.7	3.3	3.8	2.6	- 1.8
Mar. 27 - Apr. 2	60.9	-	60.9	48.0	-	48.0	18.1	3.8	- 14.9	5.8	0.8	5.0	15.7	1.8	+ 1.8
Apr. 3 - Apr. 30	34.9	-	34.9	35.9	-	35.9	12.5	12.9	+ 1.0	2.8	-	2.8	4.6	1.3	+ 3.1
1941															
Jan. 2 - 28	23.7	-	23.7	23.9	-	23.9	15.0	2.0	+ 0.2	4.8	4.8	-	5.1	1.7	+ 2.0
Jan. 29 - Mar. 26	31.1	-	31.1	24.2	-	24.2	6.8	3.2	- 6.8	5.0	1.7	3.3	3.8	2.6	- 1.8
Mar. 27 - Apr. 2	60.9	-	60.9	48.0	-	48.0	18.1	3.8	- 14.9	5.8	0.8	5.0	15.7	1.8	+ 1.8
Apr. 3 - Apr. 30	34.9	-	34.9	35.9	-	35.9	12.5	12.9	+ 1.0	2.8	-	2.8	4.6	1.3	+ 3.1
1941															
Jan. 2 - 28	23.7	-	23.7	23.9	-	23.9	15.0	2.0	+ 0.2	4.8	4.8	-	5.1	1.7	+ 2.0
Jan. 29 - Mar. 26	31.1	-	31.1	24.2	-	24.2	6.8	3.2	- 6.8	5.0	1.7	3.3	3.8	2.6	- 1.8
Mar. 27 - Apr. 2	60.9	-	60.9	48.0	-	48.0	18.1	3.8	- 14.9	5.8	0.8	5.0	15.7	1.8	+ 1.8
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Jan. 2 - 28	23.7	-	23.7	23.9	-	23.9	15.0	2.0	+ 0.2	4.8	4.8	-	5.1	1.7	+ 2.0
Jan. 29 - Mar. 26	31.1	-	31.1	24.2	-	24.2	6.8	3.2	- 6.8	5.0	1.7	3.3	3.8	2.6	- 1.8
Mar. 27 - Apr. 2	60.9	-	60.9	48.0	-	48.0	18.1	3.8	- 14.9	5.8	0.8	5.0	15.7	1.8	+ 1.8
Apr. 3 - Apr. 30	34.9	-	34.9	35.9	-	35.9	12.5	12.9	+ 1.0	2.8	-	2.8	4.6	1.3	+ 3.1
1941															
Jan. 2 - 28	23.7	-	23.7	23.9	-	23.9	15.0	2.0	+ 0.2	4.8	4.8	-	5.1	1.7	+ 2.0
Jan. 29 - Mar. 26	31.1	-	31.1	24.2	-	24.2	6.8	3.2	- 6.8	5.0	1.7	3.3			

REPORT ON MAIL RECEIVED FOR THE PERIOD MAY 9TH TO MAY 16TH

There is a marked increase in the mail urging that no convoys be supplied, and strongly anti-England and "keep out of war". Of the former, 26 plus several petitions signed by anywhere from 2 or 3 persons up to one with 5,000 signatures.

Pro-convoys and all-out aid 5 letters.
 Abusive of HMJr. -- signed, 2; anonymous, 5.
 Abusive of the President -- signed, 2; anonymous, 3.
 Will not buy bonds unless guarantee money not going to British - 3.
 Cut Government expenditures to the bone - 5.
 Stop strikes if you wish support of Administration - 3.
 Pro-Lindbergh - 3; anti-Lindbergh - 3.
 Spanish War Veterans protesting cut in pensions - 3.
 Cut in pensions for any Veterans - 1.
 Close CCC Camps, abolish NYA, reduce WPA - 3.
 For sales tax - 3; against sales tax - 2.
 For a Government lottery - 3.

Comments on Taxation

Suggested new taxes on bank deposits, revenue stamps on checks and documents; increase in postage; race tracks and bets placed there; cosmetics; all bridge rubbers played at clubs; bowling alleys; bachelors; a dollar a thousand on assessed value of land; minimum income tax on everyone; big corporations; used cars; fuel oil and gasoline; advertisements, and income tax of one quarter of one per cent on gross.

Many advocate pay envelope deductions; forcible savings of wage increases of defense workers; permission to pay income tax in monthly installments, etc.

Various writers urge that there be no tax placed on bank checks; musical instruments (which are as educational as books or maps); the poor and laboring classes; gasoline; second-hand or resale of cars; tea, and any food.

Comments on Bonds

Comment on bonds is in the main favorable, but a number reflect the anti-British sentiment, and others criticize Government spending, and the appeal to the public for further financing. There are many suggestions that bonds be issued to use in payment of estate taxes, income taxes, or in some way meet the needs of elderly people who would be buying annuities or investing for quick return. Several suggest that defense stamps be sold by retail stores where sales people could suggest that small amounts of change be made by stamps instead of in coin.

There was one letter urging that there be a general referendum on entering the war.

Quoted comments from a number of letters follow:

W. C. Desinger, Fort Wayne, Indiana, writes for 120 men and women in his business to convey the thought that this country should build a defense program with all possible speed, help England in every possible way, but absolutely and definitely take no steps that will involve us in war. "It is an abasement of the character and the spirit of the people of the United States to credit Hitler with being able to successfully attack our country. * * * It would be bad enough if circumstances compelled us to go into war. It is horrible to think we might go in voluntarily."

Letter enclosing a petition containing over 5,000 signatures of residents of Ohio, secured within ten days, says in part:

"We are definitely opposed to any measure which would directly or indirectly involve America in a foreign war. We hope and pray that you will use the influence of your high office to keep this great country out of foreign wars. We honestly believe that the welfare of the United States is more important than the defeat of any foreign despot, regardless how tyrannical.

For the benefit of America, let our own East Coast discard its inferiority complex, on the question of self-defense, which has been nurtured, more or less, by insidious British propaganda. In its place let them develop a state of MATURED AMERICAN SELF-ASSURANCE, which is held by the great majority of the people in our great country."

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People's Peace Committee, Baltimore, Md. Copy of resolution being widely circulated. War preparations have been made at behest of Wall Street. Secretary has recommended tax increase to fall on workers and middle class. Government should make Wall Street pay for Wall Street's war.

William L. Coff, Edgewater, Md. Circulated private questionnaire asking opinions on all out aid to England. Reaction was 75 to 1 in favor of it even if it led to open trouble with Germany.

Former Senator Edward R. Burke, Omaha, Nebraska. Anxious to mobilize public opinion in defense of "Right to work." Sends circular letter attacking C. I. O. labor policies.

Anonymous attack on Sydney Weinberg of Goldman Sachs, who sold public "cat and dog stocks" in 1929. Now promoted to be member of C. F. M.

T. H. Ressler, Rockville Center, N. Y. Strange the Secretary could be so ill-informed concerning way his idealist father and President Wilson were deceived and mocked by British Statesmen. How can Secretary allow himself to be tool in their hands when he should have settled score with men who deceived his father?

J. Baranowsky, Bridgeport, Conn. His child took contents of bank, about \$20, to post office to buy bond. Clerk told them to take money to bank and have counted and put in bills and then bring back. Can they make him do this? Why cannot U. S. officer accept U. S. money in any form?

Denton County Texas Farm Bureau. Members disturbed by clipping reporting Secretary's opposition to parity payments. He goes far beyond attitude of President. Secretary should be mindful of hardships on farmers which these payments only partially meet.

E. C. Blomeyer, Chicago, Illinois. Suggests that citizens who want to contribute beyond buying bonds be allowed to deduct gifts for defense from their income tax statements even if over 15% limit.

H. J. Devereaux, Ocean Beach, Calif. Spanish War Veteran. Has between four and five thousand dollars, which he will put into U. S. bonds when Government openly declares for aid to England. We are craven cowards if we let Germany beat England. If that happens, will feel United States not worth worrying about.

- 4 -

I. H. Hakdimen, President, City National Bank, Fort Smith, Arkansas. Sends copy of letter to Senator Bennett Champ Clark. Says best part of his speech, as printed in Congressional Record, that it did not occupy more space. Majority of Americans behind President. Greatest country has produced and no individual can affect this belief in him by such speeches.

C. C. Ferris, Saratoga Springs, N. Y. 80 years old. Nine people on pay roll. If tax bill goes through could not pay taxes from income and would shortly be bankrupt. This would throw his family and employees on relief. Begin to save where savings should begin, and that is Washington. "I am for the President and what he stands for 100%, but not for his ideas of finance."

W. P. Gaylor, New York City. A houseman at Pennsylvania Hotel. Suggests everyone sacrifice 25% yearly wages for all out aid to Great Britain short of war, but if worst comes we can face it.

"I. O. Lotts" San Francisco, Calif. New Deal having killed business and removed profits from security markets is now trying to float bonds. Remove fear and complicated restrictions, and bond markets and manufacturers will go ahead and make money for Government as well as individuals.

Amos Pinchot of New York City is circulating copies of his letter to Secretary Stimson on his call for convoys. Mr. Pinchot regards the Secretary as inadequately informed and actually distorting the facts.

Anonymous "Middle Class Tax Payer" We fear U. S. will go bankrupt trying to save the British Empire. "You are an honest noble man and in a hard position." Wish peace could be brought about now.

Randolph Smith, Owner, Diamond S Ranch, Terry, Miss. Receives beautiful bond folders and, like most Mississippians, approves virtues of savings plan. State is 90% agricultural, and in same mail as last pamphlet he received "dun" from Federal Land Bank, calling for 6% interest and repayment on money borrowed to save roof overhead. How does the Government reconcile its charge of 6% and the 2.9 interest paid, when it borrows from its citizens?

W. H. Hough, El Dorado, Kansas. Day our Government decides to use battleships to convoy supplies to England will buy \$1,000 bond, and will do so every six months as long as Navy is used. Does not want to see supplies bought with his money go to bottom of ocean. "I am a life long Republican. Let's get action."

- 5 -

William Low, North Hollywood, California. Manager of local branch of Bank of America advised his brother not to buy any amount of new defense bonds, saying that they were poor investment and he would have trouble getting money out of them. Writer a Catholic and American, a Democrat and member of labor union. "I think more of my country than I do of my money."

Sara S. Mathews, Reno, Nevada. Telegram. At request of Government, Americans turned in their gold. Why not now ask unions to turn in their reserves? Could give defense bonds bearing adequate interest for all money taken over.

A. J. Smith, Norwood, Ohio. Few ordinary people fail to practice thrift, so Government should not lecture them on doing so but should effect every saving possible before asking pennies, nickels, and dimes to support Government which continues W. P. A., etc. Commends Secretary's economy stand.

J. R. Reese, Nashville, Ark. Out W. P. A. Stop paying owners of large farms to cut production, which does not help small farmers. Strikes are treason at the present time. "I hope to hear that strikes are busted and that the C.C.C.s, W. P. A.s, farm payments and Soil Conservation are knocked into a cocked hat."

A. L. Campbell, Memphis, Tennessee. Would profit from parity payments as owns many Southern farms. However, urges President veto 85% parity bill. Farmers should not receive additional money from Treasury. Opposed to all appropriations not vital to defense.

Franklin R. Hyde, Pierre, S. Dak. Telegram. "Don't see how you can expect salaried class to save and invest in bonds when commodity markets and cost of living is booming daily as witness yesterday's wheat market."

By reference from the White House: 18 letters received from New York City (Bronx) regarding articles in the newspaper PM, and elsewhere, stating that the small wage-earner is going to bear the major portion of the 3 1/2 billion dollar tax bill because "the little person" is not being represented at the House Ways and Means Committee meeting. Urges President to act in favor of the poor people.

J. F. Forbush

May 9, 1941

MEMORANDUM FOR THE SECRETARY

General mail continues to fall in the two general classifications of comments on Administration policy in regard to war and comments on taxation and fund raising efforts.

In the first classification, mail during the week has included the following:

Violently abusive of the President, signed 9, anonymous 9
 Abusive especially against Great Britain and no convey 22
 Abusive on score of wasteful spending, need for economy 15
 Pro-Lindbergh 4 Critical of failure to help Greece, Slavs 4
 No bonds will be bought until strikes on Defense work stopped 3
 Freeze Axis funds 3 Embargo on oil 2
 Support England with convoys and war if necessary 3
 Abolish C.C.C., N.Y.A. 1 Support them 1 Abolish W.P.A. 3
 No justification warlike attitude toward Germany, America could
 make peace 2 Challenge to debate Secretary's policy dragging
 us to war 1 Watch Ireland and Irish here - will betray England
 if permitted 1

Several signed or included in comment "One of 85% who do not want to go to war." There must have been some poll or figure of the sort printed somewhere.

On income taxes and other taxes or fund raising for Defense:

Inquiries as to whether writer should sell securities to buy
 Defense Bonds 2 For sales tax 9 For lottery 7
 Approving regular salary deductions, special bank accounts or
 forced monthly deposits to provide for next year's income tax 11

Suggestions that additional taxes might be levied on the following:

All income taxes increased 5 Advertisements 4 Checks and business
 documents 2 Bank deposits 2 Radio 4 Labor unions 3
 Cosmetics, beauty shops or barbers 7 Dogs and cats 2
 Childless married couples 3 "Big business" 2 Liquor 2
 Coffee or tea 2 Also vehicles, department stores, luxury foods,
 vacant land, and confiscated taxes unpaid. Sales taxes on new
 models of automobiles only. Race tracks, ~~clubs~~ stores, alimony,
 lawyers, insurance policies, night clubs, bachelors, perfume,
 yachts, and small retail stores which send in no returns. One
 writer also suggested income tax on gross rather than net income,
 would prevent untruthful deductions for salaries, expenses, etc.,
 and catch the dishonest as well as the honest person.

- la -

Protests against increased taxes on the following:

Real estate, owners already the worst sufferers now 2
No tax on soft drinks 3 On any food 7 Small business 4
Coffee or tea 3 Pensions or annuities 8 Small investors 1
Middle class 9 Railroad workers 2 Married men with families 2
There were also 5 letters urging an allowance for legitimate
medical and hospital expenses.

General suggestions for raising money included:

Taking over life insurance companies for Government benefit; everyone
give a penny a day; a chain letter scheme; the coining of 1/2 cent
pieces for paying taxes on soft drinks, magazines, etc. Announce
a weekly collection of voluntary subscriptions to be deposited in
mail boxes and collected with some ceremony, newspaper announcements
of weekly total, etc.

It was also urged that retail stores be allowed to sell Defense
Stamps with purchases; that the stamps be given with purchases of
\$2 or more; that they be sold at drug stores, in coin machines, etc.
A number of writers urge that the Government accept Defense Bonds
and Stamps for income tax payments.

Gabriele E. Forbush

J. E. Smith, Salt Lake City, Utah: Americans would all be inclined to make sacrifices if they resulted in improvement of conditions among our own people instead of saving the British Empire. We are fed up with hysteria over a German invasion and threat of "war or slavery" which is very silly considering this country has twice the population and infinitely greater resources than Germany. From the very beginning the present Administration has sided with England and the President has surrounded himself with stooges.

A. J. Groseweiler, Brooklyn, N. Y.: Lives in German neighborhood and listens nightly to fanatical Hitlerites who predict people will soon be sick and tired of Roosevelt and his crew and will overthrow Government. Believes there are definite attempts to depress stock market as well as other propaganda activities. Has heard that Lindbergh is financially connected with German airplane building plants so why is he allowed to inspect Sperry plant in Brooklyn and other airplane factories to see latest designs and new gadgets.

B. Kuper-Smith, Dorchester, Mass.: Realizes strain and burden Secretary has borne. "I think you have done a swell job. Future historians will rank you with Alexander Hamilton as our greatest Secretaries of the Treasury." One grave problem has apparently escaped notice — liquidation of National banks. The Receivers appointed were usually politicians, anxious to prolong not expedite liquidation. In Massachusetts many banks not liquidated after ten years. Unless Secretary orders this done will be prolonged indefinitely. Mr. Kuper-Smith would invest any final dividends in bonds and believes others would do the same.

B. H. Davidson, Columbus, Georgia: W. P. A. worker. Painter at Ft. Benning. Willing to give day's work for his Country's defense. Thinks most W. P. A. workers would do the same. Would rather see his wife and two kids sit down to bread and water than for country to go back on President now.

Wm. O. Wilson, Attorney, Cheyenne, Wyo.: For years has bought Government bonds and urged for estates. Refers to Saturday Evening Post article intimating Jesse Jones considers Government bonds poor investment. If true, no wonder people fail to have confidence in U. S. bonds as outlet for savings.

Stanley Sperber, New York City: It is up to Secretary and his high priced experts to uncover British assets here. Believes these covered up by legal cleverness and blames Secretary for trend to war.

Louise F. McCann, Nutley, N. J.: For month she and sister trying to get beneficiary on bonds changed because of death of mother. Complied with requirements, sent affidavits of her death. Treasury said not sufficient -- wants Cashier of bank and Superintendent of Mails at Nutley to give additional affidavits. One Post Office official who gave affidavit employed

there 25 years. She, her sisters and these two men would have to give up day's work and salary to comply with requirements. Her mother was not owner of bonds, only beneficiary. She and sister have been buying one \$100 bond a month and plan to do so indefinitely. Are co-owners, and can see if either died other would be tied up instead of able to get funds easy. Last letter turning down evidence they sent of mother's death reached them day Defense Bonds went on sale. Incidentally, Treasury continues to use wrong address although notified several times of correct one.

Carley L. Hayden, Metacada, Oregon: 14 years old. Will put her savings into Stamps. Glad children of America can do their share -- and asks autograph.

Violet Richardson Ward, Berkeley, Calif.: At one time definitely against war. In view of developments of last two years goes on record as saying all possible aid to Great Britain even to extent of war.

L. W. McKeehan, Secretary, Department of Public Safety, Knoxville, Tenn.: "I beseech you as a conscientious American to again endeavor to extend economic blockades to Switzerland." The American public is sick of legal technicalities used to frustrate every attempt to employ economic weapon. How can Administration expect citizens to support bond sales and join the Army when Government still permits shipping oil to Japan, etc?

H. E. Clayburgh, San Francisco, Calif.: As investment broker, knows that few who have large fortunes have made provision for estate taxes. Heirs sell at sacrifice and blame Government. Those who lack this foresight usually have large life insurance policies or cash in bank. Suggests estate bonds payable in ten years, but that can be used for this purpose if buyer dies. Would move funds idle in banks and would also bring group of those 60 or over into the market.

Anonymous: Domestic servant writes that after working in German and Italian families in Jersey City she finds 50% of every dollar goes overseas to Hitler and Mussolini. They starve themselves and children to send money abroad. Can't this be stopped?

E. J. Tatro, Stillwater, New York: Sends snapshot showing buildings of C.C.C. camp practically in his side yard. Plenty of room in open country. Why crowd it in on citizen who wants to keep his home clean and decent? Noise, smoke, etc. very distasteful. Hard to stint to buy defense bonds when money spent extravagantly this way. Trying to raise 4 children on \$2,000 a year. If there were any attempt to help him, his money would go back into the Government in taxes and bond purchases.

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- 4 -

J. R. Brown, Fort Collins, Colo.: Time lost in strikes would have given England planes and ships. Will not buy bonds until Government puts end to unpatriotic strikes. Senator Clark of Missouri backed by 25,000 German and Italian voters in this State. Nye has a huge German vote behind him. Must convoy ships and enter war if necessary. Our day of isolation is gone forever.

W. A. Ross, Detroit, Mich.: "I have studied your tax plan and consider it very thorough and very fair to all of our citizenry." Delighted to see change in attitude of U. S. Chamber of Commerce, judging by remarks of new President.

H. J. Moody, San Francisco, Calif.: ("Never anonymous") You are quoted as asking how much it is worth to be a free man living in a free land. Where is the free man, and where is the free land? Certainly not Washington. When you show us a restored and liberated nation, free of political quackery, bureaucratic despotism and group pressure, all of us will go along with you, -but not now.

Norman B. Barr, Chicago, Ill.: "All success to you in your efforts to prevent the loading of the new taxes on the poor man's table!" As a Minister for 40 years, not in favor of promoting revolution by further expression of the masses. "I am in all sympathy with the President and his cabinet, as they seek to serve all the people all the time."

Mehitabel Perkins, New York City: Has received many "charming letters" about bonds, but has traveled widely last years and has seen so many wildcat schemes started and abandoned, so many miserable slums near extravagant public buildings and so many political parasites that has completely lost confidence in business management of Administration. Is willing to deprive self of comforts in old age for Country's defense, but not for Florida Canal, or other reckless and unnecessary spending. For the President to talk "thrift" makes one laugh - or perhaps weep. Must have guarantee money used for defense only. Otherwise, will continue to keep money in stocking, which is just as sensible as to bury gold in the ground.

Anonymous, S.S. Shawnee, Clyde Mallory Lines: States German sympathizers and spies about to report activities of our Navy or Air Force. Boat travelling between New York and Jacksonville-Miami, and communists and German sympathizers in crew have excellent opportunities to see what U. S. is doing and free of all supervision which would check their passing on valuable information. Officers are blind to what is going on.

E. Kuehl, Berisford, South Dakota: How about issuing bonds to make good Government defaults to farmers on hog processing tax. Has \$2300 coming and until he gets it will not invest in bonds. So far as one crippled hog producer goes, bonds will have tough going.

C. H. Lee, Palos Verdes, Calif.: Would be interesting to have answer to question: When a country repudiates its promise to pay interest on its bonds in gold, why should we depend on its promise to pay either principle or interest on such obligations as we are now being called upon to buy.

Safe Deposit Associations are campaigning against the proposed tax on safe deposit boxes. The St. Louis group writes that the Defense Bonds circular speaks particularly of safekeeping facilities, indicating need of adequate protection for valuable property. The largest proportion of safe deposit box renters are people of average means who will simply give up boxes depriving the Government of revenue and jeopardizing the safety of their own bonds, etc. The Chicago, Illinois, Association requests reconsideration as does the Cleveland group which states an increased tax will actually cut the Government intake rather than increase it.

Louis M. Fleisch, Dentist, Topeka, Kansas: Urges high tax on soft drinks. Local soft drink manufacturers are protesting tax because principle consumers of soft drinks are children. Dr. F. says every child would be better off drinking milk any way, and suggests taxing drinks 5¢ a bottle. Also believes chewing gum, candy and sugar should be heavily taxed. "Only time there has been an appreciable drop in deaths due to heart disease and diabetes was in 1919 when sugar was 30¢ a pound."

Anonymous: Bought Defense Bond for \$750. Will sell it after 60 days as result of seeing Nazi film shown in Flushing, New York. Why does Government permit oil shipments to Japan and foreign propoganda here, and at the same time ask me to help oppose Germany?

J. D. Shatford, Railroad Owners Association, Washington, D. C.: Circularizing copy of letter to the President reminding him of enormous majority by which he was elected and stating that this was highest authority that he could have for active aid to Britain. Commends Willkie's support and says that recent circularization of 2,500 copies of article urging that Navy fight with England brought only one objection, and that from a German. Requests for reprints compelled him to print 2,000 extra copies all distributed to members of the Association who represent small investments and "Main Street."

J. T. Pedlechak, Pocatello, Idaho: Don't meddle with Spanish War Veteran's pensions. These should be increased rather than cut. Keep C. C. C. and give farmers more help rather than less.

J. O. Thompson, Iola, Kansas: American born, 66 years old, would like to buy stamps and bonds. Put out of small business by confiscation of stock by Pure Food officials. Later agreed unnecessary, but no restitution made. Lost properties when let tenants out of work stay without paying rent. Sold for delinquent taxes. Cannot get job or Social Security help. Meanwhile, Surplus Commodities Corporation shipped into community butter so rancid local food authorities said absolutely unfit for food. Asks how to get work or maintain small business with legal curbs, Government competition, and prejudice against age.

G. F. Wolfe, President, gas manufacturing company, Minneapolis, Minn.: "Here's one business man who is for taxes and more taxes." Sells punch cards, etc. Taxed 10 per cent under excise tax, repealed few years ago. Could stand 15 per cent easily and revenue would be over a million dollars.

Frank A. Harden, New York, N. Y.: Circular letter attacking Senator Pepper and stating that Americans expect President Roosevelt to keep his promise that we will not go into the war.

Americans United, Forest Hills, L. I.: Quotes President Roosevelt's assurance that boys will not be sent to foreign wars, and asks all citizens to oppose in every way the war mongers who are urging convoys, etc. "The preservation of the British Empire is not worth the life of one American soldier."

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 9, 1941

TO Secretary Morgenthau
FROM Alan BarthTHE PRICE OF SECURITYShift

The impact of events abroad has produced a mass migration in American opinion. It is not only that individuals and groups have shifted in relation to one another; the whole body of opinion has moved, so that the foreign policy issue is now viewed in a quite new atmosphere.

The old definitions no longer obtain. Today's isolationist follows the precepts of yesterday's interventionist. He favors ineffectual intervention. So intransigent an opponent of the Lend-Lease law as The Chicago Tribune, for example, recently suggested, as a preferable alternative to convoys or patrols, American delivery of goods to Iceland for transfer there to British vessels. At the same time, those who not long ago were labeled interventionists because they endorsed aid to Britain as a means of avoiding war for the United States, have moved forward to a demand for convoys; some, indeed, no longer shrink from shooting.

In respect to the great bulk of the public, never properly identifiable as isolationist or interventionist, the shift appears to have been one of emphasis: from an insistence that Hitler be

defeated by methods short of war, it has turned to a simple insistence that Hitler be defeated.

Gallup polls, Fortune polls, newspaper editorials and radio comments combine to substantiate the generalization that the popular attitude is neither defeatist nor complacent over the chances of an Axis victory. There is no geographical sector of the country where the newspapers do not preponderantly urge more effective aid to Britain. The large metropolitan dailies have taken the lead in pressing for more militant action; but a majority of the papers in smaller cities and rural areas show a tendency to follow with increasing vigor. This demand for forthright intervention, it should be noted, is made alike by liberal journals which have consistently supported the New Deal and by a large portion of the conservative press accustomed to denounce this Administration and all its works.

This community of viewpoint on foreign policy is made manifest also in the composition of committees formed to promote more militant governmental action. If, as has been charged, the Committee to Aid the Allies is chiefly representative of conservative interests, the newly formed Union for Democratic Action is headed exclusively by noted progressives and proponents of economic and social reform.

The latest Fortune Forum of Executive Opinion shows unmistakably that big business, which has been the source of appeasement in other lands, indulges in little of that sentiment over here. Of the business leaders polled, 36.5 per cent foresaw costly armaments as

the result of an Axis triumph; 22.6 per cent anticipated eventual war with the new "Nazi order"; 25 per cent predicted continuous conflict and economic chaos.

In the available indices to public opinion there is no indication that the isolationists have gained any ground whatever in convincing America either that the Axis is unbeatable or that it presents no menace to this country.

Strategy

The failure of the isolationists to establish either of these theses has led them to concentrate on a somewhat more subtle and perhaps more dangerous form of attack. They are seeking -- and with some degree of success -- to make the choice before the country appear to be one of war or peace, rather than a choice between defeating Hitler or permitting him to triumph.

This strategy is implemented by three devices: (1) President Roosevelt's pre-election pledges to avoid military, naval or aerial involvement in the war are incessantly reiterated. (2) Measures which the President takes or may take to defend American security are called offensive and violative of his pledges. (3) The implication is sedulously fostered that the Administration, through these measures, aims to trick the country into war by deliberately provoking Axis retaliation.

By putting matters in this light, the isolationists capitalize on the natural and strong American aversion for war and seek to

disregard the even stronger American aversion for the "new order" of the Axis. Anti-administration statements stress the fact that a Gallup poll recorded 81 per cent of the public opposed to war at this time, overlooking the infinitely more significant fact that the same poll recorded 68 per cent in favor of American belligerency if it appeared certain that no other means would encompass an Axis defeat.

Awakening

Patently, a high degree of uncertainty prevails among the American people. They are willing to pay whatever price may be necessary to bring about Hitler's downfall; but, of course, they would like to make the purchase as cheaply as possible. They simply do not now know what price must be paid.

There is a rapidly growing awareness that the present price is insufficient. The recent measures taken by the President to implement American intervention have been generally, yet unenthusiastically, applauded. Patrols, ship seizures, the mobilization of shipping, machine tools and skilled labor, the 24-hour operation of plants have all been accepted as steps in the right direction. More such steps -- the freezing of Axis funds, embargoes and preclusive buying -- are widely advocated. But there appears to be no popular conviction that, of themselves, these will accomplish the desired end.

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Recent speeches by members of the Cabinet have prepared the public mind for acceptance of the fact that more drastic action is required. But there is not likely to be a full acceptance of this fact unless the President himself declares it to be so. There is a general expectation that he will do something of this order when he speaks before the Pan American Union on May 14.

Analysis of the temper of the several means of public expression seems to warrant the prediction that the American people will demand whatever action the President declares to be necessary for the world-wide defense of this nation's security. Their united support can best be enlisted, however, through having action forced by them, rather than upon them. For the sake of morale, it would appear to be preferable to have the people push the President into danger than to have them pulled into it by him.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 9, 1941

TO Secretary Morgenthau
FROM Herbert Merillat

HEARINGS OF WAYS AND MEANS COMMITTEE
May 9, 1941

All witnesses who appeared today were protesting various increased or new excises proposed by the Treasury or Stam on gasoline, cigars, soft drinks, candy, admissions, film rentals and sporting goods. The protest against increases in the taxes on gasoline and cigars received the most sympathetic hearing of any, but there was insufficient comment by committee members to indicate where the committee stood. Doughton displayed impatience with the amount of time taken by representatives of the petroleum industry to present their case. In fact his attitude toward all the protests today was critical and unsympathetic. Remarks by Cooper and Treadway concerning the Henderson proposal of a 20% tax on automobile sales indicated that they had been impressed by Henderson's testimony regarding excises. With regard to the tax on cigars, Robertson developed the thought that an increase in the tax would react unfavorably on tobacco growers. A proposal to eliminate taxes on certain sporting goods seemed not to impress any committee members favorably.

The Secretary of the Treasury, by this public notice, invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated May 14, 1941, and will mature August 13, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern Standard time, Monday, May 12, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be

opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on May 14, 1941.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

CONFIDENTIALSUMMARY OF STENOGRAPHIC TRANSCRIPT OF MEETING OF
PRICE ADMINISTRATION COMMITTEE

May 6, 1941

11:00 a.m.

Chairman: Mr. Henderson

Present: Secretary Wickard, Messrs. March, Knudsen, Ryder,
Clayton, O'Connell, Ezekiel, Pike, Snaughnessy,
Barnes, Weiner, Galbraith, Ginsburg, Thompson1. Organization

Mr. Henderson introduced Mr. Joseph Weiner, Assistant Administrator in charge of Civilian Allocation, and Mr. J. K. Galbraith, director of the Price Division, and announced that, in addition to the office of General Counsel, there are two other operating divisions in OPACS--Consumer Protection, directed by Miss Elliott, and Civilian Supply, for which a director has not yet been named. He also announced that Mr. R. E. Thomson is to be his assistant to act as contact between him and members of this committee.

2. Cotton yarn

Mr. Henderson reported that representatives of OPACS had met with some of the cotton yarn producers last week. The manufacturers admitted that prices had gotten out of hand, claimed that the fantastic prices being charged by jobbers are the result of bidding on the spot market since most of their current production had been sold at lower prices four to six months ahead. Canvassing of OPM's Purchasing and Production Divisions established that better planning of the Government's purchasing would iron out some of the peaks in ensuing months, that schemes have been worked out to increase the number of spindles available for yarn and that pressure had thus been eased in that direction. Mr. Henderson said that fair prices would be worked out and discussed with the 12 important cotton yarn producers, after which they would be published as suggested prices.

3. Tax testimony

Mr. Henderson indicated that, in his testimony before the Ways and Means Committee on May 7, he intended to stress the importance of having the tax program geared to assist in the necessary diversion of materials from consumer durables to defense use, rather than having the excises fall too heavily on consumer commodities

such as cigarettes, cigars, distilled spirits, gasoline, soft drinks, telephone bills, admissions, etc. To implement this policy, taxes should be increased on automobiles, refrigerators, washing machines, rubber tires and tubes, etc.

Mr. Ezekiel questioned the desirability of taxing used cars since such a tax falls most heavily on low income consumers, but Mr. Henderson expressed his belief that as a matter of price control a proportionate tax must be imposed on second-hand cars.

4. Fats, oils, and drugs

Mr. Henderson reported that a ceiling for fats, oils, and drugs, involving a very large number of items, was under consideration because some of these items had increased as much as one or two thousand percent. The problem is further complicated by the increasing scarcity of bottoms, and speculation on the commodity exchanges. Secretary Wickard reported that, though no specific steps had been taken to encourage additional planting, the oils supply might be increased since the current flax planting is probably the largest on record and the soybean acreage is quite large.

5. Rubber

Mr. Henderson stated that both the supply and the price of rubber are causing concern and that a decision should quickly be reached on the synthetic rubber program. Mr. Knudsen expressed his belief that every rubber company should have its own synthetic plant. Mr. Clayton emphasized the fact that the rubber problem is principally a shipping problem, since production is at 100 percent in the Malay Straits and the Dutch East Indies. He indicated the magnitude of the shipping problem in that the 1941 requirements of nine strategic materials which must be imported are 9.8 million tons while normal importation is about 5 1/4 million tons. He added that unloading rubber on the Pacific Coast would save about 30 or 35 days but that it is problematic whether the railroads could handle the increased load.

6. Fuel oil

Mr. Henderson called attention to the possibility of specific shortages in oil (due partly to the diversion of 50 tankers) which may become acute by autumn and involve problems of price control, priority and allocation. He reported that the Maritime Commission, various agencies in the Interior Department, OPW, and OPACS are working on the problem.

Mr. Pike suggested that, because of both shipping and land transportation problems, 2 or 3 billion feet of natural gas might be brought from the Gulf Coast to the East by pipelines, which could be constructed in about 5 months.

The committee adjourned at 12:15 p.m. to meet Tuesday, May 13 at 11 a.m.

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended May 10, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	133,000 Bbls.	--	56,500 Bbls.	241,479 Bbls.
Crude -				
Blended or California High Octane Crude*	252,000 Bbls.	--	--	--
All Other Crude	--	--	--	68,885 Bbls.
Gasoline -				
Gasoline A**	--	--	--	26,298 Bbls.
Gasoline B*	105,000 Bbls.	--	--	--
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	793 Bbls.	--	--	112,036 Bbls.
All Other Lubricating Oil	44,437 Bbls.	--	1,350 Bbls.	90,441 Bbls.
Tetraethyl Lead***	--	--	--	--
Boosters, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	4,037 Tons
All Other Scrap	--	--	--	3,270 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
May 12, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

* Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

** Aviation Gasoline.

*** As defined in the President's regulations of July 26, 1940.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 9, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£39,000
Purchased from commercial concerns	£ 8,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Company.

Open market sterling was again quoted at 4.03-1/4. The only reported transactions consisted of £1,000 in sales to commercial concerns.

The Canadian dollar, which closed at 13-1/4% discount last night, weakened to close at 12-7/8% today.

The Cuban peso continued to move off from the current high of 2-1/4% discount reached on May 7. Today's final rate was 2-7/8%.

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

Swiss franc	.2321-1/2
Swedish krona	.2335
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency was quoted at 5-11/32¢, representing a further gain of 1/16¢. Sterling advanced 7/8¢ to 3.90-7/8.

We sold \$1,496,000 in gold to the Central Bank of the Uruguayan Republic, which was added to its earmarked account.

No new gold engagements were reported.

The Foreign Trade Statistics Division of the Commerce Department reported on May 8 that 464,600 ounces of refined silver bullion was shipped from San Francisco, consigned to Bombay, India. We were informed that this silver had previously been imported into this country from Canada around April 25.

In London, a price of 23-1/2d was again fixed for both spot and forward silver, equivalent to 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. 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, and was bought for forward delivery.



CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D.C.

May 9th, 1941.

PERSONAL AND SECRET.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Winston Churchill

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON MAY 7th. 1941.Naval.

During air-raid on Belfast night of May 5th/

May 5th two naval corvettes badly damaged and considerable damage done to merchant shipping.

2. Naval Boarding vessel mentioned in yesterday's summary has sunk.

3. His Majesty's Submarine Taku reports sinking enemy tanker north of Sicily.

4. On May 5th British Franconia 20,175 tons home-ward bound from Cape Town reported attacked by submarine 180 miles west of Free Town.

5. Military.
We have occupied H 3 station 28 miles west of Rutba.

6. Fao at the mouth of Shatt-el-Arab has been reinforced by our troops.

7. Royal Air Force. May 5th.
Medium bombers sank one enemy trawler and damaged another off Texel. Two are missing.

8. Night of May 5th/7th.
115 bombers sent to attack industrial area and shipyards at Hamburg; small numbers sent to Le Havre and Lorient. One aircraft missing.

9. Lybia. Night of 4th/5th.
6 heavy bombers attacked Benghazi harbour and enemy aerodromes. At Benina five aircraft including one or two Focke-Wolf destroyed. One aircraft missing.

10. Iraq.
Aircraft from flying training school successfully bombed gun positions, armoured cars and troops in Habbaniya area. Blenheim fighters on reconnaissance Mosul damaged two enemy aircraft.

11. German Air Force. May 5th.
A Kent aerodrome machine-gunned by ten enemy /aircraft

B.

aircraft. Over the channel during the day we destroyed one and probably two fighters and lost six fighters. Four pilots safe.

12. Night of May 6th/7th.

260 enemy aircraft estimated operating, of which 180 over Clyde-side and 80 over Liverpool area. Night fighters destroyed 8 and probably 2 more.

13. My telegram of May 6th. Paragraph 1.

Correction. Sudan Bay bombed on May 4th by 16 Junker 88's; our fighters and anti-aircraft destroyed one probably two, and damaged five.

14. Iraq.

On May 6th two Gladiators on the ground destroyed at Habbaniya aerodrome.

15. Home security. Night of May 6th/7th.

Considerable damage to property occurred in Greenock district of Clyde-side. Some damage done to John Brown's ship-yard and serious fire reported at Royal Ordnance factory Ardeer.

16. Attack on Merseyside concentrated mainly on Liverpool but did not assume serious proportions and no important damage reported.

17. On Tyne-side and Tees-side damage and casualties reported as slight.

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, May 9, 1941

TENTATIVE LESSONS BULLETIN
No. 102
G-2/2657-235

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-B-M.

TACTICS OF GERMAN INFANTRY AND ITS SUPPORT BY OTHER ARMSSOURCE

The information contained in this bulletin is from a German manual, translated and published by the British in September, 1940.

CONTENTS

1. TASK OF THE INFANTRY
2. INFANTRY TACTICS
3. COOPERATION WITH ARTILLERY
4. SYSTEM OF PLOTTING REFERENCE POINTS
5. INFANTRY PIONEERS AND THEIR COOPERATION WITH ENGINEERS
6. COOPERATION WITH THE AIR FORCE
7. ANTI-AIRCRAFT DEFENSE
8. COOPERATION WITH TANKS
9. ANTI-TANK DEFENSE

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RESTRICTEDTACTICS OF GERMAN INFANTRY AND ITS SUPPORT BY OTHER ARMS1. TASK OF THE INFANTRY

The infantry is the principal arm, and all other arms support it. It defeats the enemy by fire and movement. It breaks down the enemy's last resistance in the attack and holds out against his assault in the defense. The infantry carries the main weight of battle and suffers the heaviest losses.

The success of infantry depends upon its offensive spirit, which, in turn, depends upon confidence in its own arms. This spirit must be cultivated, and infantry tactics must be dominated by the will to advance and attack.

2. INFANTRY TACTICS

Both in the attack and in the defense, infantry tactics are based upon fire. Even in hand-to-hand fighting, results are speedily decided by bullets or hand grenades.

The object of infantry fire in battle is to overwhelm and destroy the enemy by establishing fire superiority. It is the duty of infantry commanders to bring about fire superiority by employing an appropriate number of weapons with sufficient quantities of ammunition, and by systematic fire control both as regards time and place.

In the attack, all fire - especially the concentrated fire of light and heavy weapons and artillery fire - must be exploited by infantry in rapid forward movements.

The most important part of all infantry training, from individual training to regimental training, is the use of fire. Mastery in the use of each weapon, cooperation of all infantry weapons, their cooperation with artillery in the attack, and the firm determination of each infantry soldier to utilize all fire support for advancing and to facilitate the advance by his own fire, are the principles of this training.

In the assault all arms develop their maximum fire power. Accompanying light machine guns advance to within a very short distance of the enemy and fire at the enemy immediately in front of them. Hand grenades are used to deal with enemy elements under cover. Armed with machine-pistols or rifles, platoon and section commanders lead their men forward. The enemy, if still resisting, is overpowered in hand-to-hand fighting. All forward zone weapons which are not engaging the point attacked bring fire to bear on the

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rear of the enemy's positions, or on the flanks if they are holding up assaulting troops. During the assault, battalion and company commanders place themselves at key positions.

Forward artillery observers accompany infantry in the assault. Some artillery sections prepare to move to their forward positions.

3. COOPERATION WITH ARTILLERY

Good liaison between infantry and artillery is of first importance. It is facilitated under the following circumstances:

- a. When the two commanders try to locate their headquarters in such a way that personal contact is possible;
- b. When the OP's and gun positions are immediately behind the infantry which they are to support;
- c. When signal communications have been established.

Light and heavy artillery batteries make use of their liaison detachments to maintain close contact with infantry. The liaison detachment of an artillery battery is usually sent by the battery commander to the point where artillery support is of the greatest importance and where direct observation can be of the greatest use in enabling the artillery to intervene rapidly. The liaison detachment is usually attached to the battalion which is to deliver the main thrust or which, in the defense, is to hold the position where the heaviest enemy attack is expected.

Cooperation between infantry and artillery is also facilitated by direct contact between advanced infantry elements and artillery OP's and forward observers. Arrangements must be made in good time for forward artillery observers to be attached to all attacking battalions.

The position of OP's must be known to all units. Infantry commanders and forward observers for heavy infantry weapons must establish and maintain contact with forward artillery observers in their sectors so as to coordinate observation, reconnaissance, and requests for fire support. Conversely, forward artillery observers must maintain constant touch with infantry in their vicinity.

4. SYSTEM OF PLOTTING REFERENCE POINTS

In order that targets may be rapidly indicated and fire from all weapons concentrated on certain sectors of the ground, important points are noted as reference points.

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The infantry reference points are described by the letter "I" followed by a number. These are known as "I points." The "I points" for use by a battalion are numbered from 100 to 199; those for use by a regiment from 200 to 299.

The allotment of reference points within the battalion or regiment is made by the battalion or regimental commander as the case may be.

"I points" for the machine gun company are the lowest numbered. The higher numbered "I points" are allotted to the other heavy weapons.

The infantry and artillery should know one another's reference points, and these should be coordinated.

5. INFANTRY PIONEERS AND THEIR COOPERATION WITH ENGINEERS

Infantry pioneer platoons must be provided in good time with any special materials which they may require, and they must be in a position to carry out their work with the simple tools at their disposal.

They can be used for the following work:

- a. Clearing roads and making temporary bridges over small streams;
- b. Constructing obstacles against enemy tanks and infantry;
- c. Constructing defensive works, light and splinter-proof shelters, OP's, obstacles, etc.;
- d. Removing enemy obstacles of all sorts;
- e. Clearing passages through obstacles and destroying embrasures when assault detachments attack permanent fortifications;
- f. Making arrangements for gas detection and decontamination of ground over small areas.

Engineers will be used to carry out more difficult tasks. They will be attached for a limited time to infantry regiments for such duties as removing mine fields and other extensive obstacles, building defensive works, giving support in attacks on permanent fortifications and strong points, and bridging streams. For more extensive work, labor corps units may be attached to engineers.

Engineers employed in a sector, even when they are not under the orders of infantry, must maintain contact with the responsible infantry commander and inform him of any important work which they are carrying out and which may affect the infantry.

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RESTRICTED6. COOPERATION WITH THE AIR FORCE

Radio communication with the air force is not possible unless the divisional signals battalion provides the infantry with the necessary radio instruments.

Direct communication between infantry and aircraft is necessary when aircraft are supporting land fighting. Aircraft attack enemy points of resistance, strong points, concentrations, and artillery positions with bombs and machine-gun fire for the purpose of destroying them and, at the same time, undermining the enemy's will to resist. The infantry must exploit such attacks rapidly and vigorously if it is to achieve its object. If aircraft are employed to support land operations, infantry first lines must be clearly indicated by ground signals without special orders at the time fixed for the air attack. If no time has been fixed for the air attack, the infantry must indicate its advanced line as soon as friendly aircraft appear.

Other ground signals for aircraft may be laid down by the higher command or they may possibly be arranged between the infantry and the air force direct.

7. ANTI-AIRCRAFT DEFENSE

All troops must be constantly ready to defend themselves against air attack. Although they may be ordered to increase their intervals and distances to reduce the effect of air attack, units must always remain under the immediate control of their commanders.

The battalion has in its machine guns and rifles the means of defending itself effectively against low flying aircraft. Infantry weapons are not effective against aircraft flying at high altitudes, but these will usually deliver attacks only when the battalion is passing through defiles, etc.

Machine guns and light machine guns are effective against aircraft up to a maximum range of 1,100 yards. If fire from the largest possible number of rifles is concentrated, it may be effective up to 550 yards, and frequently it obtains material and moral results which are more effective than those of machine gun fire.

When the rifle is used as an antiaircraft weapon, the rifles of a platoon or at least a section must be concentrated. Since the fire of a single rifle against aircraft is quite ineffective, it is prohibited.

If no decision has been made by the regimental or battalion commander, unit commanders decide the number of machine gun, light

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machine gun, and possibly rifle platoons which are to be used for antiaircraft defense.

The number of weapons to be allotted for antiaircraft defense depends on the likelihood of air attack, the situation, and the ground.

In battle, every platoon commander may utilize machine guns for defense against air attack when the situation and the task in hand permit. Section commanders may also order their sections to engage aircraft with their rifles.

If antiaircraft defense is to be effective, it is essential that all troops be warned in time of the approach of hostile aircraft; for this purpose it is essential to have trained personnel as air sentries. Air sentries report to platoon commanders whose responsibility it is to decide whether to give the order "Air Attack." When this order is given, personnel detailed for antiaircraft defense take up their positions and are themselves responsible for opening fire at the correct moment. Anti-gas measures are also taken.

If enemy aircraft are effecting a gas spray attack - and such an attack is possible only from aircraft flying at less than 350 feet - the order "Gas Attack" must be given. Troops adjust their respirators and protect themselves with their "gasplanes", which are anti-gas capes or squares of gas-proof material or paper. Personnel detailed for antiaircraft defense then engage enemy aircraft, leaving off their "gasplanes" if necessary.*

It is always essential for effective antiaircraft defense that each man know exactly what he is to do in the case of air attack.

*The British General Staff makes the following comment: Although the Germans appear to teach that gas spray is possible only from low altitudes, it is not safe to assume from this that medium or high spray will not be employed by them. It is interesting to note that they teach troops to adjust their respirators when sprayed. This may be to protect the eyes, but if so, action will not be quick enough to prevent drops entering the eyes and causing permanent blindness. The British teaching is that on no account must respirators be adjusted because there is no immediate vapor danger and because it is important to keep the respirator from becoming contaminated. Eyes should be protected with eyeshields. G-2.

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8. COOPERATION WITH TANKS*

Tanks generally attack in two waves. Usually the task of the first wave is first to destroy antitank guns and then to attack the artillery. The second wave attacks enemy infantry. In addition, detached tank units may be allotted to infantry regiments to break down rapidly any enemy resistance which shows itself after the attack by the second wave of tanks.

When an attack is to be carried out with limited tank support, tanks may frequently have to attack in one wave which must engage both enemy antitank defense and the enemy infantry.

Every effort must be made to ensure that a tank attack is a surprise attack in order to give the enemy as little time as possible to strengthen his antitank defenses in the sector attacked.

The moment at which the tank attack is to be launched depends upon which of the following methods of attack is chosen:

- a. Combined attack by infantry and armored formations to obtain a break-through;
- b. Attack by armored formations after infantry has penetrated into the enemy position with the object of converting the penetration into a break-through;
- c. Attack by armored formations without immediate infantry cooperation.

The essential characteristic of an attack with tanks is mutual support by infantry and tanks. Apart from the greater importance of neutralizing antitank weapons, infantry carries out an attack with tank support on the same principles as an attack without tank support. The paralyzing effect of tanks breaking into the enemy's defense must be utilized by the infantry as quickly and as boldly as possible for its own advance.

The advance of the second wave of tanks against the enemy gives the infantry fresh support which may be particularly effective. The infantry should effect its break into the enemy positions with this second wave at the latest. So long as it possibly can,

*According to the British General Staff, the Germans pay particular attention to avoiding loss of surprise by drowning the noise of their own tanks with the sound of artillery fire and low-flying aircraft. G-2.

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Infantry should keep well up with the second wave, taking full advantage of its support to destroy the enemy, and thus achieve a break-through.

In an attack with tank support, infantry must be particularly careful to guard against enemy weapons firing from a flank of the sector to be attacked, for this flanking fire may separate infantry from tanks. For this reason it is generally necessary to allot to certain heavy infantry weapons and certain artillery on the flanks of the attacking tanks the task of neutralizing any such flanking fire.

If the infantry is separated from the second wave of tanks, it will continue the attack with the support of the tank unit attached to it. This unit will move, as ordered by the regimental commander, either as a complete unit under the orders of its own commander, or by sections attached to battalions, either with or immediately after the leading infantry units. At the same time advantage of the ground should be taken so that the advance of the infantry can be observed. If enemy resistance holds up the infantry advance, the tank company or sections of it - either on its own initiative, at the request of the infantry, or on the order of the regimental or battalion commander - goes forward and destroys the enemy by fire at close range. These tanks then wait until the following infantry comes up.

If the infantry loses contact with the tanks, it must continue the attack alone.

Ground unsuitable for tanks or enemy antitank defenses - in particular antitank obstacles - may make it necessary to hold back the attack by armored formations until the infantry has broken into the enemy lines.

Tanks can also be employed without immediate infantry cooperation to exploit certain favorable opportunities. These opportunities may arise particularly when the enemy is fighting a delaying action, in the pursuit, and in the retreat. Tanks can then attack without waiting for the infantry, utilizing their speed to the full.

Close liaison between tanks and infantry is a necessary condition for the effective cooperation of the two arms. The following measures should be taken:

- a. Pre-arrangement of a plan to be drawn up as soon as possible between the commanders of the two arms;
- b. Attachment of armored liaison detachments to infantry regiments;

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c. Marking the location of infantry HQ, down to platoon HQ, by pre-arranged signals;

d. Indication of objectives by infantry on the ground.

The armored liaison detachment consists of an officer with a tank fitted with radio and a certain number of despatch riders.

9. ANTITANK DEFENSE

The regimental commander will base his orders for the employment of antitank company on the reconnaissance carried out by its commander.

The 30-mm. antiaircraft guns which are placed at the disposal of the infantry are effective against tanks up to 550 yards; the light infantry guns can be used at ranges over 330 yards against light armor and tracks; the heavy infantry guns can be used against concentrations of tanks and for defense of their own positions. Explosive charges, antitank ditches at distances of 100 to 350 yards, rifles, and machine guns may also be used.

When a coordinated plan for antitank defense is drawn up, the nature of the ground, obstacles, and antitank weapons must be considered.

In antitank defense, the decisive factor may be to recognize the imminence of a tank attack as soon as possible and to warn all troops. Special reconnaissance units, in addition to the usual means of reconnaissance, may be employed for this purpose.

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G-2/2657-220: No. 387

M.I.D., Y.D.

12:00 M., May 9, 1941.

I. Western Theater.

Air: German. Fighter sweeps over the southeast coast of England resulted in fairly sharp combats. Last night large scale attacks were made on Hull, and on industrial areas in the Midlands. London was raided lightly. Estimated that total scale of this effort was in excess of 500 bombers.

British. Last night the R.A.F. made its heaviest attack of the war on Germany, employing 300-400 bombers. Chief centers of attack were Hamburg, Bremen and Emden.

II. Greek Theater.

Italian Infantry and Naval Forces have occupied the Greek Islands of Samos and Furni in the Aegean.

III. Mediterranean and African Theaters.

Ground: North Africa. The situation at Tobruk is reported unchanged. Operations were hampered by a severe sandstorm.

Near Sollum the British claim a vigorous raid on Axis troops seeking to thrust into Egypt.

Sea: In the western Mediterranean and in the Aegean the Italians claim considerable success with torpedo carrying planes and bombers against British convoys. The British shelled Benghazi.

Air: Axis planes raided the Suez Canal.

IV. Iraq.

Situation unchanged.

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SECRET ✓

By authority A. C. of S., G-8

Date 10 May 41 (JA)
Initials

Paraphrase of Code Radiogram
Received at the War Department
at 9:20, May 9, 1941.

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Ambara, filed May 8, 1941.

The road connecting Trebizond--Erzerum--Tabriz--Tehran has great importance to the Germans as a route for trade. Along it there are operating something like a hundred Ford and Chevrolet trucks. It is believed that there are also about fifty German vehicles with capacities ranging between 3 and 5 tons. These are supposed to have arrived recently. The loads carried into Persia include munitions of various sorts up to light artillery. Persia sends back in return mainly hides, wool, and cotton. The Tehran railway has been extended beyond Esfahan, headed toward Tabriz but operations on it are still limited in extent. Germany also has a means of communication with Iran by way of Feti and Babun. However, Russian restrictions have hindered these last means of communication during the last few months. This is supposed, according to unconfirmed statements, to be the main route used to get German personnel into Persia, though a very few are also using the Trebizond route. From a trustworthy Turk I learn that he has a report indicating that as many as ten thousand Germans have managed to make their way into Persia. Some of these men have then gone on into Iraq, Afghanistan, and Syria. Except for maneuvers, there is no indication of any out-of-the-ordinary Russian movements of troops, the Turkish General Staff says. Opposite the Turkish frontier, the Russians are erecting fortifications, but all these measures seem to be intended to defend the oil-producing areas.

SECRET

SECRET

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In the opinion of a high official from Afghanistan, stationed here, there is no special activity of a military nature along the Turk-Sib railway in the direction of the Caspian Sea. Neither is there any in Turkestan itself. The Government of China has advised a Chinese source that there are indications that the Russians are moving troops from east to west.

SECRET

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

SECRET

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 19:49, May 9, 1941

Ankara, filed May 9, 1941.

1. The Island of Samos was occupied on May 8. Taken also are the islands Fares and Naxos.
2. At first Bagdad refused to send a cable in code but preferential treatment was obtained when Ankara warned of retaliation.
3. There are indications that German troops are moving northward from Bulgaria and Greece although this has not been confirmed.
4. In connection with cable 208 my office, 20 classes have been called to the colors. The number affected is 25,000 to 30,000 according to revised estimates.
5. It is requested that I be furnished an assistant and additional clerical personnel.

KLSS

Distributions:

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Chief of Staff
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War Plans Division
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Paraphrase of Code Radiogram
Received at the War Department
at 20:48, May 9, 1941

Berlin, filed May 9, 1941.

1. It is reliably reported that the German army is gradually replacing its standard 37-mm. antitank gun with a new 50-mm. anti-tank gun weighing about 1900 pounds. This new weapon will also be used in the Mark III tanks.

2. German antitank guns use two types of shell. One type penetrates armor and then explodes. The other type is a high explosive shell for use against personnel and other targets.

3. The question as to whether solid shot are also being used is still being investigated.

4. A report of fair reliability indicates that explosive bullets are being developed for the 15-mm. Machine for use against airplanes. All new planes are being so constructed that they can be equipped with this machine gun.

PEYTON

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Secretary of War
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Paragraphs of Code Sublogon
Received at the War Department
at 5:34, May 9, 1941.

Cairo, filed May 7, 1941.

1. Below are listed several Greek islands which have been occupied by the Germans to date:

On April 16 - Thessos

On April 20 - Samothrace

On April 27 - Lemnos

On April 26 - Mythos

On May 3 or 4 - Mytilene

On May 4 - Rhos and Santos

2. It is also considered probable that Samos was occupied on May 5.

3. The occupation of Mythos was accomplished by means of parachute troops.

FILING

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G 2
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G-3

CONFIDENTIAL

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

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MEMORANDUM

May 10, 1941

To: Miss Chauncey
From: Mr. Bowen, Secret Service

We enclose our today's teletype message to our New York Office, instructing that an agent go to the home of Mr. Roswell Magill near Westport, Connecticut, at five o'clock Daylight Savings Time Sunday, May 11, to pick up an envelope and deliver to the Secretary at his farm at Fishkill.

New York, N. Y., May 10, 1941 12:05 PM

SECRETARY DESIRES THAT WE SEND AGENT WITH CAR TO HOME OF ROSWELL MAGILL NEAR WESTPORT, CONNECTICUT, AT FIVE OCLOCK DAYLIGHT SAVINGS TIME SUNDAY, MAY 11, TO PICK UP AN ENVELOPE AND DELIVER TO SECRETARY AT HIS FARM AT FISHKILL. FOLLOWING ARE DIRECTIONS AS TO HOW TO REAHXX REACH THE MAGILL HOME.

AFTER LEAVING WESTPORT TAKE ROUTE 57 FOR TWO AND ONE HALF MILES. TAKE RIGHT FORK ON ROUTE 105 FOR THREE AND ONE HALF MILES UNTIL YOU COME TO LYONS PLAIN. TAKE RIGHT FORK ON ROAD CALLED ELEVEN OCLOCK ROAD. GO ONE HALF MILE TO END OF ROAD. TURN LEFT TO MR. MAGILLS HOME.

MR. MAGILLS TELEPHONE NUMBER IS WESTPORT 4230.
OK MALONEY ENDO

BOWEN END

Confidential
between Hays
& Mr. Magill

10th May 1941

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memo for Secretary Morgenthau.

1. The excess profits tax as it stands now is not an efficient means of skimming off part of current "excessive profits" for the Treasury; nor does it accord with usual standards of fairness. Many mature and financially sound corporations, for example organized in the twenties, have large invested capital, so that a considerable increase in earnings will still subject them to little excess profits taxation. Others have high average earnings, so that they have little tax to fear. Again, the law is so shot full of relief provisions of varying kinds - inserted because the draftsmen were ^{so} afraid that the law would operate very inequitably - that it does not affect many profitable corporations. ^{IP} On the other side, the law still severely penalizes the rapidly growing ^{young} corporation. It also tends to discourage profitable expansion and refinancing, whenever the resulting gains would throw the corporation into high excess profits brackets. I learned of a case last week where a corporation could save a million

by refinancing, but cannot afford to do it on account of the excess profits tax situation. I think it will be found that many of the strongest American corporations will have no excess profits tax to pay at all, and that surprising taxes will be paid by much smaller corporations, which have no war profits at all.

2. What the excess profits tax needs is a major revision of its substantive provisions, not of its relief provisions, before there is any increase in rates. It is questionable whether it can be made to work, but the effort is worth the time. If men are to be drafted, excess profits certainly should be, too. The difficulty will be to work out a satisfactory single standard by which to determine excessiveness. American corporations are so diverse in their financing, the risks involved, and the degree of public ownership that it will be hard to work out a measuring stick for excess profits. I do not think anyone has one made to order at present. What is needed is several

months work by the best staff of experts you can assemble, followed by a detailed report in the fall. They ought to work quietly, without any fanfare at all, and be given until say September 15 to present their results.

3. All agree that the fairest method of taxation for corporate profits would be one which ~~takes full account~~ applied to total corporate earnings the rates of tax applicable to the individuals who own it. Possibly today this could be achieved directly, by taxing individual stockholders upon their pro rata shares of total corporate earnings, whether distributed or not. (The Supreme Court in Eisner v. Macomber, thought the scheme unconstitutional, it was upheld, however, during the Civil War). Another method of achieving a similar result is to place a ^{very} heavy tax on corporate earnings, and then provide a credit for earnings distributed. The credit might be for distributions over a stated percentage. Of course this latter plan is like the undistributed

profits tax.

The main trouble with that tax was that it was full of compromises that ruined its efficiency and fairness. If the plan is to work, the tax on corporations must be so heavy that earnings are pretty sure to be distributed; and there must be few credits and exemptions.

4. In my opinion, it would be fairer to raise whatever ^{additional} sums are assigned to be raised by taxing corporations, through the ordinary corporate income tax, than through the present excess profits tax. I should certainly have the latter studied and redrafted through the summer by a sufficiently large and competent staff (added to your present force) so as to assure usable practical results by early fall. Also the two plans mentioned in paragraph 3 above ought to be simultaneously examined. Unless the staff has done so much work on the excess profits tax that they are prepared now to recommend amendments but ~~not~~ which will make it fair and satis-

factory in their opinion, I should not make important increases in its rates right now. The fall would be much better. A stiff increase in corporate rates will be more generally applicable, and I think will work better.

5. As to your statement to Congress, my ideas would be these. You have no disposition to take out of their hands the decision as to the exact methods to be used to raise these great sums. Everyone must contribute as much as he fairly can. There must be sacrifices by individuals and by industry. No one can fairly claim to be excluded from the heavy increases that must be made in excise taxes, income taxes, etc. The general principles to be followed are: 1) to tax all incomes of all kinds in excess of modest exemptions at sharply progressive rates; 2) to lower estate and gift tax exemptions and increase the rates; 3) to impose excise and sales taxes on ^{non-essential and} luxury items and on items in any way competitive with national defense; 4) to stop all remaining loopholes that interfere with

a fair but stringent application of the tax. Among these are: tax-exempt interest; some of the income tax deduction provisions; the exclusion of special powers of appointment from the estate tax; community property, etc.; 4) to reflect all possible economies in non-defense expenditures.

These ideas are not as good nor as helpful as I wish they were, but I have done what I can for you in half a day's reflection in the country. It would have been much better to discuss the subjects with you for an evening. I wish you would regard this memo as confidential, between you and me. If you want me to elaborate anything, let me know. (In passing, one of my difficulties is that, because of fatigue or something, my left eye has been practically useless for a week. But I can still work with the right one)

The best of luck to you. You have a terrible job, and we are all pulling for you

Ran

Prepared by Mr. Kahan for
possible use of Army 5/10/61
not used

I am glad of this opportunity to come before you again, because I feel that the principles which should govern a sound tax program may have been obscured by conflicting testimony, or may have been left unclear through some fault of my own.

I should like to begin by restating those principles, very briefly, as I outlined them to your Committee on April 24th: The first is that we should pay as we go for what I called a "reasonable proportion" of our expenditure. I have taken that to mean that we must find tax revenue to cover at least two-thirds of our spending. Translated into dollars, it means that we must find at least \$3,500,000,000 in additional taxes in the new fiscal year. This objective has been endorsed by the President, and has been accepted by the country generally, without partisanship, and with a spirit of patriotism that I consider beyond praise.

The second main principle is that all sections of the people shall bear their fair share of the burden, according to their ability to pay. The third is that our taxes should become a weapon of our defense; that they should help to mobilize our resources for defense by reducing the amount of money the public can spend for comparatively less important things. And the fourth is that taxes should prevent a general rise in prices by keeping

the total volume of monetary purchasing power from outrunning production. It is around the second of these principles, primarily, that obscurity has arisen. Everyone agrees that all should carry their "fair share" of the load; but there is wide disagreement and confusion as to what that means.

I was pleased to see that Leon Henderson and Marriner Eccles not only approved these four principles when they appeared before you, but helped, in my opinion, to clarify the nature of the job before us. Mr. Henderson, for example, submitted a chart to you, showing that persons earning less than \$500 a year already pay a larger share of their income in Federal, State and local taxation than any until you come to the \$10,000 - \$15,000 class. This shows why, among other reasons, the Treasury is so emphatically opposed to general sales taxes, which would add to the burden on the small wage earner, and why the Treasury did not recommend a broadening of the income tax base to include the lowest income groups.

And I am glad, too, that Mr. Eccles urged still higher excess profits taxes, for in doing so he put his finger on one of the weaknesses of our tax structure as it exists today. That is the difficulty of deciding fairly, and yet effectively, how much of the common burden shall be borne by the great corporations of America, which are earning more today than they did even in 1929.

I don't suppose any tax law can be written so that we can ever be entirely fair -- certainly not as long as we have our present tax structure. But we can and we should arrange our tax schedules so that corporations, like individuals, should pay their share in proportion to their ability to pay, regardless of the source of their earnings. It is not enough to prevent the relatively small number of corporations largely engaged on defense orders from profiteering out of the nation's peril. Many leading, long-entrenched corporations realized extravagant profits even when the business index was comparatively low.

The weakness of our existing excess profits tax law, as I see it, is that it constitutes a barbed-wire fence protecting these profits of well-established corporations which are not primarily concerned with defense production and which, nevertheless, earn heavy profits consistently year after year. Under our existing excess profits tax law, we are not able to touch these profits to any appreciable extent. We are not able to ensure that such rich and strong corporations bear their full share of the burden. We have a corporation tax that applies almost equally to all companies, rich or poor, great or small, and we also have an excess profits tax that applies to new companies or to those whose earnings have jumped rapidly

during the defense emergency.

The present law permits all corporations to elect to pay an excess profits tax only if current profits exceed 95% of the average profits during the base period, plus an additional allowance for so-called growth corporations. By reaching only the profits outside the barbed-wire fence, the law actually immunizes from excess profits taxation those corporations best able to bear their fair share of the tax burden. It leaves a huge field of revenue virtually untouched, although the present emergency is such that we shall need to tap every field if the defense program is to be paid for.

Needless to say, we should continue to permit those corporations which had low profits before the defense program a reasonable opportunity to recoup losses. But we cannot afford to continue the existing lopsided system of defense taxation which deals so tenderly with excess profits and departs so sharply from the principle of "from each according to his ability to pay." There is an inherent injustice in being allowed to make profits on a huge scale simply because you have always made them, and seeing other industries, newer industries, taxed on a different basis simply because the source of their profits or the course of their earnings over a long period happen to be different.

Suppose a company is making a consistent return of forty or fifty per cent on its original investment while another is making ten. It seems to me unfair and intolerable, at this particular time, that the first company should continue to make earnings at that rate, and at this particular time of emergency, without making a progressively heavier contribution than the second company. Obviously a tremendous advantage is accorded the established prosperous corporation against a competitor whose earnings have not been so consistently large. Whether those additional earnings are due to national defense or to something else, the fact remains that the well-established company is making huge earnings in a time of national danger, and that we need a huge amount of money to pay for the armaments to defend this country.

The phrase "ability to pay" means just what it says. It means that unless we go further than the mere taxing of what I might call "war profits", we shall not be attaining the objective which you and I and the overwhelming majority of the American people have endorsed. This is a matter of principle, and not of mere money raising.

Our criterion in taxing should not only be whether a firm has made undue profits out of the defense emergency. It should also be whether a firm has made undue profits during the

Defense emergency. For this reason, it seems to me that we must put a ceiling on the excess profits tax structure, limiting the credit for average earnings to a fair return on invested capital. And by "fair return" I do not mean an extravagant return.

If we tax such profit-earners heavily, it will, I know, be hard on the fellow who bought his stock yesterday, and is only going to get six dollars on his hundred instead of forty dollars on his hundred. But that is not nearly as hard as the luck of the man who was earning \$3,600 a year, with a wife and a happy home, who has to go to the Army for at least a year and earn \$360. You might as well argue that such a man should continue to get \$3,600 a year in the Army, because he had averaged such earnings between 1936 and 1939, as to argue that a company earning \$3,600,000 a year should have its profits relatively unimpaired.

After all, everyone is going to have to make real sacrifices before this defense effort of ours is over. Everyone is going to have to dig deeply into his treasure to help the country surmount this period of crisis. There has been much talk of the sacrifices the American people have made and are making. In my opinion, nobody has yet made a real sacrifice except the boys who have been drafted, and their wives and families who wait at home.

Events have moved so fast that we can no longer apply the standards which seemed good enough a year ago. We were

- 7 -

spending four billion dollars on defense a year ago; we are now spending forty billion. We have a million and a quarter men under arms at a dollar a day. If we expect these men to give up a year, and perhaps their lives, for their country; if we expect our defense workers to work ten or twelve hours a day; if we want our people to feel that they should take their places in this defense program, all 130,000,000 of them, then the people who have grown rich out of American industry will have to make a bigger share of contribution than we had contemplated before.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 10, 1941

TO Secretary Morgenthau
FROM Mr. White

An additional disadvantage of high excess profits tax as compared with an increase in corporation taxes (provided the latter is accompanied with a high undistributed profits tax) is the following:

A high excess profits tax provides a corporation subject to such taxes with increased incentives to

(a) Increase unduly their expenses. For example, corporations spend heavily on advertising (as they did during the last war) because they consider that the Treasury pays half or three-fourths of that advertising bill. They get the advantage of building up good will for the future largely at Treasury expense. The same goes for numerous other expenditures, with the result that wasteful expenditure from the point of view of the present emergency and public revenue are encouraged.

(b) Corporations are much less reluctant to grant wage increases because they take the position that the Government is paying the largest portion of the wage increase. Thus, it has come to my attention that the General Electric Company in New England is reported to have just given a flat wage increase of 10 cents an hour to all its employees, and has stated widely that the Government is paying 8 cents of that 10-cent increase. As a consequence, the demand for wage increases, I have been told, in that area has greatly increased. Labor presents the powerful argument that the Government is paying three-fourths or four-fifths of the wage increase, therefore, why not give it.

I think that you could easily check up on this information, and if it proves to be true it provides another good argument in favor of the undistributed profits tax coupled, of course, with an increased corporate tax and increased rates on the income tax.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 10, 1941

TO Secretary Morgenthau
FROM Herbert Merillat

Tax-the-Wage-Earner Strategy

Papers in the hinterland which at first were cautious or noncommittal have begun to follow the lead of such New York papers as the Times, Herald-Tribune, and Wall Street Journal in attacking the Treasury tax proposals. The line of criticism remains the same. The failure to recommend a broader income tax base while asking heavy increases on present income taxpayers is almost universally disapproved in the press.

There has now been sufficient press comment, of a fairly standard character, to indicate the strategy of opponents of the Treasury program. Their arguments may be outlined as follows:

1. The nation is faced with a danger of inflation which can be met only by sluicing into the Treasury much of the additional national income resulting from the defense program. That can be done only by a much broader income tax base or broader sales taxes.

2. Workers in factories and shipyards (through increased wages) and farmers (through huge war orders) are the chief beneficiaries of the defense program and should be heavily taxed. On the other hand, the white-collar middle classes, who will be "soaked" by the Treasury tax proposals, have relatively stable incomes in the form of salaries, annuities, etc., and will benefit little from the defense preparations.

3. Wage increases and price ceilings will limit the profits of corporations. Further increases in corporation income and excess profits taxes will unjustly penalize corporate earnings and destroy the profit motive.

4. Middle-class taxpayers tend to make long-term commitments in the form of insurance, purchase of homes, and provision for education of their children. Therefore sudden increases in their income taxes are hard to meet out of current income. (One paper went so far as to suggest that people in income brackets below those now taxed do not make such commitments and are, therefore, better able to pay income taxes.)

5. Persons in the \$5,000 - \$25,000 brackets are the chief powers of the nation and heavy tax increases on them will threaten the success of the savings bond program.

These are the arguments. They could, of course, be demolished, but the fact is no contrary arguments are being made in the

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overwhelming majority of newspapers.

The Henderson and Eccles Plans

Opinion of leading Eastern conservative papers is divided on the Henderson and Eccles tax plans. The New York Times, seconded by Walter Lippman, applauded their excise recommendations as being well conceived to assist defense production. On the other hand, the Wall Street Journal and Journal of Commerce attacked the two programs, as they did the Treasury plan, for failure to recommend excise taxes which would cut the purchasing power of low income groups and for proposing heavy excess profits taxes on corporations. All of these papers welcomed Eccles' suggestions that the Treasury's proposed surtaxes on lower taxable incomes might be too high and that the tax base be broadened.

The President's Letter on Taxes

The President's tax letter to Chairman Doughton was considered disappointing by the press. It was criticized chiefly because it failed to urge reduction on defense spending or to make clear-cut recommendations on taxes. The statement that income tax liability cannot be fixed with equity "as long as the tax basis is defined to exclude substantial and significant elements of income" has been variously interpreted. Although expressing the hope that this was a hint to broaden the income tax, many papers thought that the President probably referred to such things as tax-exempt interest, community property, and

capital gains.

Prepayment of Taxes

The plan to provide for advance payment of income taxes through special stamps or securities has met with universal approval in the press.

Are New Taxes Necessary?

The Philadelphia Record has featured a series of articles questioning the need of any additional taxes at this time. They assert that present taxes are more than enough to raise the 12½ billions revenue goal and therefore the Treasury's proposed program will "siphon to the Treasury a lot of money it doesn't need." The Denver Post editorializes to the same effect. Thus far, other papers have not taken this line. However, several straws in the wind indicate a developing campaign for a reduction of the revenue goal: a report in the Wall Street Journal that Ways and Means Committee members consider Treasury revenue estimates too low; the questioning of Mr. Eccles by Republican members seeking to establish that the Treasury estimates are over-conservative; Congressman Woodruff's call for a cut in the revenue goal equal to your proposed cut of a billion dollars in non-defense spending.

Taxes on Foods

Your statement condemning proposals to tax coffee, tea, and sugar has evoked considerable press comment pro and con. Many

papers have criticized the statement, saying it was dictated by political considerations and ignores the need for taxes on articles of mass consumption to prevent inflation, but the majority have agreed that a tax on foods should be a last resort.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 10, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£18,000
Purchased from commercial concerns	£ 3,000

Open market sterling was quoted at 4.03-1/4, and there were no reported transactions.

The Canadian dollar, which declined from 12-1/4% discount to 12-7/8% yesterday, moved off further to 13% today.

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

Swiss franc	.2321-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	2-3/4% discount

In Shanghai, the yuan was again quoted at 5-11/32¢, and sterling remained at 3.90-7/8.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Foreign Trade Statistics Division of the Commerce Department reported on May 9 that 305,500 ounces of refined silver bullion had been shipped to San Francisco from Canada. It appears that this silver will be trans-shipped to the Chartered Bank of India, Australia and China in Bombay, India.

TREASURY DEPARTMENT

366

INTER-OFFICE COMMUNICATION

DATE May 10, 1941

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MEMORANDUMCONFIDENTIAL

May 10, 1941

To: PRICE ADMINISTRATION COMMITTEE
From: R. K. Thompson, Secretary

The following items are on the agenda for discussion at the regular meeting to be held on Tuesday, May 13, 1941, at 11:00 a.m.:

1. Control of installment credit
2. Question of stock pile of lead
3. Present rate of production in automobile industry
4. Price of hides
5. Nitrogen situation
6. Control of speculation in commodity exchanges

C O P Y

Appointment made
for 11 am. 5/12/41

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THE MAYFLOWER

Washington, D.C.

May 10th, 1941

Mr. Secretary Morgenthau,
The Treasury,
Washington, D.C.

Dear Mr. Secretary,

The Chancellor of the Exchequer has sent me on a brief mission to Washington, particularly charged with a message to yourself. I should, therefore, greatly appreciate it if you can fix a time when I can wait upon you. It is seven years since I was last in Washington and I recall your kindness to me then. It would be a great pleasure to renew in these very different circumstances the contact we made then.

Very sincerely yours,

/s/ J. M. Keynes

RESTRICTED

G-2/2657-220; No. 388

M.I.D., W.D.

12:00 M., May 10, 1941.

SITUATION REPORTI. Eastern Theater.

Air: German. Scattered attacks on the night of the 9th-10th on a reduced scale. Fighter activity continued today over southeast England.

British. Normal offensive activity last night. Mannheim, Berlin and numerous coastal points were bombed.

II. Greek Theater.

The following Greek Islands have been occupied by Axis troops:

By Germany; Kythera.

By Italy; Andro, Tino and Terma.

III. Mediterranean and African Theaters.

Ground: North Africa. At Tobruk action is limited to artillery fire and patrol activities.

The main effort of previous Axis attacks on Tobruk has been from the southwest. The British now anticipate another heavy Axis attack with the main effort coming from the southeast.

Air: British. Harrassing raids in Libya.

IV. Iraq.

Resistance of Iraqi organized units is slackening. The British claim complete control of the air.

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DEPARTMENT OF STATE
Washington

May 10, 1941

In reply refer to
DOA 893.50/242

My dear Mr. Secretary:

In accordance with the request contained in a letter dated April 28, 1941 from the Honorable D. W. Bell, Acting Secretary of the Treasury, and a memorandum enclosed therewith, I have instructed the American Consul General at Shanghai, China, to consider the requirements of the Treasury Department in the preparation of economic and financial reports.

The Comptroler General at Shanghai is currently submitting a large volume of required and voluntary reports upon economic and financial matters, and it is believed that much of the desired data can be supplied with very little change in the present schedules. The Division of Commercial Affairs of the Department will augment its distribution of economic reports from China and transmit to the Treasury Department those containing the material now desired by you.

The Department appreciates your reference to the helpful information supplied by Mr. Horace H. Smith. Mr. Frederick W. Hinks, American Consul at Pientsin, has recently returned to the Department and is at present on detail with Mr. Charles K. Moser, Chief, Far Eastern Unit, Bureau of Foreign and Domestic Commerce. Mr. Hinks is well informed concerning matters of a financial and economic nature pertaining to the Pientsin Consular District, and the Treasury Department might wish to consult with him.

Sincerely yours,

/s/ Cordell Hull

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

COPYRELS 5-12-41

DEPOSITS IN TREASURER'S ACCOUNT FROM SALE OF UNITED STATES SAVINGS BONDS (ALL SERIES)

(In Thousands of Dollars)
(Based on Telegraphic Reports)

	<u>MAY 1</u>	<u>MAY 2</u>	<u>MAY 3</u>	<u>MAY 5</u>	<u>MAY 6</u>	<u>MAY 7</u>	<u>MAY 8</u>	<u>MAY 9</u>	<u>MAY 10</u>	<u>TOTAL TO DATE</u>
Treasury	58	27	36	31	30	65	16	39		302
Boston	23	177	37	2,127	1,959	238	1,367	2,246		8,174
New York	511	2,128	683	1,336	1,292	1,842	1,604	2,634		12,030
Philadelphia	201	182	216	246	1,121	1,146	801	581		4,494
Cleveland	955	246	942	1,158	2,467	1,444	823	1,013		9,048
Richmond	163	234	289	292	1,021	1,166	423	459		4,047
Atlanta	121	305	174	1,317	523	298	291	570		3,599
Chicago	457	634	740	1,233	585	983	1,246	2,142		8,020
St. Louis	534	804	1,822	1,538	505	981	834	1,031		8,049
Minneapolis	150	567	73	238	569	242	319	57		2,215
Kansas City	695	876	388	863	827	843	689	575		5,756
Dallas	271	157	429	271	824	585	343	696		3,576
San Francisco	<u>312</u>	<u>572</u>	<u>534</u>	<u>687</u>	<u>259</u>	<u>1,333</u>	<u>761</u>	<u>682</u>		5,140
TOTAL - - - -	4,451	6,909	6,363	11,337	11,982	11,166	9,517	12,725		
Cumulative Total	4,451	11,360	17,723	29,060	41,042	52,208	61,725	74,450		

Office of the Under Secretary
May 10, 1941.

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THESE RADIO PROGRAMS PROMOTE
DEFENSE BONDS AND STAMPS

SATURDAY, MAY 10

Time: 12:30 - 1:00 P.M.

Station: WJSV, Washington, D. C., and Columbia Broadcasting System Network.

Program: "No Politics" - U. S. Congressmen discuss bonds.

Time: 12:30 - 1:00 P.M.

Station: WMAL, Washington, D. C., and National Broadcasting Company Blue Network.

Program: Ilka Chase's "Luncheon at the Waldorf".

THE WHITE HOUSE
WASHINGTON

May 10, 1941

My dear Mr. Secretary:

I find that:

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

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

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

Very sincerely yours,



The Honorable

Secretary of the Treasury

Defense Articles Authorized
for Transfer to the United Kingdom
by the Secretary of the Treasury

Requisition Number	Articles	
	Quantity	Description
120	As specified in requisition	Spare Parts for Agricultural Tractors
121	6	Model HK-315 Ingersoll Rand Portable Air Compressor Units
164	50,000	D-155025 Photo-electric Cells
191	2	Model HK-160 Compressors
	6	Model JAS5 Jackhammers Dry
	12 lengths	50 feet 3/4 inch Air Hose
	24 sets	No. 209 Drilling Tools
	1 box	Motor Spares and/or Set of Spares for 2 Years Running of Jackhammers
344	15	Grain Master Combines
536	1 long ton	Cresote
577	2 long tons	Stramonium
579	1/2 long ton	Oil of Chenopodium
643	1 long ton	Caffeine

MEMORANDUM

May 10, 1941

To: Mr. Morgenthau
From: Oscar S. Cox

*Rec'd in Diras
late Sat. pm.
held to n m c
6:35 am 5/12.*

For your information:

I just talked to Wayne Coy and he tells me that the Budget is doing some thinking about a Ministry of Supply. He apparently got the first indication of this late yesterday afternoon.

OSC

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 10, 1941

TO Secretary Morgenthau
FROM Mr. Wiley

FBI and ONI both report that Italian seamen in this country have been notified by Captain Tosi of the Italian Lines to withdraw immediately all their funds from the Banco di Napoli Trust Company. It is not clear whether this is in anticipation of freezing or for some other reason.

AW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 10, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

FBI reports:

May 3. Property of American decedents to which persons in Germany fall heir are a source of German financing in the United States. From San Francisco it is reported that the attorney for the German Consulate there usually receives the inheritance from the executor of the deceased and turns the net over to the German Consulate General which collects the dollars and informs the German Foreign Office. The latter arranges to pay the German heirs the equivalent in marks at the rate of 2.50 per dollar. For the period of a few months in the latter half of 1939 the San Francisco Consulate collected \$100,000 in this manner. Demands on such funds are made by the Embassy in Washington to which the San Francisco Consulate has forwarded between \$40,000 and \$50,000. The Consulate quarters in San Francisco were purchased from this fund. Funds are also carried in and out of the United States by special couriers and the Japanese Embassy on several occasions has been used for this purpose. Since greater amounts are left by decedents in the United States to relatives in Germany than vice versa the inheritance business is extremely profitable, even where the Germans agree to pay American heirs of German decedents.



Paraphrase of Code Cablegram
Received at the War Department
at 22:12, May 11, 1941

SECRET

By authority A. C. of S, G-2

Date 14 May 41 *Wicks*

Initials

Cairo, filed 20:03, May 10, 1941.

1. Ten to fifteen Martins are the only American planes used in combat to date. These were employed in medium range reconnaissance. They have not yet been employed in bombing on account of their load of eight 250-pound bombs, which is considered not sufficient, and bomb racks are now being altered to hold four 500-pound bombs. The Martins have been found in general satisfactory for reconnaissance, but communication between pilot and navigator needs improvement and a reduction of noise is desirable.

2. Through lack of Ferry pilots and the inefficiency of assembling facilities, only two squadrons of Tomahawk are available for combat operation. They will be in the air in approximately two weeks.

3. Grumman and Mohawks have been grounded pending replacement of the end seal bearing spacer rings in R-1820 engines. Hudsons and Lodestars have been employed in transport duty and have proved satisfactory except for excess engine wear due to desert conditions. Air observers will inspect combat units after the Tomahawks are in operation. Further detailed information will be sent forward.

4. The following is the status of American planes in Egypt:

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Name of Planes	Number Serviceable	Number under Inspection and repair	Major Repairs in Depots	Awaiting Ferry	Un- erect- ed	Erected but not in use	TOTAL IN M.F. from U. S.	Route from U. S.
Martins	24	9	4	1	42	0	90	32
Tomahawk	21	23	18	25	150	0	237	60
Mohawk					10	12	22	
Grauman					10	7	17	30
Lockheed Hudsons			3				3	
Ledestar	1		2				3	
GRAND TOTAL	46	32	27	26	212	19	362	122

WELLERS

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

SECRET

SECRET 380

By authority A. C. of S., G-2

Date MAY 14 1941 (.....)

Initials

Paraphrase of Code Cablegram
Received at the War Department
May 10, 1941

London, filed 14:45, May 10, 1941.

1. British Air Activity over the Continent.

a. Daylight, May 9. Air activity was on a restricted scale and consisted of fighter missions over occupied France and attacks on shipping off the Norwegian and French coasts.

b. Night, May 8-9. 153 bombers attacked Hamburg and 133 attacked shipyards at Bremen. An additional 45 bombed Rotterdam, Berlin, Flushing, Kiel and Bremerhaven. Airfields in southern France and the harbor at Saint Nazaire were attacked by planes of the Coastal Command. Five offensive missions were performed by fighters over occupied France.

2. German Air Activity over Britain.

a. Night of May 9-10. German air operations over Britain were on a relatively reduced scale as compared to recent days, but from Gravesend in southern England to Toban on the northwest coast of Scotland attacks were widespread and included five airfields.

3. Air Losses British Theater.

a. British.

(1) Night of May 8-9. In the course of large scale raids over Germany 10 bombers were shot down.

b. German.

(1) Night of May 9-10. Night fighters shot down one German bomber.

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4. British Air Activities Middle East Theater.a. Daylight, May 9.

(1) British planes were chiefly employed in reconnaissance flights over Libya and Palestine. However, in Iraq an airfield and defensive positions near Baghdad were bombed.

5. German Air Activities Middle East Theater.

a. Daylight, May 9. Slight damage was reported after the bombing of Tebruk. However, 40 — (7) between Fort Said and Kantara were damaged by parachute mines dropped on the night of May 7. (G-3 Note: This may refer to damage to railroad.) An estimated 12 mines remain as a peril to navigation and as a result the Canal has been closed.

6. German Air Losses Middle East Theater.

a. Daylight, May 9. In attacks on Tebruk 3 German planes were shot down by Antiaircraft Artillery with 2 more considered probable.

7. In the British Theater in the first eight nights of May, including the night of May 8-9, the German air casualties have totalled 70 shot down by night fighters, 15 by antiaircraft and 2 destroyed by balloon barrage, making a total of 77.

8. After the bombing and complete destruction of a large troop column, Iraq troops appeared to be demoralized. They have retreated to Basra and Fellujah abandoning much materiel and many weapons. All the commercial quarters of Basra have been occupied by the British and the situation there has returned to normal.

9. May 8. One British trawler was sunk by enemy action in

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addition to 2 mine sweepers. The losses of merchant shipping by enemy action during last month totalled as follows:

- a. British - 60 ships, 293,089 tons;
- b. Allies - 45 ships, 189,473 tons;
- c. Neutral - 3 ships, 5,562 tons;
- d. Total - 108 ships, 488,124 tons.

This refutes the figures used by Senator Vandenberg.

10. Severe damage was caused to 2 British destroyers in Liverpool harbor and at Hull 3 others were slightly damaged.

END

Distribution:

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

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Paraphrase of Code Cablegram
Received at the War Department
at 08:45, May 11, 1941

London, filed May 11, 1941.

1. British Air Activity over the Continent.

a. Daylight May 10. There were two offensive air missions performed by British fighters over Dunkirk and Le Havre and vicinity.

b. Night, May 8-9. Large scale bombing of Mannheim resulted in considerable destruction while attacks on a smaller scale took place over Berlin, Calais and shipping off the Dutch coast. Airfields in Norway and shipping in the port of Kristiansand were attacked by planes under the Coastal Command as were small naval craft at Ijmuiden and Beulegas. There were four offensive missions performed by fighters over airfields in occupied France.

2. German Air Activity over Britain.

a. Night of May 10-11. Extreme heavy bombing took place over London with major destruction all over the city, without question the retaliation against the recent British bombing of Berlin. The attacks were aimed exclusively at civilians. On the morning of May 11 an inspection revealed heavy civilian damage and that historical landmarks such as Westminster Abbey, Westminster Hall, Gray's Court Hospital and Queen's Hall had been set on fire and severely damaged. From the roof last night after the attacks I was able to count more than 15 serious fires. The most encouraging factor was the efficiency of the night fighters and in this connection the German casualties listed below will probably be increased as further reports are received.

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2. Daylight May 10. A few German air elements were in action over Sussex and Kent with scattered single planes over Scotland, Ireland, Cornwall and Dorset.

3. German Air Losses over Britain.

a. Night, May 10-11. In a heavy attack on London German plane casualties verified up to this time amounted to 31 shot down by night fighters and 2 by antiaircraft fire,

b. Daylight May 10. In the scattered air actions against Britain 2 single planes were reported damaged.

4. British Air Activity Middle East Theater.

a. Daylight May 10.

(1) Egypt. The port of Bengasi and airfields at Marsa and Derna and motor convoys near Tobruk and Bardia were attacked from bases in Egypt.

(2) Italian East Africa. Amba Alagi was bombed.

(3) Malta. Axis sea borne traffic and Lampedusa harbor were attacked by British planes.

(4) Iraq. The remainder of Iraq troops now occupying Rashid, Baquba and Samarra were bombed by the Royal Air Force.

5. German Air Activity Middle East Theater.

a. Daylight May 10. Tobruk was bombed and parachute mines were dropped by five German planes in the Suez Canal near Ismailiya.

6. Reports of the presence of German single engine fighters in Norway have been confirmed.

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7. The majority of German attacks on the sea borne traffic during the last bright moonlight nights have taken place at night and some planes have been reported showing navigation lights up to the moment of commencing attack.

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Secretary of War
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G-3

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