Final draft. Discussed at Secretary's house at 6 pm, Sunday, May 18, when Mr. Doughton and Mr. Cooper were present.
My purpose today is to discuss with you the problem of corporate taxation in the present emergency. That I shall have to say is supplementary to the statement made by Secretary Morgenthau when the current hearings were opened and to the suggestions laid before you subsequently on behalf of the Treasury Department.

The Treasury is called upon to meet expenditures greater than have ever been made in the nation's peacetime history, and probably greater than at any period in our history, in peace or war. At such a time we cannot expect to rely on normal sources of revenue or be content with revenue in normal amounts. We must adopt extraordinary measures to deal with our extraordinary situation.

Your Committee is now formulating changes in our tax system, both to provide the revenues needed to finance the defense expenditures that we are committed to make, and also to assist in maintaining the economic health of the nation. Our people know that
great sacrifices must be made and they are prepared to make them. They rely upon you so to plan our financial program that, however severe its burdens may have to be, they will rest fairly and justly upon all individuals and all businesses.

The tax program which you will propose will necessarily consist of many elements. Any one tax, viewed by itself, may appear to be stringent. All must be viewed, however, as parts of a whole. This is an emergency. Taxes that would not be proposed in normal times are a necessity now.

I have been asked particularly to discuss the excess profits tax, first enacted in the fall of 1940. Our experience with it is still limited, for many of the returns of the largest corporations have not yet been filed. Enough have been filed, however, to convince Treasury officials in charge of tax administration that important changes in the law must be made in the interests of fairness. We are collecting large sums by means of this tax, but the profits of a good many business firms are not being touched by the tax,
although some of these profits are excess profits by any reasonable standard. Here is certainly a place to broaden the base. Surely the skill of this Committee and its experts is adequate to the task of bringing within the tax the known cases of corporate excess profits.

I want first to outline the principles which I believe should govern the taxation of excess profits; second, to indicate respects in which the present law fails to accord with those principles; and third, to suggest possible remedies which the Congress may wish to consider.

I - Principles

Under present conditions some kinds of profits may be appropriately subjected to heavier taxation than other kinds. This may be necessary in order to distribute the burden fairly and to avoid unfavorable economic effects that might result if the revenue were raised in other ways.

1. Defense profits

The first type of profits which, in a period of this kind, should be subjected to special taxation comprises the profits which may be reasonably
attributed to the defense program. Such profits are being made out of the sacrifices of the people as a whole and should be returned to the people in taxes, insofar as may be possible without destroying necessary incentives to produce defense goods.

In many cases it is not possible to identify with precision the additional profits due to the defense program. The effects of defense spending are diffused throughout the whole economic system. It is necessary, accordingly, to assume that in general, increases in profits during this period are due to defense. Inability to measure defense profits precisely should not discourage us from subjecting them to special taxation even at the risk of hitting some income not derived from the defense program.

2. **Profits in excess of a necessary normal return on invested capital**

The other kind of profit that can properly be subjected to special taxation comprises profits in excess of a necessary normal return on invested capital,
even if this return was being earned in the years prior to the defense program. The existence of such profits, while often due primarily to good management, is in numerous cases due to monopoly, imperfect competition, or fortunate circumstances, and not to any outstanding service to the public. When as a result of the imperfections of our economic machinery such excess profits have been made, it is equitable and desirable that they be subjected to special taxation. Furthermore, at a time when heavy taxes must be imposed they should be levied where they will assist best in maintaining a well-functioning economy. To take an additional share of the profits in excess of a normal return on invested capital will not cause any companies to go into bankruptcy or withdraw from business.

I am aware that the anticipation of extraordinarily large profits may in many cases have put security prices well above a figure that would represent invested capital. The imposition of these special taxes may seem harsh to individuals who have purchased these
securities at such levels. We must remember that no legislation is ever passed and no progressive step is ever taken which does not disturb expectations of some people. We submit that established expectations of high profits are entitled to no more protection than an individual's expectation of a continued large salary which is now to be subjected to a much heavier tax. This is an emergency, and changes must be expected.

I am also aware that the application of the principle of taxing profits in excess of a necessary normal return on capital involves difficulties of both principle and technique. These difficulties should not be underestimated, but I feel sure that we should not allow them to stand in the way of our seeking to attain the main objective.

II - Defects of the present law

In the light of the principles just stated, let us now examine the excess profits tax law passed last year, to see in what respects, if any, it fails to correspond to them.
1. Failure to reach large parts of defense profits

The Excess Profits Tax Act of 1940 was a clear expression of Congressional intent that profits growing out of the defense effort should be subject to excess profits tax.

The law, however, has not achieved that objective. Many corporations that are the principal beneficiaries of the defense effort and that hold large government contracts are paying little or no excess profits tax.

In the absence of complete excess profits tax returns an examination has been made of published financial data for certain corporations. One company whose profits in 1940 were more than 3,000 percent larger than in 1939 is subject to no excess profits tax whatever on 1940 earnings and this is a company which has thus far received over $70 million of defense contracts. A large industrial company which has received over $250 million of defense contracts and had earnings in 1940 of nearly 800 percent larger than in 1939 will pay no excess profits tax. It appears that only 5 out of 12 large integrated steel companies will be subject
to excess profits tax on the income of 1940, although steel companies have in general received huge amounts of defense orders.

These companies pay little or no excess profits tax because they are allowed a minimum credit of 6 percent of invested capital.

2. Failure to tax profits in excess of a necessary normal return

Another serious shortcoming of the 1940 excess profits tax law is that profits in excess of a necessary normal return on invested capital are not subject to the tax unless such profits also represent an increase over the profits of the base period. Companies which earned during the base period an average of 30 percent, 50 percent or even more on their present invested capital will be free from the excess profits tax on income in any year equal to approximately these percents and will be taxable only on increases in their incomes.

This failure of the law to reach a large portion of excess profits is due to the provision of a credit for every corporation equal to 95 percent of its base period earnings, regardless of the size of these earnings in relation to its invested capital.
III - Remedies

Revisions of the excess profits tax to be considered adequate, must reach the two kinds of profits which I have been discussing. The tax can reach a much larger proportion of defense profits if there is a reduction in the 5 percent credit on invested capital. Profits in excess of a necessary normal return can be reached by taxing all profits above a stated percentage of invested capital, regardless of average base period earnings.

These were the basic elements of the Treasury excess profits tax proposal of 1940, and it is this plan, with modifications dictated by experience, that we suggest. In that proposal corporations were to be allowed free of the excess profits tax an amount of earnings equal to their earnings during the base period, but not more than 10 percent of invested capital. However, they were granted a minimum credit of 4 percent of invested capital with 6 percent allowed on the first $500,000. Thus, under that plan a concern which earned 7 percent during the base period would be allowed to continue to earn 7 percent free of tax. A concern which earned only 2 percent during the base period would
be permitted to earn 8 percent free of tax. A concern which earned 15 percent during the base period would be allowed to earn 10 percent free of tax.

Under the 1940 Treasury proposal it was recognized that if business is to expand and investors are to put money into new corporations, an opportunity must be allowed to earn an adequate rate of return on new capital. The plan allowed an 8 percent return on new capital, with a 10 percent return up to $500,000, regardless of the earnings experience during the base period on old capital.

If the plan submitted by the Treasury last year had been applied to the examples previously presented, the tax results would have been quite different. For example, one corporation which had a 30 percent return on its invested capital in the base period would have paid excess profits tax on over half of its 1940 income instead of on one-twelfth as under the present law. Another with a slightly lower rate of return would also have paid on over half instead of on one-fifth of its income. The large industrial company which received over $250 million of defense contracts would have paid excess profits tax on over one-third of its income and the other company with poor earnings in the base period would have paid on
about one-fifth of its income instead of both companies being entirely exempt.

Even this plan, however, would have failed to reach substantial amounts of defense profits received by corporations which had especially poor earnings during the base period. To meet this defect we would suggest revising the 1940 proposal to provide that where the average earnings of the base period were less than the minimum of 4 percent, the excess profits tax should be applied at a low flat rate, possibly 10 percent, to that part of the current profits that is in excess of the base period earnings but not in excess of 4 percent of invested capital. For example, if a corporation earned during the base period an average of $100,000 a year, while 4 percent of its invested capital amounts to $300,000, the first $100,000 of profits in the current taxable year would be entirely exempt from excess profits tax, the next $200,000, representing the difference between the $100,000 average earnings and the $300,000 credit on invested capital, would be taxed at 10 percent and any earnings over $300,000 would be subject to the regular excess profits tax.
rates. This minimum rate of tax would subject all increases in profits during the defense period at least to some excess profits taxation without unduly burdening concerns whose increased earnings are not truly defense profits.

We would suggest also that the rate allowed on new capital be the same as that originally suggested, namely, 5 percent, with 10 percent for additions to capital that do not bring the total invested capital above $500,000. Any maximum return on capital must be a somewhat arbitrary figure because businesses differ widely in the degree of risk they face. Accordingly, it is desirable not to set too low a maximum rate of return.

Similarly, it would be desirable to keep the tax rate low on that part of profits which is immediately above the credit. To this end we suggest that tax rates be graduated in accordance with the rate of return on invested capital starting with a moderate initial rate.

Moreover, with this new broad excess profits base, it would be possible to adapt ourselves quickly and
much more easily to a need for still larger revenues if
the emergency should so require. The future is especially
uncertain during an emergency period, and we might have
to act quickly. It is better to have a broad excess
profits tax base carefully worked out while we still
have the time than to patch up the present law and
take the risk of finding ourselves confronted with the
necessity of improvising such a base on short notice
at a later date.

Thus far I have outlined the principles of excess
profits taxation which in our opinion should be followed
in this emergency period and have indicated ways in
which the existing law fails to carry them out. If
you share our belief in these principles, I believe
you will agree that a plan like the one I have outlined
is the logical method of putting the principles into
practical operation. Variation in details is not a
matter of concern, so long as the plan adopted taxes
both defense profits and excess profits, which is-
something the present law does not do.

IV. Possible alternatives

If these principles are not to be the guide for
taxing corporations during the emergency period, it
would be well to bear in mind the disadvantages of the tax in its present form, which involves the administrative difficulties inevitably accompanying excess profits taxation but fails to tax large amounts of profits that it properly should reach. A simpler, more easily administered plan would, of course, be to abandon the excess profits tax and to increase the corporation income tax by enough to produce the desired revenue. With such an increase in the corporation income tax there should, in my judgment, be coupled a provision for reducing the tax when the earnings of the corporation are immediately made subject to the individual income tax.

This kind of a plan would be in harmony with the idea of integrating the corporation and the individual taxes, placing chief reliance on the taxation of income of individuals. Profiting from our experience with previous plans of this general character, many difficulties previously met can very likely be avoided and equitable taxation of profits to the individual stockholder provided.

I do not set forth this plan as one that carries into effect the principles which I previously discussed. It is based on principles of its own and is suggested as an alternative, not a substitute.
when I first appeared before the Committee in executive session and discussed this tax program with you generally, I told you that I thought there were certain types of durable commodities, such as electric refrigerators, automobiles, watches, clocks, and casemts, the reduced consumption of which would be helpful to national defense, not only because the plants are adaptable to defense work, but also because the materials used in these commodities are used in defense articles and the workmen who manufacture these things are possessed of the very skills that are needed in many of our defense plants. During that first discussion different members of the Committee expressed the view that taxes on some of these articles should be higher than were recommended and I assured them that we would not object to some increases on these particular articles. Since that time there has been so much discussion about various excise taxes that I think I should repeat to you what I said before — that I do believe these articles are the type that it is highly desirable to tax not only for revenue but also to reduce demands for goods which compete with the defense program.
We cannot expect to devise a painless tax bill, the situation calls for sacrifices. As Secretary Morgenthaler has already told you, we have had unmistakable evidence that the people are willing to make sacrifices according to their ability. Outside the tax field greater sacrifices are being asked and cheerfully made. There is no basis for comparing the sacrifice of those who are asked to exchange the security of a job and a home for a soldier's pay and a soldier's hardships with the sacrifice of those who are asked to pay even drastically higher rates of tax.
May 19, 1941
9:00 a.m.

H.M. Jr: Hello.
Operator: Mr. Henderson.
Leon Henderson: Yes, Henry.
H.M. Jr: Good morning.
H: Good morning.
H.M. Jr: Leon, I wanted to have a chance to sit down with you as soon as I could, as soon as you were free and go over the statement that Sullivan is giving this morning, and for your information the President went over it word for word and it has his 100% approval. Now what's a good time for you today?
H: Well, anytime after 2:30.
H.M. Jr: Well ....
H: Or if it's important this morning I'll cut out - I'll start out and rearrange and try to get some time between - at 10:00 o'clock.
H.M. Jr: Well, here's the point. There's no hurry as long as you can withhold any comments until you and I have a chance to sit down because ....
H: Well, I can do that.
H.M. Jr: If this morning is tied up, then - I have press at 3:00. You're busy right after lunch?
H: Well, I could be there around 2:30.
H.M. Jr: Well, that'll be fine. Half an hour ought to be plenty.
H: All right.
And I'll send the statement over to you now, but I want ..... 

I'll be there at 2:30. I'm at 2000 Massachusetts, Henry.

I see. What I'm aiming for is a united front towards the public.

All right.

We've just got to have it.

Fine.

At 2:30?

2:30. I'll be over at your place at 2:30.

And I'll send the statement over to you now.

All right.

Thank you.

Fine, Henry.
GROUP MEETING

May 19, 1941
9:30 a.m.

When do you go up, John?

I go on at ten, sir.

You will be interested to know that Mr. Eccles is coming here at eleven, at which time I am going to have a heart to heart talk with him and ask him if he can't say something nice about your statement to say nothing, and Mr. Henderson at two-thirty the same thing.

I think my chances are ninety-nine percent of being successful, so I don't think you are going to have to worry. I mean, I will be amazed. I have already asked Henderson. I said, "Let's have a united front and do our fighting inside." I don't think you will have to worry about it.
What are the things, Mrs. Klotz, that you have for me to check with these people?

Harold, here is a suggestion. Have you gotten the one about --

Graves: Yes.

H.M.Jr: That is too early yet.

Graves: I thought you might want to talk with us about that at ten-fifteen, among other things.

H.M.Jr: These things are all this morning. Mr. Bell is up at Coast Guard so this can wait until tomorrow.

Herbert, you were going to draft a letter for me, for my signature, to the President, relative to amending the Coast Guard Bill provisions making it obligatory to transfer Coast Guard to Navy in case of war.

Gaston: Yes, such a letter was drafted and I thought I would let the Coast Guard people see it and Waesche is considering it now.

H.M.Jr: Well, when do I get it?

Gaston: Waesche gets back on Wednesday.

H.M.Jr: Well, are we going to wait that long?

Gaston: I could let you see it right away. I thought I had better get their opinion about it.

H.M.Jr: Well, I have got certain reasons I would like to clean it up. You can talk to him on the phone, can't you?

Gaston: Yes.
H.M.Jr: See if you can't give me a report at nine-thirty tomorrow.

Gaston: Yes, I will do that.

H.M.Jr: This one is dead. And this is on me, following that up with Jere Cooper.

Sullivan: What has happened on that?

H.M.Jr: Nothing. The pressure is on me. Herbert?

Gaston: I haven't anything this morning.

Foley: We want to get together on that Lease-Lend agreement sometime this week.

H.M.Jr: Well, here is the latest from the President on it. (Handing memorandum to Mr. Foley, dated May 16, 1941)

You read this. I will work you in somewhere, Ed.

Well, the point is, I simply thought I would acknowledge that from the President and simply say I take it that that rescinds his previous letter, and send a copy - I would be very glad to have Mr. Hull do it. What?

Foley: Yes.

H.M.Jr: I will be very glad to have Mr. Hull do it and glad to cooperate with him. Read it and give it back to me.

How are you (Sullivan) feeling?

Sullivan: Swell.
H.M. Jr: Fighting Irish?
Sullivan: I am all ready for it.
H.M. Jr: What have you got, a chart behind you?
Sullivan: No, haven't you heard about these Defense Bonds? (Exhibiting "Buy Defense Bonds" sign.) (Laughter)
H.M. Jr: Well, you go any time you feel like it.
Sullivan: Then I will go right along.
H.M. Jr: Good luck.
Sullivan: Thank you.
H.M. Jr: Go ahead.
Cochran: Mr. McCloy telephoned on Saturday and gave us more information on those contracts the Army is going to take over and so on, and they give their position again now that they won't go further on the contracts unless they get a clearance from the White House. I will give you a memorandum on it this morning.
H.M. Jr: Have you seen the memorandum from Keynes?
Cochran: Yes, sir. I made copies and distributed one to Mr. Coe and one to Mr. Foley and one to Mr. Bell's office.
H.M. Jr: Well, on that, just as soon— you see, the Director of the Budget is coming over here Wednesday morning at nine. Now, if we could have all this thing together plus his testimony, you see, plus what I have said, just very briefly, about the three or four hundred
million dollars we were going to take over both before and after Smith's testimony, you see. If we could get that all together, then I will sit down with you men sometime tomorrow and go over the whole thing, plus - I mean, I will try to tie the thing up so I can say to Smith, "Well, here is the situation and when you made the statement that" - which everybody says - "that is why we won't take over any more contracts, did anybody tell you to do that?"

Now, McCloy said the White House said they didn't want it?

Cochran: No, Secretary Stimson said he wouldn't feel like going beyond forty-nine million that they are taking the British out on contracts without an O.K. from the White House.

H.M.Jr.: How many million?

Cochran: Forty-nine point six million.

H.M.Jr.: Well, have we got a figure from Jones yet?

Cochran: No, sir, we have not.

H.M.Jr.: Well, see whether tomorrow Bell can't get a figure from Jones. I have been told that Jones was going to take fifty million. Maybe it is the same thing.

Cochran: It is. No, no that is different. That is on plants and forty-nine on contracts.

H.M.Jr.: Well, let's get it cleaned up and find out where it is, but Hopkins says if anybody quotes him as saying that he was not in favor of taking this over, to use his language, "He is a damn liar," so I want to find out from Harold Smith where did he get it. I
understood at the time that he just didn't know, he did it out of ignorance.

Cochran: There is one thing. Your statement that they are referring to in the Keynes memorandum was an interview with Phillips on March 19, and the only record we have of that is the Stenotypist's record.

H.M.Jr: Well, Mrs. Klotz --

Cochran: If you could let us have that.

H.M.Jr: Well, ask - what he said?

Cochran: No, what he said and what you said. That is what the British pin this whole thing on.

H.M.Jr: All right. March 19?

Cochran: Yes, sir.

H.M.Jr: Let White work with you on that.

Cochran: Certainly. That is all.

H.M.Jr: But if you and White and Bell can sort of clean that up for me tomorrow so that tomorrow I can have a clean-cut story to put before Harold Smith Wednesday, you see.

Cochran: Coe and I went over it as far as we could on Saturday, so I will talk with Harry about it.

H.M.Jr: All right. Anything else?

Cochran: No.

H.M.Jr: Did you get off my telegram?

Cochran: Yes, sir.
I have nothing.
How is Irving Berlin?
Fine as far as I know. He is still working on that song.
Was it fun?
Lots of fun.
How many fingers can he play with?
I think he plays with all. He sings in a very wheezy voice. (Laughter)
Who else was there?
Just Harford Powel and I.
It must have been lots of fun, wasn't it?
He sang us a few more which haven't anything to do with Defense Bonds. He throws his head back when he sings and gets very excited about it. He will be down soon again.
Well next time he must do it for me. Is the song any good?
I think so. It is the kind of thing dance bands will be playing.
He has taken a ten year old song and dusted it off?
He has done more than that to it. He has just taken a phrase out of a ten year old song and applied it to this new one and written a lot of new words and new tunes, and I think it is good.
H.M.Jr: Is he interested in it?
Kuhn: Very much.
H.M.Jr: You are coming to this ten fifteen meeting, aren't you?
Kuhn: Yes.
H.M.Jr: I would like Haas to come to that too, because I am going to talk statistics.
Haas: Here is that revised list.
H.M.Jr: Oh yes. And you know we begin tomorrow on this financing.
Haas: Yes.
H.M.Jr: This is an interesting figure.
Haas: Here are the figures on Allison. They made forty of those new models.
H.M.Jr: Oh, they are beginning to turn them out?
Haas: It looks like it now, yes.
H.M.Jr: I would like to see those. They have got everybody just blocked, these Allison people.
Haas: All right.
H.M.Jr: I am amused when I hear Bob Patterson talk about as though he discovered the trouble with Allison and all the rest of them. He has just sent a man out there now to look the plant over.

George, I turned down a job for you. I hope you are not angry. Hopkins wanted to know whether I thought you would like to go in on
priorities over there, on the priority group, and I told him I was sure that you didn't.

Haas: Thank you. You are absolutely right.

H.M. Jr: If I am wrong, why --

Haas: No, sir.

H.M. Jr: Somebody must have been singing your praises.

Haas: I am glad to hear that, but I am more glad to stay here.

H.M. Jr: All right.

Chick, I referred the Wall Street Journal to you yesterday.

Schwarz: We took care of it and told them this morning they could have John's statement.

H.M. Jr: There were no leaks?

Schwarz: No. Would you care to see any more of those Baltimore Sun pieces or shall I just hold them in the book?

H.M. Jr: Hold them in the book, that is right.

Schwarz: I have a few others.

H.M. Jr: Just let me have them, whatever you have got there. You know, if you get any questions on Sullivan's statement from this end while he is on the Hill, let Roy Blough handle it.

Schwarz: All right. He will stay here?

H.M. Jr: I don't know.
Harry, I am coming back to you last. I thought we would have a little time and you might tell us a little bit about your trip.

White: All right.

Thompson: I have taken care of the expenses of Magill and Shoup. Was Knollenberg --

H.M.Jr: No, he was down in the Army. He was O.K.

Thompson: Well, Shoup is taken care of.

H.M.Jr: And that thing about these two people being accused of being Communists, I read it very, very carefully. I read yours, I read Foley's, I compliment you on it. I thought Irey's statement was pretty terrible.

Gaston: Those Revenue people in New York, those two girls?

H.M.Jr: Yes. And another friend of mine read it and spent a lot of time on it and - I understand you (Gaston) read it, too.

Gaston: Yes, Norman and I discussed the thing and came to the conclusion it was dead.

H.M.Jr: Well, I have decided that the case should be killed. The evidence is not conclusive. The Commissioner came in here and recommended that these two girls - there are two girls that are supposed to be Communists - and I think, Herbert, if you would take hold of Elmer Irey and have a little talk with him, you see --

Gaston: Particularly with this case.

H.M.Jr: Yes.
Well, our recommendation, Norman and I, was distinctly that this be dropped, that this case was dead.

He and his men have too much the idea of the OGPU, the questions they asked.

Yes, I know.

It is too much, and I think if you could have a nice little talk with him and just explain the thing to him. It is one thing to go after criminals. Let me ask you just for my own education. Under the Hatch Act, does it specify you cannot be a member of the Communist Party?

Well, if you are a member - the Hatch Act says if you are a member of a party, the purpose of which is to overthrow the form of Government in this country, then you are automatically fired, but they didn't prove that those people were members of the Communist Party.

I know they didn't.

That was my point.

Well, Mrs. Klotz, if she doesn't mind my quoting her, said, "If they put half as much energy into finding out who the Nazi sympathizers are in the Treasury, I think you would get some results."

If they put in just half - this fellow got heart trouble because he worked so hard on this case and had to go to the hospital. It is the damndest nonsense I ever heard in my life. He worked so hard he got heart trouble and had to go to the hospital.
Gaston: Who was that?
H.M.Jr: Whoever the agent is.
Foley: I got kind of excited about the case. I thought it was not the kind of thing I would like to see going on in the Treasury, and I told Norman and that if they could do that to some innocent, defenseless little stenographer way down the line, they could do that to any one of us and build a case up on us without an opportunity to be heard; and those girls weren't given an opportunity to be heard, just dismissed from the service, and it was wrong.
H.M.Jr: I am glad to hear it, and I think it is up to Herbert, because Irey is under him.
Gaston: Yes.
H.M.Jr: Isn't he?
Gaston: Well, nobody knows. For investigative purposes, yes.
H.M.Jr: Well, for this purpose please consider him under you.
Gaston: Yes, I will have a talk with him.
Foley: Well, I have seen that kind of stuff before. I saw it under Glavis in WPA. That is the same sort of records they were trying to build up on people over there and get them out of the service.
Gaston: Of course, this law and the interpretation of it that membership in the Communist Party requires dismissal troubles me a little bit.
Well, let's go into that again.

But that has been pretty thoroughly studied.

And who are - the one that particularly bothered me, you (Thompson) referred it to two members of the personnel committee in the Chief Clerk's office.

Now, who were those two people?

Birgfeld and Harper.

You know, you fellows won't let me throw Birgfeld out. Now, I read that thing and a man who will write a thing like that, he is all palsey-walsey with all these people, now, if that is the personnel committee - who is he responsible to, me?

He is responsible to me.

Norman, you have got to do something about it. I am just fed up with it. I read that thing, and for those two people to write a thing like that, it is a personnel committee of what? What are they personnel committee of?

It has been the committee that has existed for twenty-five years.

If you don't mind, they don't exist from this minute on. I don't want Birgfeld to have anything to do with personnel. It is outrageous. I have tried for years - send him some place where he hasn't got anything to do - but for him to be on a personnel committee, it is a reflection on you, Norman.

Well, I have realized for some time --
Well now, I have asked for years, and you and Bell won't let me do it because, if you don't - I mean, it is a question of friendship and that whole butter deal and all that stuff, that man should have been moved out of there at that time. Now he is there in black and white. You will have to move on it.

Thompson: Well, I will take care of it.

H.M.Jr: Well let me know, who is the other man that signed that?

Thompson: Mr. Harper.

H.M.Jr: Who is he?

Thompson: He is in the Personnel Division.

H.M.Jr: Those aren't the kind of fellows that represent me or represent the New Deal, and you will have to just clean house and do it very quickly, please.

I have been harping on this thing and harping on it. I don't know who Harper is, but I know who Birgfeld is and I am just sick and tired of it and you will have to move on it and it is a direct reflection on you and on Bell because you both have stood up - well, it is all right to stand up --

Thompson: There is very little that that personnel committee ever gets into.

H.M.Jr: But they shouldn't get in on anything.

Thompson: Well, they --

H.M.Jr: I may be too tough, but this has been --
They won't get in on anything more.

Well, I want to know what assignment Birgfeld and Harper will have from now on. I admire friendship and I admire loyalty, but this is just too much.

Well, they are out as far as this committee is concerned right now.

Well, will you let me know what their duties are and then I would like to know who will be the people that would review cases like that. I want somebody who thinks the way you do and the way I do and takes an attitude that this is a Democracy. I want to squelch that kind of thing in the Treasury.

I would like to know - have a report from you what happens to Birgfeld and Harper and when things come up for review, things like that in the future, who is going to pass on them.

Well, Charlie Bell and I pass on them.

But below you, who goes on below you?

The Director of Personnel.

Has he come on?

Not yet. I am having a fight with the Civil Service Commission about it.

Well, until he comes, who is going to handle it?

Well, Charlie Bell and I will handle it.

Because your report was all right. Elmer is a detective. I don't expect him to necessarily have a social outlook, but his record is so
magnificent that he can do one thing like this and the ninety-nine other things he does makes up for it. He is a detective. He is not supposed to be a --

Thompson: I can assure you right now that as far as Birgfeld and Harper are concerned, you have no cause to worry, because their other duties are more important.

H.M. Jr: Well, I want a written report what their duties are. I want to know what their duties in the Treasury are.

Gaston: Harper keeps the personnel records. It is quite a voluminous, detailed thing.

H.M. Jr: But why should two men like this write a report that these people should be fired?

Thompson: Well, they agreed with the Commissioner and all the Revenue people, but they didn't influence me at all.

H.M. Jr: But you are in my office, you are part of me, and these fellows supposedly are a part of me, and they don't represent me and I don't say fire them, but get them to shoveling coal or something.

I mean, they should have been put out of here a long time ago, and let somebody get busy in finding all the Nazi sympathizers in the Treasury and the Fascists and spend the same amount of time that they did on those two poor girls. I would like somebody to do that.

Thompson: We get lots of reports on Nazis and investigations are being made. We don't get much evidence on them, but I have had a few cases where there were doubts, and I have taken
the employees out of confidential positions and put them in positions where they would be harmless, but we are watching it pretty close.

H.W.Jr: All right, Norman.

Thompson: I have one other case here. Mr. Pehle has recommended a deferment for Mr. Towson. Towson is his first assistant, and he is very valuable and needed there.

White: He is, Mr. Secretary, a very valuable man.

Thompson: Mr. Gaston and I feel the situation justifies a deferment.

White: He has one of the key positions in the Foreign Funds Control.

H.M.Jr: Is this the man that was with the bank, Harry?

White: That is right, and he is supposed to be part of the Reserve Officers Intelligence Corps, I thought. I don’t know whether that is indicated here.

Thompson: That is right, Military Intelligence, Second Lieutenant.

White: Yes. But he is a very valuable man to Pehle. It would be difficult to replace him.

H.M.Jr: What has he been called up for, to be Second Lieutenant?

Thompson: Yes.

H.M.Jr: Why don’t you handle it the way we handled Kamarck? Ask through General Marshall’s office if a man doesn’t lose his status if it may be postponed until December 31.
he can be postponed until December 31, you see. And then I don't know whether he wants to go or not.

Thompson: No, I think he wants to stay with us.

H.M. Jr: Well, get one until December 31.

Now, Harry, come up. Do you mind sitting here? I can't see you.

White: I saw numerous projects, NYA, CCC, WPA, and the Office of Education. One gets a very mixed picture as to the efficiency with which they are operated, but a rather general picture as to the extent to which the entire program contributes to the main objective of - the present objective, which I take it is preparation of adequate training for defense purposes.

From that point of view, the CCC camps - I saw a sample. I saw several, but from my reading and interviews and from what I saw, I gathered that they are more or less the same with respect to their general efficiency and administration, which is excellent from my point of view with the particular companies, but from the point of view of their contribution to a present emergency, most of them are a negligible factor. There are unquestionably numerous CCC Camps who are doing important work even at present with respect to prevention of fires in forests and somewhat similar work, but a good deal of the work, while justifiable under normal conditions, could hardly be justified under present conditions and notwithstanding the fact that their enrollment is being - it appears rather rapidly curtailed and they are finding difficulty in getting each of the
companies up to their maximum, I still think that there is room for a very, very substantial cut so far as expenditures on present work is concerned, and a substitution of the equipment and the men, possibly, for other types of defense training.

Again from the point of view, not of making use of the youth under any circumstances, but of the utilizing the men and the money and the equipment for training for defense. So much for the CCC, briefly.

WPA, I find that - and some of these things that I am saying may not be at all new. They are new to me. I mention them because they impressed me. I find that probably half of the WPA are unemployables, either because they are too old, the number of people over fifty-five or sixty is astounding - I am getting some more figures to see whether the samples I saw are indicative of the whole, and a great many others are physically incompetent. Many of the better ones have been getting jobs in the last year and that makes those that are remaining contain a larger proportion of unemployables and that group is - should be regarded as a permanent problem or as a relief problem. The other half - of the other, roughly half, some are doing good definite defense work, which should be paid for out of defense expenditures.

One brief illustration, I saw them constructing an airport. They do the unskilled work, assuming that it was a necessary airport and was certified by the War Department, that is a regular part of defense expenditures and they were working full time, not part time. The time had been extended. Their total weekly wages were equivalent to what they would be getting under ordinary work, and for that to be called WPA work doesn't seem to make sense to me. Now, there are another large portion of employables -
Excuse me. What is the wage scale that they get?

They were getting thirty-seven cents and thirty-nine cents for unskilled, and the semi-skilled get, I think, forty-nine and sixty-three. There are variations. It is a little less than they would get in private industry. Their earnings are normally less because they only are supposed to work - I think it is sixty or eighty hours a month, but they are trying to expedite these projects, just so, so they are putting them on full time so that their monthly earnings are not far from what they would get if they were out in industry and if those jobs were to be done.

Another substantial part of the WPA are presumably working on defense work. They are certified projects, but their work is of a character that I doubt very much whether the Army or the Navy could justify in the appropriations bill, and I don't think they would spend the money if they didn't get the work for nothing. They are painting houses, they are straightening out things to make the Navy Yard look better, or they are fixing up roads that are not absolutely essential to have fixed. Now, there is some work on golf links and tennis courts and things of that kind that probably constitutes a minor portion, but it sort of exaggerates the part of the work which seems unnecessary. How much of the WPA workers are of that character, I do not know, but my guess is, based on what I saw, that a very substantial portion of the work is of a kind which we can get along without perfectly well during the emergency period, assuming that these men can be given work on other important work.

So either they belong in the unemployable and
relief group or the defense ought to get adequate appropriation to do necessary defense work, and the remainder constitutes another problem of available labor supply that is not utilized.

The NYA program is quite spotty. They are just getting into the construction of these standard--so-called standard shops which is a quickly built satisfactory building housing machinery, new equipment in part, part used equipment, lathes and work machinery, presses, et cetera, where they are going to train anywhere from sixty to two hundred persons a day. They were going to work some two shifts and some three shifts. The instruction is fairly adequate, but the work which is being given is very superficial. They don't claim anything else.

H.M.Jr: What is the hook-up with Studebaker?

White: Studebaker is now being put apparently in charge of both this program I am speaking of and the program which supposedly is similar but in which they use schools, high schools, vocational schools, and others, and in which they permit older men and people who are not on NYA to receive training.

The NYA presumably, is for youths of eighteen to twenty-five who are eligible for NYA.

H.M.Jr: But they are just getting started?

White: Well, for the most part, they are just getting started. And their training, I think, must be regarded as quite superficial. In the Office of Education it utilizes the schools, et cetera. Some of them give good courses. Many of them are also superficial. Some provide additional training for WPA at night, during
night hours, which doubtless is of some value, but they have just gotten going. The Office of Employment, which in my mind and the opinion of others, apparently, plays a key role in the allocation of labor and the utilization of labor, is very bad. It must be a Federal organization instead of depending upon state employment agencies, and much of the scarcity of labor which is appearing in many spots is due to the fact that our Employment Bureau is not a Federal agency and is not equipped and adapted to handle the problem on a national scale as it would like to and as it should.

Now, merely to summarize, I think that from the point of view of making available our present skilled, semi-skilled labor supply for tasks of defense and our training of youth and of retraining of people who have partial skills for the defense needs which will appear during the next year or two, and an over-all picture of exactly what skills will be needed and how many men will be needed in each of those skills and how long it takes to train them and what facilities there are for training them, I think those three aspects of the problem taken together are completely inadequate for the kind of tasks that lie ahead of us.

H.M.Jr: You are going to write this up, aren't you?
White: I would like a couple of more days to talk to some more people on the over-all, see what figures and data they have available, and then prepare a report for you.
H.M.Jr: Well, you have got to prepare a report and be sure that your report is up to date, you see.
White: Well, that is one thing. I didn't have up-to-date data.

H.M.Jr: You have got to get it, and I told Harold Smith I would show it to him. He did have people on NYA. He has investigated NYA recently. But I can get you in touch with the people in his office who have made any reports, you see, and then Mrs. Roosevelt wants to see it. Of course a copy goes to the President.

So it is out, you see, that you are out. (Laughter)

Was it you that told me that McNutt checked up with Harold Smith?

White: Harold Smith told me that.

H.M.Jr: Well, anyway, so whatever we are going to do, I will want to go over it very carefully with you and it is a question of this. Either will be - I, so to speak, am off the spot because I didn't have to go up to testify.

I will be leaving here Friday, and I hope to be gone for a week. I don't want Chick to get it out. I will explain to you eventually how, where, and why. I hope to leave here Friday night. I hope to keep it until I am gone for a couple of days. So I am doing my financing and I very much doubt whether I can get to it intelligently until I come back, Harry.

White: Well, the longer the better, because from the point of view of the over-all picture, as you indicated and as I certainly feel, I would want to be pretty careful, and I want to talk to these people.
And then there is this thing the President shot up which nobody knows about, including Mrs. Roosevelt, where he asked for a hundred and fifty odd million to set up thirty thousand workshops for NYA, something like that.

White: Thirty thousand? It is an awful lot. They are setting up some of those standard workshops.

H.M.Jr: Well, you had better get hold of that bill. My guess is, you see, with my financing - I would like to do something on Maynard Keynes' thing this week if possible, you see, and not being on the spot myself, you can really have the next two weeks on it.

White: Well, I would very much like to have that.

H.M.Jr: Because people know about it, and it has got to be good.

White: I certainly want it to be.

H.M.Jr: If you had something for me to take with me where I am going, I could read it, you see.

White: I certainly will have something preliminary.

That doesn't touch on agriculture on which I didn't do anything during the week in the field, but I have thought about it and had the boys working on it, and that is very different. I feel very definitely there that all that business ought to be cut completely out of the budget and which would save some five hundred million dollars and, instead of that, a hundred million dollars ought to go to the Farm Security for the poor farmers, because the poor farmers - which is the mass of farmers.
I use the word "poor", but over eighty-five or ninety percent of the farmers are not getting any advantage out of the present system.

H.M.Jr: But, Harry, when I came back, I think it was from Jamaica, I said one of the things that I want to do is this thing of helping the poor farmers get a home and give them thirty or forty years to pay for it. I have always been for that, and I have heard this criticism. "You see, this thing went to the American Farm Bureau people and the well-to-do."

White: Well, they don't represent the mass of farmers.

H.M.Jr: Now, one thing, if you would check up, and I don't know how much - George, didn't I ask you to look up the testimony of Ed O'Meara who said that - didn't I ask you that?

Haas: Well, they don't represent the mass of farmers.

H.M.Jr: Yes, sir, you did, and you said Miss Chauncey had some documents. Well, we went all through it. There were seven points you mentioned that you might use. I can find a list of seven points, but they are not usable things, and I looked through his testimony up on the Hill, and I couldn't find anything that might be used.

H.M.Jr: All right, well if you - I want to do the agricultural thing, and another thing, George--

Haas: I did do this, Mr. Secretary. You asked me to break down those accounts by years. I have that.

H.M.Jr: Good. Whatever you have got, collaborate with Harry and vice versa.

And the President raised a point. He said he
didn't know - in this parity payment, this parity payment is the figure before or after the benefit payment? He said that in his press conference, that he didn't know. Am I right, Chick?

Schwarz: That is right.

H.M.Jr: He says, "Which comes first?" In other words, if the parity payment is thirteen cents, then you get your two and a half's benefit payment on top of it.

Haas: I don't think one is related to the other.

H.M.Jr: Well, your man from New Orleans certainly would know.

How is cotton - to start at six cents and then so forth and so on, but I thought - I want to give you two men this - I read this somewhere, and I thought it was terribly good. It is a criticism of our agricultural program. They say we haven't got the guts to say, "Well, there is no export market," talking in terms of cotton, and therefore we reduce the cotton to an amount we can consume in this country. So we go along in the middle of the road raising five or six million bales more each year than we can consume or that we can sell and we build up an artificial price which is at least twice the world price, and when we want to buy domestically, we have to pay this artificial domestic price at the same time that we shut our eyes to the fact that there is no world market. I think that is a very fair criticism.

White: With this important supplementary factor which you doubtless have in the back of your mind, that if you reduce your cotton output by five
million bales, it would come mostly out of the small farmers, and you would throw out of any kind of a possible living so large a proportion of the South that you have to take care of them.

H.M.Jr: But Harry, I am not saying I subscribe to it. I am simply saying we have got a wishy-washy policy which doesn't recognize the fact that there is no world market. We have the artificial price. I belong to the school of plenty. I don't belong to the school of scarcity, you see.

Haas: They lost the world market, Mr. Secretary, before the war.

H.M.Jr: True, but don't misunderstand me. I belong to the school of plenty and not the school of scarcity, so it isn't - I am just pointing out the thing that I read, which I think is fair criticism.

Well, I will look forward - and the agricultural thing, keep pushing, Harry, will you, and George too?

White: I will do that, and I take it I have your permission, something I want to do, I want to talk with Lubin and Aubrey Williams and some of the others so that when the report does come out, if they have any criticisms, we will know about it ahead of time, and see if we can meet it.

H.M.Jr: And if I had the time, I would love to have a dress rehearsal at my house, and I would love to have them come in and say, "Here it is, boys, let's have a little meeting."

White: It would be an excellent idea. I think that
time could be had since you are giving me a couple of weeks.

It is worth it.

Now, one thing, Norman, would you find out who are the men who made the so-called Friedman Case in Atlantic City, you see. I would like to write them letters. I would like to get them promoted and some more money. Whoever the men who made the Friedman Case are. And also a letter to the United States District Attorney.

Gaston: That was in the Nucky Johnson Case.

Foley: A fellow by the name of Frank.

N.M.Jr: Whoever it is, the boy should not - a letter is very nice, but I want to give them a promotion.

Foley: May I bring up one thing? Eddie called this morning early and said that a passenger on this Egyptian ship that was sunk by the name of Michael Clark was very close to him. He is somebody on "The Nation." He wanted to know whether or not we could find out if there is a list of survivors, if he is one. Could Merle contact the State Department?

Cochran: Yes.

N.M.Jr: Yes. Will you do that for me? He was very helpful to me last week.

Foley: Michael Clark.

Cochran: May I mention just one thing on cotton. I read a report from our Consul General in Montreal to the effect that the Brazilian cotton was
coming in and cutting ours out completely or maybe twenty percent. They are paying in sterling to Brazil now.

H.M. Jr: Well, may I point out to you when we were signing the trade agreement to Brazil, I wrote the State Department and asked them to include in that a limiting clause of the amount of cotton Brazil would grow, and they just threw it out the window. How many years ago was that, Harry, three?

White: Three, I think.

Haas: B. A. E. recently put out a report, Mr. Secretary on that whole thing. They criticize the Agricultural Adjustment Administration, another bureau in the same department.

H.M. Jr: Well, I just want to say this. Doughton just - let me take a minute because this is important. Doughton went at me very hard. He was very much upset about this whole thing, you see. Cooper liked it as much as Doughton didn't. He went after me.

"Now, what about this economy? You came up and said you could save a billion," and Cooper said, "No, he didn't say that. When he was asked, he said, 'I think I can save a billion.'"

"Well, did the President say you could?"

"No. But I went back and told him, and he said, 'O.K.' The President said it was all right."

Well, I won't go all through the thing. But out of that came - I said, "Now, after all, you will never get anywhere until the Appropriations Committee and the Tax Committee sit down together," So Doughton is going to
try to get the Speaker to invite Barkley, the Speaker, Chairman of the Appropriation Committee, Ways and Means, Director of the Budget, and the Secretary of the Treasury to come down to the White House and say, "Now let's get together and do it."

So I said, "Now, Doughton, let's understand each other. I am going to keep shouting from the housetops to save. As long as the President says he is satisfied and as long as you people say to me, 'Morgenthau, please stop it - oh, no, no, no, keep it up.' I said, "All right, and the President seemed satisfied. All right. Granted it isn't my responsibility, but it is my responsibility to keep shouting as long as you fellows tell me not to, and I am going to shout, but I can not come up and give you the specific recommendations, and that is up to somebody else. But I am going to keep the yell up for economy on non-defense until the President asks me not to or somebody from the Hill in responsibility asks me not to."

Doughton says, "No, keep on shouting. It is all right."

Foley: Mike Monroney, a young fellow from Texas, came in to see me one day last week. He said there were forty or fifty young New Dealers in the group up there that would like to follow up if you wanted to give them any information or if you wanted to be cooperative. I told him I didn't know.

H.M.Jr: On what?

Foley: On that economy, on where they can save and how.

H.M.Jr: Well, I am going to wait now until I get White's
report, until I have a chance to let my friends and his friends criticize it, get it right, show it to the President first. I wouldn't do that without speaking to the President, but in the meantime, of course, it is all to the good. Harold Smith is annoyed, but he is getting busy. I just want to wait now until I get a chance.

Foley: He just wanted to let you know they would be willing to work with you, and if you wanted to do anything we should let him know.

White: I hope it is clear, Mr. Secretary, that aside from Agriculture, the expenditures on the other items are, from my point of view, wasteful because they are not meeting the program, that what you might end up with in your own mind, I think what you have in your mind, is that a more adequate program is necessary, but it is saving in the sense that the money you do spend leads to the objective that you want.

W.M. Jr: Harry, I am willing to back spending any amount of money to make this country strong inside and out, but as long as I have got breath, I am going to shout against waste.

White: That is the point. Well, we see eye to eye on that.

W.M. Jr: And as I say, I haven't quite got up my nerve yet to shout about the waste in the War Department, but they tell me that is the place where there is more money wasted than anywhere else. But I will get my nerve up gradually as I get my facts. But I want to get my facts. But this Madam - this Mrs. Keynes was here. She is this Russian Pavlova or whatever this Russian dancer is. I sat next to her the other night at dinner. She bubbled and effervesced, and she said, "Oh, this country, it is
so rich and so wasteful," which sums up a lot. (Laughter)
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE May 19, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

At the Staff meeting this morning Mr. Foley reported the inquiry of Edward Greenbaum concerning Michael Clark of New York who was reported to have been a member of the British-American Ambulance Corps, traveling to Alexandria, and a passenger on the Egyptian steamship ZAMZAM, whose loss was reported this morning.

In accordance with the Secretary’s instructions, I telephoned Mr. George Brandt, Head of the Special Division in the Department of State, at 10:45 this morning and asked that any information which may become available concerning Mr. Clark be telephoned to my office. Mr. Brandt promised to give us anything received. Incidentally, he mentioned that Justice Felix Frankfurter was also inquiring concerning Mr. Clark. The State Department has no information so far concerning this.

[Signature]

[Stamp: Regraded Unclassified]
May 19, 1941
10:15 a.m.

RE DEFENSE SAVINGS BONDS

Present: Mr. Johnston
          Mr. Sloan
          Mr. Callahan
          Mr. Powel
          Mr. Houghteling
          Mr. Haas
          Mr. Graves
          Mr. Kuhn

H.M.Jr: Harold, how would you like to do this thing?
       Let the men talk or let me ask some questions?

Graves: I should suggest that Mr. Johnston and Mr.
        Powel tell you. That was your request to me
        the other day. Tell you what they are doing
        and then you ask them questions as they
        proceed.

H.M.Jr: All right, let's start with Johnston.

Johnston: Well, we have a skeleton organization or
        organizations being created in eleven states.
        Six of them are on the way more definitely
        than in the other five. Do you want the names
        of those states?

H.M.Jr: No.

Johnston: They are creating organizations in these
        states with the governor as the honorary
chairman, with a chairman of a state committee, a state committee worked out by the State Administrator, who in most cases is the Collector of Internal Revenue, and they get together and pick out a committee of very prominent people representing the various lines of industry and labor and agriculture, women's groups, in those states.

In several of the states they have very good committees. Some are large, some are small. We have left that more or less to the individual states, to the size of the committee that they want to function.

Then the state organizations are sponsoring similar organizations in the cities and in the towns throughout the state. In some states they are using a method of organizing by counties, where the counties are very large in area. In some, they are organizing by towns.

For example, in Missouri the latest report was that they had organized eighty-nine cities and towns with functioning organizations. In Texas, according to the last report, they have about two thirds of the counties of the state with organizations. These local organizations are going to the people of the various cities, functioning through the mayors, who is honorary chairman, and in turn the city committee represents various groups of business and organizations in the town, and they are carrying the message to all the people of that community. That is their task that they have before them.

I have attended several of these meetings. Mr. Graves has visited Michigan and in most cases we have been very much pleased with the
response. In some cases, we are not so pleased. That seems to be true of all volunteer organizations. Some will function well and some will function in a mediocre fashion.

Our task will be, as we get the organizations put together, to put some - the necessary pep into these organizations. We feel that when they get into full action, we will have a great many buyers of these securities.

H.M. Jr: Now let me ask you a couple of questions.

Johnston: All right.

H.M. Jr: Take any state which is partly organized, one of the things I am anxious to do is to definitely reach the factory workers.

Johnston: Yes, sir.

H.M. Jr: Have we worked out in any state a systematic method of going to every factory, contacting the workers and the management, so that we can say, "Well, if it is on a county basis or a town basis, out of this town we have contacted every factory and so many have or so many haven't agreed to work out a method with the workers, say to them that they will put so much of their payrolls into these bonds"?

Johnston: We shall do that in two states as an experiment, Massachusetts and Minnesota, and we are starting today on those organizations.

H.M. Jr: Now, are you going to have any paid people so we can make it really systematic?

Johnston: We do in each state have a deputy administrator who will assist the State Administrator.
H.M. Jr: To make a systematic check of every factory?
Johnston: Yes, sir.
H.M. Jr: I am particularly interested in that.
Johnston: I am delighted to hear you say it. That, of course, we feel is the most important thing we can do. We feel that sixty percent of our market will come from payroll savings plans where factories will be willing to cooperate with the employees.

I should tell you that a great many corporations are doing it. General Electric, Metropolitan Life, New York Life, and A. T. & T., the Lincoln National Life, the Federal Reserve Banks, of course.

H.M. Jr: Well, that is all to the good, but what I feel is, I would like to have this thing - really try it out just the way you are doing it in a systematic way and if you find a technique which works, then we can copy it all over the country. But you have got that started?

Johnston: Oh, we worked out the technique for the Federal Reserve.

H.M. Jr: But I mean systematically so that you can say in Minnesota or in such a town in Massachusetts in so many weeks or months, we will contact every single factory in the state.

Johnston: Yes, sir. We have the technique worked out for it.

H.M. Jr: And that you will know what they are really doing.
Johnston: Yes, sir. And we will know the number of employees that accept such a plan, too.

H.M. Jr: Well, that is the principal thing that I have in mind, and that I wanted to find out, whether you wanted - and if we do this once a week, which I would like to do - I would like to get a report, I mean, of what progress we are making, particularly in that field.

Johnston: I had a report from Texas which will be of interest to you. Many, many firms there are working out just these plans. They are doing it on their own hook, really. It is more or less voluntary, because we haven't pushed it.

Mr. Graves suggested Friday to Mr. Sloan and Mr. Powell and me that we work out a very definite plan and put it in printed form and send it out and that is being done. They worked on that all day yesterday.

H.M. Jr: Now, in connection with that, the other thing, are we going to have a news letter so that if, for instance, you find that such and such is a good scheme and you can write it up and get it to the people, the field workers, are you going to have a --

Johnston: We were going to call it a news letter. That is prepared and is being revised. I went over it Friday and wrote quite a few things for it and then we wanted a re-preparation of some of the material. That is about ready, and we have a man in charge of it who is gathering the information and preparing it.

H.M. Jr: That will be a weekly thing?
I should say weekly. We thought at first we would make it every two weeks, but weekly is much better. That is the system that we have always used, is weekly in the business and the campaign side of it.

Now, you will have to have two different kinds because I want one for the postmasters.

Yes, that would be an excellent idea.

I want one for the postmasters.

All right, sir.

After all, the thing that you are - you can say, "Well, here is something that went - well, here is some publicity devices, here are some sales devices that went well with the factories and should interest the postmasters."

I think you ought to have two different letters, one going to the postmasters and one going to --

One will be a purely field letter, we thought, just telling them methods that other states are using, and the results that firms have had in this payroll savings plan, firms that put it in, and bring the field men up to date also on the publicity, which has been excellent and which they have as a background and which they can use and refer to, you see.

Now, will the Post Office Department let us do it direct or do we have to do it through Frank Walker?

Well, I haven't thought of that at all. We would certainly have to go down there and talk that over with them.
H.M. Jr: Will you? And then, is there some way - I know this is going to be hard - that we can get some kind of a rating for these people, those postmasters who do well and those who don't?

Johnston: It would be a fine thing if we could.

Graves: I think it has always been done on the baby bonds.

Sloan: A chart showing where they stood in their class and in their state. We have always sent that out once a year.

H.M. Jr: I would like this once a month.

Sloan: Right along, yes, sir, show where they stand in competition with fellows in their same grade and class.

H.M. Jr: Once a month. And then is there some way of rewarding the postmasters who do better than others?

Graves: Only by reporting to their chief, the Postmaster General, who doubtless would write them commendatory letters.

H.M. Jr: A letter is very nice, but how about a little cash?

Graves: No. Under the Postal setup, the compensation of postmasters is based upon Postal revenues. There is no way they can supplement it.

H.M. Jr: No way of getting little prizes, say, for a good idea?

Graves: I wouldn't think so.
Well, think about it, Harold. After all, when I first came in - it isn't exactly the same thing, but it is trying to hit the bull's eye - we had nothing. Some of the men hadn't shot a revolver in ten years until I came along, and we have got them all shooting in teams, competition and that business now, and we have got cups. I don't know how it is all financed, but I paid personally for one of them.

Graves: You paid for the cup that they all compete for every year.

H.M. Jr: We have got them now that they are competing in teams, and meet fellows and gosh "I am on this local team and I am going down to Atlanta to compete and I am going down to Florida," and everybody is interested. We give them a little red ribbon that costs about two cents and that kind of thing.

If we could get the postmasters competing for something, if it isn't too much, I would contribute myself, but I think if we get these postmasters going and reward them with five dollars for the best idea on how to sell stamps and so forth. I want to put the pressure on. I want to begin to put the pressure on. As I see the thing, there are two groups. One is the Post Office group which do one job, and the others are, for a better name, the Industrials.

Graves: You might be interested --

H.M. Jr: I want to begin to put the pressure on.

Johnston: All right, sir.

Graves: Mr. Morgenthau, right now the banks are
selling more bonds than the Post Offices, even the E bond.

H.M.Jr: Well, that is good.

Graves: It is about three to one, I believe, two to one at any rate. The volume of the E bond - Post Office sales of the E bond through the sixteenth has been nineteen million eight hundred fourteen thousand, and bank sales of the E bond were thirty-two million nine hundred fifty-one thousand.

H.M.Jr: Say that again, will you please?

Graves: Post Office sales of the E bond through the sixteenth have been nineteen million eight hundred fourteen thousand, and bank sales of the E bond have been thirty-two million nine hundred fifty-one thousand.

H.M.Jr: How about the number of pieces of paper that they sold?

Graves: Units?

H.M.Jr: Yes. Are they the same ratio?

Graves: I don't have those figures, but the average sale per transaction in the E bond is somewhat higher in the bank than in the Post Office.

H.M.Jr: That is what I thought. I would be interested in how many unit sales we have.

Graves: We have that. I just didn't bring it with me.

H.M.Jr: I think you will find they sell more in the Post Office. I mean not more, but the proportion would be one to two.
Johnston: The banks have been very cooperative.

Graves: The number of customers is higher in the banks. My point of course was that any system of rewarding or awarding prizes of any kind should naturally include the banks.

H.M.Jr: Oh sure. I am just - up to now, I haven't said this to you that I wanted to put the pressure on, but I want to begin to do it. Then I would like to try to do this every Monday, if possible.

Johnston: All right, sir.

Powel: You know the publicity is an impossible thing to talk about briefly.

H.M.Jr: Oh.

Powel: We have got three sections. The press, where you had the head man and gave it out for a long time; radio, which is in the hands of Mr. Callahan; and motion pictures, which are in the hands of Mr. Diletz, who will be here tomorrow whenever we have made a room for him downstairs with his motion picture films complete, which begin with your talk in Mr. Sullivan's office, then your sale of the first bond, and now have got into the Hollywood area and will be shown at all theaters in the country.

H.M.Jr: Including the Harold Graves Theater?

Graves: Would you like to take a look at these pictures tomorrow?

H.M.Jr: Yes, sure.

Powel: What time would be convenient tomorrow?
H.M.Jr.: Well, if Harold will ask me at nine-thirty, I will tell him. I will do it sometime tomorrow afternoon. Is your theater running?

Graves: I think it will be ready tomorrow. I haven't checked lately. How about it?

Sloan: I think it will.

H.M.Jr.: Is he here only one day, Dietz?

Powel: He can be here more.

H.M.Jr.: Well, make it dependent - if the theater isn't ready Tuesday, if he will do it Wednesday, I can always drop out.

Powel: I just wondered if you would be available.

H.M.Jr.: I will be available either Tuesday afternoon or Wednesday. Wednesday would be a little bit better, even, but I would like to see them in our theater downstairs.

Powel: It is right here.

H.M.Jr.: Right below me.

Powel: I believe it has been wired for sound and everything.

H.M.Jr.: Oh yes. It is known as the Harold Graves Theater. (Laughter)

Powel: I didn't know that. Now, would you like to have Mr. Callahan say a few words on radio?

H.M.Jr.: Yes, I would.

Callahan: We are running something in the neighborhood of three thousand announcements per day on eight hundred fifty radio stations. We are
running about four announcements a day in foreign languages and on about two hundred radio stations. We are running on commercially-sponsored shows about twice a day.

Now, that carries us through the month of May. In the month of June we go into one minute transcriptions, movie stars, dramatic skits, straight announcements, and a musical program of one minute.

Now, that briefly is our radio program.

H.M.Jr: Well so far - have you got much competition from within the Government?

Callahan: We have had a lot of competition, but I think we are running number one.

H.M.Jr: Really?

Callahan: I am quite sure we are. Stations have notified us so far that they have used up in the first two weeks, thirty thousand separate announcements.

Powel: May I give the reasons for that? I made a little canvass of it. It was the enormous flattery of your letter to the individual stations. Eight hundred fifty were sent out over your signature. You were kind enough to sign one.

H.M.Jr: I think that is what it was.

Powel: Over five hundred came back. I had the damndest mess of --

Callahan: Six hundred twenty is the largest number of replies ever received.
Powel: And I want to suggest that to improve relations with the press in the case of the thousand or more small town newspapers, trade journals, I am not thinking of the large metropolitan press, but the local grass-root press, if you would be kind enough to approve a similar letter.

H.M.Jr: I should love to.

Powel: Which Mr. Kuhn has on his desk.

Callahan: We are planning with the newspapers to ask them to use virtually the same thing as the radio stations, except in a different way. A box or a short story, three, four, or five times a week, which will be more or less factual, tell why you should buy the bonds, how much they cost, where to buy them, and do it now.

I think that we can get the newspapers to do that. There are fourteen hundred twenty-nine daily newspapers.

H.M.Jr: That will be wonderful.

Callahan: Then in trade journals, I think there are about eleven hundred and twenty. We can concentrate on them with a pay deduction plan to see if we can get them to boost it in an editorial way and carry boxes in the journals advising manufacturers that they can write to the Treasury Department or wire and we will give them complete information.

H.M.Jr: I would like to try something. It may not be any good, but if you could a little bit just try a - personalizing this thing. If Mr. Smith in the little town does something particularly unusual, write it up giving him the credit, whether he is the particular
postmaster of the town or the cashier of some bank or something or other, you see. If you can do a little human interest story on somebody who has had the intelligence to think out something, and then put it on the air or in the story.

I mean, try it and see if it catches on. It may not be worth anything, but I mean a human interest story about the cashier of a bank or some little postmaster or something like that, and tell the story about this person in the community and try to put it on and see if it catches on even in the big papers. It might or it might not.

Powel: I think this is the first time, if you will write this letter, authorize the letter, that the small town newspapers have been in touch as nearly with a Government Department and they will furnish a great deal of that material in that connection.

H.M.Jr: Well, I would just like to try it and see if it - I mean, after all, this girl who changed her name in Hollywood, if she could get her picture - I saw that it was in twenty-eight hundred different newspapers. You know, she went into court. There was some Hollywood girl.

Callahan: Yes, I remember.

H.M.Jr: They got her picture in over two thousand newspapers. I guess it was Time magazine had it.

Callahan: Life.

H.M.Jr: Well, it is things like that which strike my imagination.
Callahan: Well, I think we will be able to do that very effectively through the state organizations.

What we have been talking about in both radio and press is operating from Washington, but when we go into the state organizations, we will do the same thing in a purely local way.

We will ask for a certain amount of cooperation. As the next thing, we will get a local banker, a local businessman, a local doctor or somebody and he will ask the newspaper and the radio station and it will be localized.

H.M. Jr: You take the radio's word for it when they do it, is that it?

Callahan: No, sir. We have a system of checking. We send out to the radio stations announcements. At the bottom of announcements we have a stub. That stub is addressed to the Treasury Department and says announce one (a) or whatever it was was used and the station is given at such and such a time. Those stubs are mailed back. We have had thirty thousand stubs mailed back to us so far.

H.M. Jr: Is that a new wrinkle?

Callahan: That is the newest wrinkle, and it is working very, very effectively.

Powel: They even airmail them.

Callahan: Airmail them, and we are getting from the southern states, particularly, affidavits of performance proving that they did it. In addition, we sent out some five minute recordings of interviews between a businessman and a Treasury official, which we made here in Washington, and they are being used twice a week for the last three weeks in May. We
received seventeen hundred of those stubs back.

We wrote a letter to the radio stations and asked them to get their postmaster and asked them to get their mayor at the opening. We had two hundred stations take care of that for us.

H.M.Jr: I will tell you what I would like to do. Harold, if you could get it to me tonight.

I would like in not more than one page a summary of what the radio stations are doing for us written to the President.

Callahan: That would be very grand for us.

H.M.Jr: I would say that this is the most unusual thing, and I would like to get it to him and I think he would be interested, he is always interested, if you send this thing with the stub attached and say, "This is the way that we know."

Send him a sample.

Callahan: Incidentally, Mr. Secretary --

H.M.Jr: You see, send him a sample of the thing and say, "This is the way we are checking and this is the way we know about it," you see.

Graves: Yes.

Callahan: In writing to the radio stations --

H.M.Jr: Make it, Harold, from you to me.

Graves: Yes, sir. A note for you to sign transmitting it, you mean?
H.M. Jr: What is that?
Graves: A note from me to you and a note for you to sign?
H.M. Jr: Just write the letter for me to sign, but be sure I get it tonight.
Graves: Yes, I will see.
Callahan: That we are keeping this record which is available to all the stations. They know that we are keeping them.
H.M. Jr: Fine. I think that is wonderful. And you think maybe you can do something with the small newspapers?
Callahan: I am quite sure we can.
H.M. Jr: That will be wonderful.
Powel: Now, you don't want a continued speech, I am sure, about other details of this? We have a great mail order machine. We are making tests of different kinds of letters and enclosures.
You said turning on the pressure. We are going to turn on the pressure in a scientific way for finding whose name is on there, what letterhead, what imprint on the envelope, what enclosure, what kind of an order blank and having found that, with your permission, we are going to circularize as intensively as Time magazine.
H.M. Jr: Are you using this fellow that --
Graves: We are, John Blair.
H.M.Jr: Is he helping?
Powel: He is directing it under our authority, making trips here, and has installed two men, Messrs. Butler and Vance, and he comes for consultation once a week.

H.M.Jr: Blair?
Powel: Yes.

H.M.Jr: Bring him in the next time. Isn't he a nice fellow?
Powel: A lovely fellow.

H.M.Jr: And able.
Powel: I would like to have a half a paragraph on the Boy Scouts.

H.M.Jr: What, to the President?
Powel: To you.

H.M.Jr: Oh.
Powel: Now, they have lugged out a million posters and are anxious to lug out a quarter of a million more. No assignment - I have got some two-sheet posters now, you know, as big as the door. No assignment is too tough for them. They would like to put those up in railroad stations.

The Pullman Company last week put up the small poster in the end of every Pullman car in the country, in that slot.

Johnston: Incidentally, Harford and I just had word from the Western Railroad Association the
endorsement plan to sell stamps at the railroad stations.

H.M.Jr: Wonderful. Well, put it in. Look, give this to me. We will work this thing. I want the President to know. He likes to know.

You can say to the President, "Thanks to your letter to the Boy Scouts, we have got this kind of cooperation." It can run two pages, Harold.

Johnston: Incidentally, Mr. Secretary, I thanked the Boy Scouts. I addressed their annual meeting Saturday. On behalf of the Treasury and the Government I thanked them.

H.M.Jr: I want to give you men a chance to pep me up and for me to give you some of my half-baked ideas and then what is good, I want to pass it on to the President.

Graves: I think Mr. Houghteling ought to tell us about his work, Mr. Secretary.

Houghteling: We have been contacting all sorts of national organizations with the idea of getting them ready for their state organizations as the state organizations mature.

We have had very interesting results. My own field has been primarily labor, and I am getting from the A.F. of L. Unions the list of their locals with the members of each so we can send out circulars to them, and the heads of the international unions are addressing the heads of the locals asking for their cooperation.

I am working on a systematic savings plan, both as to the pay deduction plan, through
an additional payment at the time of payment of union dues and through the buying of defense savings stamps on the part of the locals from their own funds to have them available for their own members.

Unquestionably the payroll deduction plan is the more effective of the three if the unions are agreeable to it, and if the employer is financially sound, but I am working on the other plans too, and I have had the approval of the A.F. of L. and the railroad brotherhoods and I am working - I am getting up a pamphlet on that subject.

The American Legion has adopted a very strong resolution that every American ought to buy a Defense Savings Bond. We are working it out through the state commanders of the Legion - the Masonic orders have been written to and are coming in very whole-heartedly, with fraternal orders, and trade associations are cooperating.

The Association of American Railroads has offered to put stamps on sale at all railroad stations and to put up placards and to put into the - the member roads are willing to put into the payroll envelopes a pamphlet about Defense Savings Bonds and also to put into effect, pay deduction plans if the brotherhoods ask them to.

We have got - we are working on Negro organizations through two men I have taken on in my staff. The new head of the Association of Women's Clubs is putting in a special section on Defense Savings Bonds. They are having their convention this week, I believe, and the new head takes over, and she is very keen on this program.
I am planning to get six million special circulars to the American farmer out through the A.A.A. county agents and we are also going — we are going to the Farm Credit local agents and the cooperatives. I have got a list of all the cooperatives in the United States that I am going to circularize as soon as I get my —

H.M.Jr: Both buying and consumer?

Houghteling: Both buying and consumer, yes. That I got from the Department of Agriculture.

Our circular to the farmers has just been completed and isn't off the press yet. As soon as that is in my hands, I am going after all those farm organizations, but we are trying to reach through voluntary associations just as many of the citizens as we can, placing literature in their hands and promoting systematic savings plans.

H.M.Jr: Well, that sounds good.

George, the reason I wanted you here this morning, when am I going to begin to get the kind of statistics that I am accustomed to? (Laughter)

Haas: I hope Wednesday morning, Mr. Secretary, for the first seventeen days. From there on, you will get them weekly.

H.M.Jr: Because I am a little worried. I haven't got the feel of the thing until I see it in black and white. I mean, as to units.

Graves tells me they sell so many million a day. I would like the number of people and which bonds. You know.
Haas: Yes, we have been getting that daily thing up for Mr. Graves.

Graves: Here is the report through the sixteenth, which was Friday.

H.M.Jr: Oh, won't I have one through the sixteenth?

Graves: Yes, you will, about noon I would say.

H.M.Jr: It is amazing how steady it is, isn't it?

Graves: Yes. That is a very comforting factor about this, that there is no sign of any falling off in volume.

Haas: The weekly figure, Mr. Secretary, will show you how it is coming by areas, by states. Any time you are interested, you can take a look.

H.M.Jr: I am ready and waiting. When am I going to get it?

Haas: Wednesday.

H.M.Jr: All right. Well, I will have a later one than this, won't I?

Graves: About noon. It will be through Saturday.

H.M.Jr: I think it would be all right to give it out. I was impressed - I don't know who the young lady is - who is writing that weekly letter, there is nothing that succeeds like success. Who is the young lady?

Kuhn: Helen Dallas is working for Harold Graves and she is doing this as a part-time job. You originally wanted somebody full time, but I thought from the beginning if she was willing --
H.M.Jr: What does she do the rest of the time?
Graves: She is doing pamphlet work. As a matter of fact, she has only been with us for two weeks.
H.M.Jr: Bring her in some time. I would like to see what she looks like.
Graves: I would like to do that.
Kuhn: Was that the kind of summary you wanted, Mr. Secretary?
H.M.Jr: Yes. And I don't know whether it is done, but I think all three of those ought to be pinned together and go to the President at the same time.
Kuhn: No, only the Allen Barth one goes to the President.
H.M.Jr: That and the tax and this one. Make them from them to you, then you send it over to me, because you have been too modest about this thing. You edit them, don't you?
Kuhn: Yes.
H.M.Jr: Well, make them from Barth to you, the tax fellows to you, and this girl to you. They are all doing it under this direction, aren't they? I want the President to know you exist and then I will send it with an accompanying letter to the President, but let him get all three.
Kuhn: Right.
H.M.Jr: Let's do it again, Harold. It is O.K. And you get me something to send the President so that he knows that we are existing.
MEMORANDUM FOR THE PRESIDENT:

I believe that you will be interested in the attached memoranda about our Defense Bond program. One summarizes the fine cooperation which we have been having from the radio industry. The other tells of the work done by the Boy Scouts.

[Signature] V. Morgenthau, Jr.

HNG/mff
May 19, 1941

RADIO COOPERATION IN DEFENSE SAVINGS PROGRAM

On March 20, 1941 Secretary Morgenthau wrote to 657 local radio stations and to the Columbia Broadcasting Company, the National Broadcasting Company, and the Mutual Broadcasting Company asking for cooperation in promoting the sale of Defense Stamps and Bonds. To this letter 620 stations and the three companies replied offering full cooperation.

Since then, 791 local stations (up to May 17th) have reported their use of 34,362 separate 150-word announcements, these announcements having been supplied by the Treasury Department. Reports of announcements used are coming direct from the stations. Copies of typical announcements and form of report are attached hereto.

In addition, the three broadcasting companies have built and broadcast, up to May 17th, 39 separate 15-minute and half-hour programs devoted exclusively to stamps and bonds. Also, 18 of the subscribing newsmen announce have broadcast two or more messages in their news programs.

Letters have been sent to all major commercial sponsors and each and every one of them, without exception, has offered cooperation, at least twice a day, network commercial programs are using one to five-minute selling statements about bonds and stamps. In addition, every
United States station which broadcast in foreign languages is using these announcements at least twice a day, in seventeen languages.

As an example of cooperation by foreign language stations, 39 of these stations translated and rebroadcast President Roosevelt’s broadcast and speech made in fourteen different languages on the day following the presidential broadcast.

Special material has been prepared by us and is in use on the majority of Farm and Home programs on more than 100 stations.

It is interesting to note that this cooperation of radio stations, networks, and commercial sponsors has not been confined to the opening of the campaign. We are operating on a definite daily schedule. Announcements on a three to five day basis, network containing programs on an eight to ten time weekly basis, and commercial network broadcasts on a ten to twelve time weekly basis will continue indefinitely.

Both in actual time consumed, and in number of different stations, this is the most extensive calling campaign ever conducted in radio. All the time and talent involved has been contributed by the radio stations and networks.
May 19, 1941

Boy Scouts Serve in Defense Savings Program

On April 26, 1941, the President sent a letter to Mr. Walter V. Reed, President, Boy Scouts of America. The letter asked all the 45,000 unit leaders to "aid the Secretary of the Treasury in special messengers in the distribution of official government posters announcing the U. S. Savings Bonds and Stamps for Defense, and to cooperate in such other ways as may be deemed suitable for boys."

Inspired by this letter, the Scouts have hung up 1,000,000 posters in store windows, also offices and factories all over America, and are today asking for 500,000 more posters, including 10,000 very large ones for railroad stations.

So zealous are the Scouts to serve continuously in the National Defense program that they are discussing with us a tentative plan to have 1,900,000 boys "do 25 cents worth of useful work a week" and place the proceeds in Defense Postal Savings Stamp albums, up to the point where each boy will have earned a $25 Defense Bond.
Treasury Department, Defense Savings Staff, Washington, D. C.

On ______________________, 1941, Announcement E

was used over Station WGAN of Portland, Maine at approximately 11:30 a.m.

Signature /s/ C. E. Gatchell, Manager
Treasury Department, Defense Savings Staff, Washington, D. C.

COFT)

On ______________________, 1941, Announcement D

was used over Station KWBQ of Shreveport, La., at approximately 9:45 a.m.

Signature /s/ W. Sneed
Treasury Department, Defense Savings Staff, Washington, D. C.

On ______________________, 1941, Announcement C

was used over Station _______ of _______ at approximately ____________ P.M.

Signature ___________ /s/ Carleton D. Smith
Treasury Department, Defense Savings Staff, Washington, D. C.

On ______________________, 1941, Announcement B

was used over Station __________ of __________, __________ at approximately ___:___ P.M.

CALL LETTERS

CITY AND STATE

TIME

Signature: /s/ Jim Lyons
Treasury Department, Defense Savings Staff, Washington, D. C.

On __________________________, 1941, Announcement A

was used over Station ____ of Miami Beach, Fla. ______at approximately 6:45 p.m. ______

Signature /s/ Mabel Lewis, Traffic Mgr. ______
Radio Announcement

Thursday, May 15, 1941

You are invited to become a bondholder...a bondholder in the U. S. A. Uncle Sam invites you to invest your cash with him. He makes it worth your while, too. How? Well, a Defense Savings Bond won't "go down" in value. The United States Treasury will buy it back, on demand...and repay every cent you paid in. As time goes on, you'll get even more...for Uncle Sam credits you with interest on these bonds. Be a bondholder. Find out how money grows. Start with eighteen dollars and seventy-five cents...which grows to twenty-five dollars in ten years. Collect four dollars for every three you put in these bonds, which are as safe as the United States itself...and help to defend America's safety. Uncle Sam limits these bonds to five thousand dollars a year for any one buyer...and offers other bonds for other purchasers. For those who want to start with ten cents or a quarter, there are Postal Savings Stamps. Ask your postmaster or bank or address a post card to "U. S. A.," care of (Call letters) (City), for details.

Treasury Department, Defense Savings Staff, Washington, D. C.

On Thursday, May 15, 1941, Announcement 18A

was used over Station _______ of _______ at approximately _______

SIGNATURE
Busy factories . . . belching smokestacks . . . they mean bigger payrolls for more people. But what do you do with the money? The only wages that really count are those you save. And Uncle Sam helps you save. The United States Treasury offers triply-guarded Defense Savings Bonds as the place to put your money. Guarded . . . safe . . . backed by the Nation itself. Your principal is safe. Your interest is safe. Your investment is safe. No chance for these bonds to sell for less than you paid for them. And, year after year, there's a steady and increasing rate of return. Cash them in at any time, if need arises, but always for full value at prices printed on the face of the bond. Defense Savings Bonds are limited in the amount for any one person. But other types of bonds are offered other purchasers. And even school children can take part . . . with Postal Savings Stamps . . . saving a dime or quarter at a time. If you want more facts, ask any postmaster or banker . . . or drop a post card to "U. S. A." care of

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Treasury Department, Defense Savings Staff, Washington, D. C.
On Thursday, May 15, 1941, Announcement 18B

Was used over Station________ of________ at approximately________

CALL LETTERS CITY AND STATE TIME

Signature________
Radio Announcement

Thursday, May 15, 1941

Busy factories ... belching smokestacks ... they mean bigger payrolls for more people. But what do you do with the money? The only wages that really count are those you save. And Uncle Sam helps you save. The United States Treasury offers triply-guarded Defense Savings Bonds as the place to put your money. Guarded . . . safe . . . backed by the Nation itself. Your principal is safe. Your interest is safe. Your investment is safe. No chance for these bonds to sell for less than you paid for them. And, year after year, there's a steady and increasing rate of return. Cash them in at any time, if need arises, but always for full value at prices printed on the face of the bond. Defense Savings Bonds are limited in the amount for any one person. But other types of bonds are offered other purchasers. And even school children can take part ... with Postal Savings Stamps ... saving a dime or quarter at a time. If you want more facts, ask any postmaster or banker . . . or drop a post card to "U. S. A." care of ______________________

_________________________

Treasury Department, Defense Savings Staff, Washington, D. C.

On Thursday, May 15, 1941, Announcement 18B

was used over Station ______________________ at approximately _________

_________________________

Signature
Here is a great opportunity for all Americans. The Government is selling its new Defense Savings Bonds ... at post offices and banks. Just consider what these bonds offer you. They can never "go down" in price. You never get back less than you pay ... but you do get more ... much more ... than you put into them. Four dollars come back to you in ten years for every three dollars you put into these Bonds now. Your money back if you should need it, even after a couple of months. The lowest priced bond is eighteen dollars and seventy-five cents, worth twenty-five dollars in 1951. But Postal Savings Stamps help you start with a dime ... or a quarter at a time. And, since the Defense Savings Bonds themselves are limited, the Treasury offers other bonds that invite large investments. Today, put your money in these Defense Bonds, guaranteed and backed by the full faith and credit of the United States Government.
May 19, 1941

Dear Mr. Paderewski:

This is just to thank you, for myself and for the entire Treasury Department, for your great service in speaking over the radio in aid of our Defense Savings Bond program.

Your appeal was so fine in its spirit and in its wording that the Treasury is having it reprinted as a pamphlet for distribution to millions of Americans.

I am sure that it will be effective, not only in promoting the sale of Defense Bonds but also in giving the foreign-born in this country a heightened sense of what it means to be free men living in a land of freedom.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Ignace Jan Paderewski,
Buckingham Hotel,
New York, N. Y.

File to Mr. Thompson
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>$14,969</td>
<td>2,962</td>
<td>2,087</td>
<td>9,900</td>
</tr>
<tr>
<td>6</td>
<td>$14,967</td>
<td>3,845</td>
<td>2,092</td>
<td>9,030</td>
</tr>
<tr>
<td>7</td>
<td>$17,802</td>
<td>3,872</td>
<td>2,155</td>
<td>11,775</td>
</tr>
<tr>
<td>8</td>
<td>$18,925</td>
<td>4,565</td>
<td>1,210</td>
<td>11,151</td>
</tr>
<tr>
<td>9</td>
<td>$15,189</td>
<td>4,011</td>
<td>1,591</td>
<td>9,565</td>
</tr>
<tr>
<td>10</td>
<td>$13,800</td>
<td>4,156</td>
<td>1,415</td>
<td>8,229</td>
</tr>
<tr>
<td>12</td>
<td>$17,051</td>
<td>4,542</td>
<td>1,578</td>
<td>10,930</td>
</tr>
<tr>
<td>13</td>
<td>$19,587</td>
<td>4,374</td>
<td>2,219</td>
<td>13,294</td>
</tr>
<tr>
<td>14</td>
<td>$18,019</td>
<td>4,121</td>
<td>1,621</td>
<td>11,977</td>
</tr>
<tr>
<td>15</td>
<td>$16,984</td>
<td>4,255</td>
<td>1,952</td>
<td>10,777</td>
</tr>
<tr>
<td>16</td>
<td>$17,470</td>
<td>4,062</td>
<td>1,528</td>
<td>11,880</td>
</tr>
<tr>
<td>17</td>
<td>$13,612</td>
<td>2,706</td>
<td>1,104</td>
<td>9,802</td>
</tr>
<tr>
<td>Total</td>
<td>$262,857</td>
<td>$55,471</td>
<td>$28,879</td>
<td>$178,507</td>
</tr>
</tbody>
</table>

Source: Division of Savings Bonds. The post office figures are estimated by the post office on the basis of actual sales by 100 larger post offices. The bank figures are taken from Federal Reserve Bank reports and include their own sales.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

Revised.

Regraded Unclassified
We suggest for the forthcoming refunding of the August 3-1/4 percent bond a two-way offering, consisting of an 8-10 year, 2 percent bond and a 14-19 year, 2-1/2 percent bond. We suggest also that the 2-1/2 percent, 14-19 year bond be open for such new cash as is to be raised, but that the intermediate bond be offered only in exchange for the maturing bond. The estimated yield bases and probable prices of the two issues suggested are shown in the table below:

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Estimated Yield Basis</th>
<th>Probable Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-1/2 percent bond</td>
<td>2.38</td>
<td>101-13/32</td>
</tr>
<tr>
<td>due June 15, 1955-60 (14 - 19 years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 percent bond</td>
<td>1.84</td>
<td>101-6/32</td>
</tr>
<tr>
<td>due June 15, 1949-51 (8 - 10 years)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Based on closing bid prices, May 19, 1941.

The principal considerations underlying the foregoing suggestions are the following:
(1) The market has been moving upward since the last financing and appears to be in a receptive mood for a long bond.

The prices of long and intermediate Treasury bonds are currently about 3/4 of a point above the levels at the time of the last Treasury financing. The taxable 2-1/2's of 1952-54 which were offered at that time have done even better than the average. This issue is currently quoted at about 103-24/32, which is an increase in price of about 3 points over the first quotations. This strengthening of the market makes it apparent that a 2-1/2 percent bond could be offered today with a maturity somewhat longer than the 1952-54's. Such an offering would probably tend to further improve the tone of the market and to establish the fact that the defense program can be financed without steadily increasing the interest rates on Government securities.

(2) The maturing bonds, however, are owned to a significant extent by commercial banks who are not interested in a long bond for permanent holding.

The recent Treasury survey of the ownership of Government securities by large banks and insurance companies disclosed that on March 31 about 46 percent of the August bonds were held by commercial banks and about 17 percent and 9 percent were held by insurance companies and mutual savings banks, respectively. If a new issue of long bonds is offered, it is unlikely that commercial banks will be willing to take for permanent holding more than a fraction of the amount which they are now holding of the maturing issue. This would not be a serious problem if no new cash were to be sought at this financing because the demands of savings banks and insurance companies would doubtless take up a large portion of the long bonds liquidated by commercial banks. (In this connection it might be noted that life insurance companies' cash balances are now at a record high level — in excess of a billion dollars.)
Secretary Morgenthau – 3

Inasmuch as new cash is to be obtained at this time, however, it is likely that the demands of savings banks and insurance companies will be satisfied to a considerable extent by subscriptions to the cash portion of the financing. The secondary distribution caused by bank liquidation of a large volume of long-term bonds may, therefore, cause some unsettlement at the long end of the market.

Figures compiled from the survey referred to above show that 57 banks, which own about 83 percent of the bank holdings of the maturing 3-1/4's and about 34 percent of the bank holdings of all issues of Governments, hold less than 10 percent of the bank portfoio of issues with 12 years or more to their earliest call date. On the basis of these figures it is estimated that secondary distribution may involve as much as $300 million out of the $834 millions to be refunded. A two-way exchange offering designed to avoid such secondary distribution would appear to be desirable.

(3) The suggested offering of two bonds would take care of the demands of all investors.

A two-way bond offering would make it possible to take care of the needs of all investors so long as the pricing is done without substantial bias in favor of one of the issues. A long bond would take care of the interests of the savings banks, insurance companies, and perhaps other "real savers", while a short bond would take care of the interests of commercial banks. It is essential, of course, that the pricing provide substantially the same probable premium for both issues, lest the existence of a higher premium should result in creating an enlarged demand temporarily for one of the two issues and a subsequent reshuffling to take care of the more permanent requirements. For this reason it would not be advisable to reopen the 3/4 percent taxable note, inasmuch as the present premium of less than one point
compares unfavorably with the probable premium on the long bond suggested above.

It is also important to remember that this note was included in the two preceding refundings as "an anchor to windward" which it was thought desirable to have because of the uncertainties involved in pricing taxable Treasury bonds. Without question it served its purpose. Since the two new taxable bonds have been quoted on the market, however, a considerable portion of the uncertainty of pricing has been dispelled, and it is possible now to proceed with more confidence than it was in February or March.

(4) The suggested issues fit satisfactorily into our maturity schedule.

Although there are several issues with call periods overlapping the call periods of the proposed issues, there is sufficient flexibility in the length of the respective call periods to make the suggested maturities fully satisfactory.

(5) The Treasury can obtain the advantage of a five-year call option at no additional cost.

The market does not appear to exact an appreciably greater rate for a five-year optional call period than for a two-year call period. In consequence, it appears that the Treasury can secure the advantage of greater leeway in selecting the ultimate redemption date of the suggested 2-1/2 percent bond without paying more than it would for an issue with a two-year call period. A 2-1/2 percent bond could be issued successfully for either 14-19 years, or 17-19 years.
(6) The probable premiums on the suggested issues are large enough to cover the "coupon-carry" on the August bonds.

The "coupon-carry" on the August bonds from June 1 to August 1 is equivalent to about 17/32. The real margin of safety on the proposed issues is represented, therefore, only by the excess in the probable premium over 17/32. The issues suggested above are priced to provide a sufficiently large premium to cover the "coupon-carry" on the maturing issue without providing too large a premium for a security issued for cash.

(7) The size of the cash offering should not be much in excess of $500 millions, or $600 millions.

The amount of the August bonds to be refunded is $834 millions. This, in itself, is a fairly large offering. The market could, however, probably absorb $500 millions, or $600 millions additional without serious difficulty. The cash offering of $1 billion, on the other hand, might well give the market a shock which would impede future financing operations. An offering of this size might also be construed to mean that the Defense savings bond drive was disappointing.
<table>
<thead>
<tr>
<th>Question</th>
<th>Short answer</th>
<th>Details in</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Who holds the August bonds?</td>
<td>Commercial banks 46%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mutual savings banks 9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance companies 17%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Federal Reserve Banks 7%</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Subtotal</strong> 79%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>All other 21%</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong> 100%</td>
<td></td>
</tr>
<tr>
<td>2. Commercial banks are the largest holder of the August bonds. In general, how long a bond do commercial banks want in exchange?</td>
<td>Bank &quot;Breaking point&quot; appears to be issues callable in 1954</td>
<td>Table 1</td>
</tr>
<tr>
<td>3. Are bank holdings of the August bonds concentrated in a few banks?</td>
<td>Yes, 57 banks own 83% of all bank holdings of this issue.</td>
<td></td>
</tr>
<tr>
<td>4. How long a bond do the 57 banks want?</td>
<td>They want a short issue.</td>
<td>Table 2</td>
</tr>
<tr>
<td></td>
<td>They own (of bank holdings)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. 83% of August bonds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. 34% of all issues taken together</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. 10% or less of each issue callable after 1953</td>
<td></td>
</tr>
<tr>
<td>5. If we offer only a long bond in exchange, how much secondary distribution is likely to occur?</td>
<td>About $300 millions.</td>
<td>Table 3</td>
</tr>
<tr>
<td>6. Who holds our other taxable issues?</td>
<td>See Table 4</td>
<td></td>
</tr>
<tr>
<td>7. Do banks object to holding issues with long call periods?</td>
<td>No. In many cases they hold the same percent of long call as short call issues in same area.</td>
<td>Table 5</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics. May 19, 1941.
Table 1

SELECTED TREASURY ISSUES

Comparison of Bank Holdings with Total Amount Outstanding

March 31, 1941

(Dollars are millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount outstanding</th>
<th>Amount held by 5,638 commercial banks</th>
<th>Percent held by 5,638 commercial banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. All public marketable issues 1/</td>
<td>$42,943</td>
<td>$17,596</td>
<td>41</td>
</tr>
<tr>
<td>2. The issue to be refunded (3-1/4% of Aug. 1941)</td>
<td>834</td>
<td>361</td>
<td>46</td>
</tr>
<tr>
<td>3. Issues in the long bond area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-1/4% - 1951-53</td>
<td>1,118</td>
<td>608</td>
<td>54</td>
</tr>
<tr>
<td>2-1/2% - 1952-54</td>
<td>1,002</td>
<td>399</td>
<td>40</td>
</tr>
<tr>
<td>2% - 1953-55</td>
<td>725</td>
<td>530</td>
<td>73</td>
</tr>
<tr>
<td>2-1/4% - 1954-46</td>
<td>681</td>
<td>322</td>
<td>47</td>
</tr>
<tr>
<td>2-7/8% - 1955-60</td>
<td>2,611</td>
<td>298</td>
<td>11</td>
</tr>
<tr>
<td>2-3/4% - 1956-59</td>
<td>982</td>
<td>228</td>
<td>23</td>
</tr>
<tr>
<td>2-3/4% - 1958-63</td>
<td>919</td>
<td>195</td>
<td>21</td>
</tr>
<tr>
<td>2-3/4% - 1960-65</td>
<td>1,485</td>
<td>330</td>
<td>22</td>
</tr>
</tbody>
</table>

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

May 19, 1941

1/ Excludes special issues, United States Savings and Adjusted Service Bonds.
Table 2
SELECTED TREASURY ISSUES

Comparison of Holdings by 57 Selected Commercial Banks with Holdings by all of the 5,638 Commercial Banks Reporting

March 31, 1941
(Dollars are millions)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Amount held by 57</th>
<th>Amount held by 5,638</th>
<th>Percent of total held by 57</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. All public marketable issues 1/</td>
<td>$6,056</td>
<td>$17,596</td>
<td></td>
</tr>
<tr>
<td>2. The issue to be refunded (5-1/4% of Aug. 1941)</td>
<td>316</td>
<td>361</td>
<td>83</td>
</tr>
<tr>
<td>3. Issues in the long bond area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-1/4% - 1951-53</td>
<td>120</td>
<td>508</td>
<td>20</td>
</tr>
<tr>
<td>2-1/2% - 1952-54</td>
<td>136</td>
<td>399</td>
<td>34</td>
</tr>
<tr>
<td>2% - 1953-55</td>
<td>42</td>
<td>530</td>
<td>8</td>
</tr>
<tr>
<td>3-1/4% - 1954-55</td>
<td>27</td>
<td>322</td>
<td>8</td>
</tr>
<tr>
<td>2-7/8% - 1955-60</td>
<td>30</td>
<td>298</td>
<td>10</td>
</tr>
<tr>
<td>2-3/4% - 1956-59</td>
<td>8</td>
<td>226</td>
<td>4</td>
</tr>
<tr>
<td>2-5/8% - 1958-63</td>
<td>8</td>
<td>195</td>
<td>4</td>
</tr>
<tr>
<td>2-3/4% - 1960-65</td>
<td>20</td>
<td>330</td>
<td>6</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury,
Division of Research and Statistics.
May 19, 1941.

1/ Includes special issues, United States Savings and Adjusted Service Bonds.

Regraded Unclassified
### Table 3

Secondary Distribution Likely to Occur if We Offer a Single Long Bond in Exchange for the 3-1/4's of 1941

(Net issue estimated to amount to $800 millions)
(In millions of dollars)

<table>
<thead>
<tr>
<th>Class of investor</th>
<th>Original allotment based on present holdings</th>
<th>Final holdings after secondary distribution has been completed 1/</th>
<th>Changes that will occur</th>
</tr>
</thead>
<tbody>
<tr>
<td>57 commercial banks</td>
<td>316</td>
<td>30</td>
<td>286</td>
</tr>
<tr>
<td>Other commercial banks</td>
<td>44</td>
<td>130</td>
<td>-</td>
</tr>
<tr>
<td>Total commercial banks</td>
<td>360</td>
<td>160</td>
<td>286</td>
</tr>
<tr>
<td>Mutual savings banks</td>
<td>75</td>
<td>160</td>
<td>-</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>145</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>Federal Reserve Banks</td>
<td>57</td>
<td>57</td>
<td>-</td>
</tr>
<tr>
<td>Other investors</td>
<td>163</td>
<td>233</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>800</td>
<td>800</td>
<td>286</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury,
Division of Research and Statistics.
May 19, 1941.

1/ Assumes commercial banks as a class, and mutual savings banks each take 20 percent of the issue, and insurance companies take 25 percent of the issue. Assumes 57 selected commercial banks take a larger amount of the new issue for permanent holding than usual in this maturity area.


<table>
<thead>
<tr>
<th>Amount outstanding</th>
<th>Bonds</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,002</td>
<td>$1,115</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount owned by:</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5,638 commercial banks</td>
<td>$399</td>
<td>$602</td>
<td>$14</td>
<td>$461</td>
<td>$361</td>
</tr>
<tr>
<td>487 mutual savings banks</td>
<td>233</td>
<td>153</td>
<td>1</td>
<td>42</td>
<td>39</td>
</tr>
<tr>
<td>775 insurance companies</td>
<td>126</td>
<td>125</td>
<td>2</td>
<td>32</td>
<td>39</td>
</tr>
<tr>
<td>Federal Reserve Banks, Government agencies and trust funds</td>
<td>76</td>
<td>78</td>
<td>39</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>All other investors</td>
<td>168</td>
<td>157</td>
<td>9</td>
<td>94</td>
<td>66</td>
</tr>
<tr>
<td>Total</td>
<td>$1,002</td>
<td>$1,115</td>
<td>$65</td>
<td>$635</td>
<td>$531</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percent owned by:</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5,638 commercial banks</td>
<td>39.8</td>
<td>54.0</td>
<td>21.5</td>
<td>72.6</td>
<td>71.7</td>
</tr>
<tr>
<td>487 mutual savings banks</td>
<td>25.2</td>
<td>13.7</td>
<td>1.5</td>
<td>6.6</td>
<td>7.4</td>
</tr>
<tr>
<td>775 insurance companies</td>
<td>12.6</td>
<td>11.2</td>
<td>3.1</td>
<td>5.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Federal Reserve Banks, Government agencies and trust funds</td>
<td>7.6</td>
<td>7.0</td>
<td>60.0</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Subtotal</td>
<td>83.2</td>
<td>85.9</td>
<td>86.1</td>
<td>85.2</td>
<td>87.6</td>
</tr>
<tr>
<td>All other investors</td>
<td>16.8</td>
<td>14.1</td>
<td>13.9</td>
<td>14.8</td>
<td>12.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Issue</td>
<td>Length of call</td>
<td>Length of standing period</td>
<td>Amount out by 5,638</td>
<td>Amount held by 5,638</td>
<td>Percent held</td>
</tr>
<tr>
<td>-------</td>
<td>----------------</td>
<td>---------------------------</td>
<td>--------------------</td>
<td>----------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Short bond (to call)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4½% - 1941-51</td>
<td>10 years</td>
<td>$1,037</td>
<td>$351</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>3½% - 1941-46</td>
<td>2 years</td>
<td>1,519</td>
<td>573</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Medium bond</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-1/2% - 1949-53</td>
<td>4 years</td>
<td>1,786</td>
<td>711</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>2-1/2% - 1950-52</td>
<td>2 years</td>
<td>1,186</td>
<td>488</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Long bond</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3½% - 1950-63</td>
<td>5 years</td>
<td>919</td>
<td>195</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>3⅓% - 1956-59</td>
<td>3 years</td>
<td>982</td>
<td>228</td>
<td>23</td>
<td></td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics. May 19, 1941.

Note: This comparison is between issues with comparable amounts outstanding. It is between callable securities only and thus excludes fixed maturity issues.
Hello, Henry. By the way, I just got a notification of some kind of at home at the White House on the same night of your dinner party.

Hello, Frank.

At home?

Yeah, for the President and Mrs. Roosevelt. Have you had yours yet?

Well, my wife hasn't called me.

Is she in town?

Yeah.

Well, I think you better tip her off, she ..... 

It's something at the White House?

Yeah, wait a minute. I have it right here, I'll read it to you. I just got it and I happened to notice it's the same night that I was going to your house.

What is it?

(To someone else) Let me have that invitation that just came from the White House, Johnnie's got it. (To Secy) How are you?
HMJR: I'm all right.

K: Did you go away over the week end.

HMJR: No, I couldn't. I had to stay here on account of that tax thing.

K: Uh huh.

HMJR: I saw the President Saturday and cleared it with him. I just stayed here until .......

K: I talked to King when I was down with him Friday and he is all ready and waiting for you.

HMJR: Well, that's wonderful. I mentioned it to the President and he's delighted that I'm going.

K: The President is?

HMJR: Yeah.

K: Well, that's fine. Here's what the invitation says, "The President and Mrs. Roosevelt at home on Wednesday evening, May 21 at 9 o'clock" then there is the usual other dope.

HMJR: Oh, isn't that for the newspaper men?

K: I don't think so, this is addressed to The Secretary of the Navy and Mrs. Knox.

HMJR: At home.

K: I don't know what it's for. If it's just for the newspaper men, why hell, I'll go to your party. I'll beg off.

HMJR: Well, .....
K: But I don't think it is, Henry.
HMJr: Well, suppose I call up my Mrs. and find out.
K: Yeah, you better do that.
HMJr: I'll do it immediately.
K: It looks to me like a Cabinet affair.
HMJr: I don't know.
K: All right, oh boy.
HMJr: While I got you on the wire - Hello?
K: Yeah.
HMJr: This is a little bit out of my line but we did buy, I think, Lockheed, D-C .......
K: Buy what?
HMJr: We bought some planes for the English. The Treasury Procurement did, you know these D-C Douglas planes and some of these Lockheed planes....
K: Yeah?
HMJr: And they were supposed to have been rushed up to New York, I think my information is correct, they are up there at New York and they were going to be flown down to South America and across to Africa....
K: Yes.
HMJr: To get them to the middle East.
K: Yes.
Well, I understand that the whole thing is bogged down.

Yeah.

And that they are not going to fly them over, now they are going to ship them by boat.

Uh huh.

Well, hell, everybody broke his neck to get these things and get them repaired and they send the damn things by boat - why they won't get there to be any good.

That's right.

I wondered if you didn't mind my suggesting if you would look into it.

Well, I have done this much, Henry. I knew about this, as a matter of fact, 3/4 of these big 4 engines bombers been finished and 2 of them in operation, only two.....

Frank.....

And the last I heard from the British why, they had six of them on the way across the ocean.

Well, this is a different field.

Different?

These are second-hand planes, we bought.

Second-hand?

Yeah, to transport troops in the middle East.

Oh yes.

Well, these were some second - used planes that they bought.
K: I see.

HMJr: About twenty or thirty of them.

K: And who was supposed to fly them over?

HMJr: Well, the first as I was told, they were going to be flown by the Army and Navy.

K: No, I never heard of that.

HMJr: Well, that's what I was told and then the eighteen hundred miles across the Atlantic from Brazil over to Takoradi, whatever...

K: Yeah.

HMJr: And then in.

K: I see.

HMJr: And they sent them all up to New York, and now they are all up there and not a damn thing is happening to them.

K: Have you talked to Arthur Purvis about it at all?

HMJr: No, it came to me another way. I don't want to get in with Purvis - I mean I severed my connections, see what I mean?

K: Yeah. Well, I'll get into that thing.

H.M.Jr: I mean, I'm talking to you as a member of the committee of four. I don't want to start up again with Arthur Purvis.

K: I see. Well, I'll get right into it. Henry, and see what I can do.
H.M. Jr: Would you?
K: Yeah. You say there are how many of them there?
H.M. Jr: They tell me there is 20 up in New York all ready.
K: I see.
H.M. Jr: And I don't know. Everybody in Washington - Procurement of the Treasury was told to buy them and they've had them repaired and I think I've got the story straight but I don't want to start in again with the British Purchasing Mission.
K: Uh-huh. Well, all right, Henry. I'll get into it.
H.M. Jr: Thank you.
K: All right. Good-bye.
19 MAY 1941

THE FOLLOWING MESSAGE IS FROM SECRETARIES MORGENTHAU:

BARRING UNFORTUNATE INCIDENT WILL CERTAINLY GO SATURDAY. LETTER FOLLOWING.

FROM: SECNAV
TO : CINCLANT
May 19, 1941

My dear Admiral:

I have your very kind letter of May 16th. I am looking forward with real pleasure to my trip on the U. S. S. AUGUSTA.

Thank you for your kind offer to bring Lieutenant Stephens with me. I shall not bring him, however, as I am placing myself entirely in your hands and therefore will not need an aide on this trip.

You will be pleased to know that I mentioned to the President my proposed trip and he is delighted that I am making it.

I am having Coast Guard figure out the best way to fly me to Newport and as soon as I hear I will communicate with you.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Rear Admiral Ernest J. King, U.S.N.,
U.S.S. AUGUSTA,
Care of Postmaster,
New York, N. Y.
May 19, 1941

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Very sincerely yours,

(Signed) R. Morgenfield, Jr.

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U.S.S. AUGUSTA,
Care of Postmaster,
New York, N. Y.
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Rear Admiral Ernest J. King, U.S.N.,
U.S.S. AUGUSTA,
Care of Postmaster,
New York, N. Y.
U.S.S. AUGUSTA
May 16, 1941

My dear Mr. Secretary:

I am writing to confirm the arrangements for your cruise with us the latter part of this month.

The departure date is Saturday, 24 May, and the time - noon - if you can arrange to be here by that time.

The length of stay in Bermuda waters will be about 48 hours - from 0800 on Monday 26 May to 0800 on Wednesday 28 May.

The return date will be Friday 30 May and the time, tentatively - noon.

Agreeable to your request, I will endeavor to have a carrier available on either 26 or 27 May - for you to go on board and witness flying operations.

It is our expectation that this ship - AUGUSTA - will fire a long-range battle practice (eight-inch and five-inch guns) on the morning of our return here - 30 May.

I understand that you wish to bring your aide - Lieutenant Stevens - with you and hope that you will bring him.
If you will be good enough to let me know your detailed plans for coming here, I will see to it that you are met by car or boat or both.

Hoping that all will work out to your satisfaction - and looking forward to having you on board, I am

Very sincerely yours,

Ernest J. King
Admiral, U. S. Navy

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

Personal
May 19, 1941
3:25 p.m.

On the seven big Coast Guard cutters, we are waiting to hear from your people and the meantime nothing is happening. Hello.

Frank

Yeah.

Knox

Now, if you want to, we are ready, see?

K

I see.

HMJr

I have been, but I just wanted you to know that. I wish you would check up on me.

K:

I will. I'll do that right away. By the way, I checked up on the other thing and I'm having a meeting with Towers tomorrow to canvas whether we can't supply the pilots to take those second-hand planes right over.

HMJr:

Well, that's what was suggested to me but I'm such a modest creature, I didn't have the nerve to suggest it to you.

K:

(Laughs) You don't need to be modest to me. I'll slap you down if you say anything you ought not to. (Laughs)

HMJr:

I hope so. I've dropped out of it you know and I hate to - but I just boil over when I see everybody trying to do it and for some reason or other, here's twenty good transports that are going to rot up there, you know.

K:

There's a hell of a lot of things that are not followed through to the end.
You are right.

Absolutely.

And the suggestion was made to me — now, if the Navy would only do it, it would be done well and they would get there.

Yeah.

But as I say, being such a modest little violet, I lost my nerve.

(Laughs) I don't believe you. All right, Henry, I'll see you at dinner.

Thank you.

All right.
To: Secretary Morgenthau  
From: Mr. Gaston

May 19, 1941.

MEMORANDUM

At your suggestion I discussed by telephone this morning with Admiral Waesche, who was at New London, the draft of a letter to the President, for your signature, suggesting that the Coast Guard Organization Act be amended to repeal the obligatory provision that the Coast Guard entire goes to the Navy in time of war, substituting a provision that in time of peace or war the President may assign any part, or all, of the Coast Guard to work under Navy direction.

Waesche very strongly recommends against submitting this proposal directly to the President at this time. He made the following points:

(1) In time of actual hostilities all of the activities of the Coast Guard are a necessary part of National defense and can operate most effectively under direct Navy control.

(2) He believes that to inject this proposal into the situation at this time, without consulting the Navy Department in advance, would create friction and discord, which would make our situation much more difficult.

(3) The proposed amendment would be injurious to Coast Guard morale, since Coast Guard officers and men take pride in the record of the Service in various wars and regard themselves as an essential part of the fighting services.

I think there is some merit in each of these three points of objection, particularly No. 2. I don't attach a great deal of weight to No. 1, since it is obvious that a war situation always demands close cooperation by many agencies of the Government with the military services but doesn't require that the military services take over these other agencies. I suggest that you give Waesche an opportunity to discuss the matter with you before we go further, since he seems to feel so strongly about it.
May 19, 1941
3:27 p.m.

HMJr: Hello.
Operator: Mr. Cox.
HMJr: Hello.
Oscar Cox: Mr. Secretary.
HMJr: Oscar?
C: Yes.
HMJr: I want you to report to your wife that I did not wait to hear from you. I couldn't wait so long, see?
C: Oh, I see.
HMJr: I thought you were one of these hurry-up boys.
C: Well, I am, but I couldn't quite get hold of Mr. Forrestal.
HMJr: Well—forget it because I spoke to Frank Knox this morning—he has called a meeting for tomorrow with Towers and he is proposing that the Navy fly them over to Africa.
C: Well, good gracious; then you are the hurry-up boy today.
HMJr: See?
C: Yeah.
HMJr: Well, put down another good mark for your wife.
C: No. I'll put down another good mark for you.
And - he says he's calling a meeting with Towers tomorrow and he is going to propose that the Navy fly them across.

C: Well, that's swell. The closest that I got to Forrestal was his Assistant and he sent the message through, but I haven't heard from him.

HMJr: Well, it is done.

C: Good.

HMJr: And I didn't say anything about who approached me or any of the objections; I just said that there were twenty planes up there and for old times sake, I hoped they got across.

C: Well, that's swell.

HMJr: And he said, have you talked to Purvis about it? And I said no, but if it's done you might - if it's accomplished you might tell Purvis how it was done.

C: I certainly will.

HMJr: See?

C: Right.

HMJr: And, otherwise I don't care if anybody knows I had anything to do with it, in fact I'd rather they didn't. I don't want to get started again.

C: All right.

HMJr: But if it's accomplished, you might tell Purvis.
C: You bet, I will.
HMJr: How it was done.
C: Right.
HMJr: Goodnight.
C: Goodnight.
May 19, 1941
3:32 p.m.

HMJr: Did you buy those transport planes for the English, those Lodestar Lockheed's and the DC three's; did you buy those?

Clifton: Yes sir.

HMJr: Well, what you pay for them?

M: Well, they averaged around $90,000.

HMJr: A piece?

M: Yes. They are - in most cases they were new planes and they were very good planes.

HMJr: How many did you buy altogether?

M: Well, let's see, we have an authorization to buy twenty and I think we bought fifteen.

HMJr: I think you bought twenty.

M: Let's see, fifteen; there may have been some others that they were negotiating.

HMJr: I see. In the future when you send me the weekly report, could you send me a little more information as to what you are buying and what it is.

M: I'd be happy to.

HMJr: I wish you would.

M: I didn't want to make it too detailed because I know you are terrifically busy.
HMJr: I wish you would send a little more.

M: I'll be glad to do that.

HMJr: How you getting along, otherwise?

M: Very good, some of these things are moving rather slowly, but we are trying to keep them moving as fast as we can.

HMJr: Thanks, Mack. That's all.

M: Yes.

HMJr: Goodbye.
Mr. Thompson reported to the Secretary at the 9:30 meeting on May 19th that he had taken care of the expenses of these two gentlemen - Magill and Shoup.
May 19, 1941

Norman Thompson

Secretary Morgenthau

Did we pay the expenses for Roswell Magill and the other Professor from Columbia, whose name I cannot remember, who came down to help me on Thursday? Please let me know.
My purpose today is to discuss with you the problem of corporate taxation in the present emergency. What I shall have to say is supplementary to the statement made by Secretary Morgenthau when the current hearings were opened and to the suggestions laid before you subsequently on behalf of the Treasury Department.

The Treasury is called upon to meet expenditures greater than have ever been made in the nation's peacetime history, and probably greater than at any period in our history, in peace or war. At such a time we cannot expect to rely on normal sources of revenue or be content with revenue in normal amounts. We must adopt extraordinary measures to deal with our extraordinary situation.

Your Committee is now formulating changes in our tax system, both to provide the revenues needed to finance the defense expenditures that we are committed to make, and also to assist in maintaining the economic health of the nation. Our people know that
great sacrifices must be made and they are prepared to make them. They rely upon you so to plan our financial program that, however severe its burdens may have to be, they will rest fairly and justly upon all individuals and all businesses.

The tax program which you will propose will necessarily consist of many elements. Any one tax, viewed by itself, may appear to be stringent. All must be viewed, however, as parts of a whole. This is an emergency. Taxes that would not be proposed in normal times are a necessity now.

I have been asked particularly to discuss the excess profits tax, first enacted in the fall of 1940. Our experience with it is still limited, for many of the returns of the largest corporations have not yet been filed. Enough have been filed, however, to convince Treasury officials in charge of tax administration that important changes in the law must be made in the interests of fairness. We are collecting large sums by means of this tax, but the profits of a good many business firms are not being touched by the tax,
although some of those profits are excess profits by any reasonable standard. Here is certainly a place to broaden the base. Surely the skill of this Committee and its experts is adequate to the task of bringing within the tax the known cases of corporate excess profits.

I want first to outline the principles which I believe should govern the taxation of excess profits; second, to indicate respects in which the present law fails to accord with those principles; and third, to suggest possible remedies which the Congress may wish to consider.

I - Principles

Under present conditions some kinds of profits may be appropriately subjected to heavier taxation than other kinds. This may be necessary in order to distribute the burden fairly and to avoid unfavorable economic effects that might result if the revenue were raised in other ways.

1. Defense profits

The first type of profits which, in a period of this kind, should be subjected to special taxation comprises the profits which may be reasonably
attributed to the defense program. Such profits are being made out of the sacrifices of the people as a whole and should be returned to the people in taxes, insofar as may be possible without destroying necessary incentives to produce defense goods.

In many cases it is not possible to identify with precision the additional profits due to the defense program. The effects of defense spending are diffused throughout the whole economic system. It is necessary, accordingly, to assume that in general, increases in profits during this period are due to defense. Inability to measure defense profits precisely should not discourage us from subjecting them to special taxation even at the risk of hitting some income not derived from the defense program.

2. Profits in excess of a necessary normal return on invested capital

The other kind of profit that can properly be subjected to special taxation comprises profits in excess of a necessary normal return on invested capital, even if
this return was being earned in the years prior to the defense program. The existence of such profits, while often due primarily to good management, is in numerous cases due to monopoly, imperfect competition, or fortunate circumstances, and not to any outstanding service to the public. When as a result of the imperfections of our economic machinery such excess profits have been made, it is equitable and desirable that they be subjected to special taxation. Furthermore, at a time when heavy taxes must be imposed they should be levied where they will assist best in maintaining a well-functioning economy. To take an additional share of the profits in excess of a normal return on invested capital will not cause any companies to go into bankruptcy or withdraw from business.

I am aware that the anticipation of extraordinarily large profits may in many cases have put security prices well above a figure that would represent invested capital. The imposition of these special taxes may seem harsh to individuals who have purchased those securities at such levels. We must remember that no legislation is ever passed and no progressive step is ever taken which does not disturb expectations of some people. We submit that established expectations of high profits are entitled to no more protection than
an individual's expectation of a continued large salary which is now to be subjected to a much heavier tax. This is an emergency, and changes must be expected.

I am also aware that the application of the principle of taxing profits in excess of a necessary normal return on capital involves difficulties of both principle and technique. These difficulties should not be underestimated, but I feel sure that we should not allow them to stand in the way of our seeking to attain the main objective.

II - Defects of the present law

In the light of the principles just stated, let us now examine the excess profits tax law passed last year, to see in what respects, if any, it fails to correspond to them.

1. Failure to reach large parts of defense profits

The Excess Profits Tax Act of 1940 was a clear expression of Congressional intent that profits growing out of the defense effort should be subject to excess profits tax.

The law, however, has not achieved that objective.

Many corporations that are the principal beneficiaries of the defense effort and that hold large government
contracts are paying little or no excess profits tax.

In the absence of complete excess profits tax returns an examination has been made of published financial data for certain corporations. One company whose profits in 1940 were more than 3,000 percent larger than in 1939 is subject to no excess profits tax whatever on 1940 earnings and this is a company which has thus far received over $70 million of defense contracts. A large industrial company which has received over $250 million of defense contracts and had earnings in 1940 of nearly 200 percent larger than in 1939 will pay no excess profits tax. It appears that only 5 out of 12 large integrated steel companies will be subject to excess profits tax on the income of 1940, although steel companies have in general received huge amounts of defense orders.

These companies pay little or no excess profits tax because they are allowed a minimum credit of 8 percent of invested capital.

2. Failure to tax profits in excess of a necessary normal return

Another serious shortcoming of the 1940 excess profits tax law is that profits in excess of a necessary normal return on invested capital are not subject to the tax unless such profits also represent an increase
over the profits of the base period. Companies which earned during the base period an average of 30 percent, 50 percent or even more on their present invested capital will be free from the excess profits tax on income in any year equal to approximately these percents and will be taxable only on increases in their incomes.

This failure of the law to reach a large portion of excess profits is due to the provision of a credit for every corporation equal to 95 percent of its base period earnings, regardless of the size of those earnings in relation to its invested capital.

**III - Remedies**

Revisions of the excess profits tax to be considered adequate, must reach the two kinds of profits which I have been discussing. The tax can reach a much larger proportion of defense profits if there is a reduction in the 8 percent credit on invested capital. Profits in excess of a necessary normal return can be reached by taxing all profits above a stated percentage of invested capital, regardless of average base period earnings.
These were the basic elements of the Treasury excess profits tax proposal of 1940, and it is this plan, with modifications dictated by experience, that we suggest. In that proposal corporations were to be allowed free of the excess profits tax an amount of earnings equal to their earnings during the base period, but not more than 10 percent of invested capital. However, they were granted a minimum credit of 4 percent of invested capital with 6 percent allowed on the first $500,000. Thus, under that plan a concern which earned 7 percent during the base period would be allowed to continue to earn 7 percent free of tax. A concern which earned only 2 percent during the base period would be permitted to earn 4 percent free of tax. A concern which earned 15 percent during the base period would be allowed to earn 10 percent free of tax.

Under the 1940 Treasury proposal it was recognized that if business is to expand and investors are to put money into new corporations, an opportunity must be allowed to earn an adequate rate of return on new capital. The plan allowed an 8 percent return on new capital, with a 10 percent return up to $500,000, regardless of the earnings experience during the base period on old capital.
If the plan submitted by the Treasury last year had been applied to the examples previously presented, the tax results would have been quite different. For example, one corporation which had a 30 percent return on its invested capital in the base period would have paid excess profits tax on over half of its 1940 income instead of on one-twelfth as under the present law. Another with a slightly lower rate of return would also have paid on over half instead of on one-fifth of its income. The large industrial company which received over $250 million of defense contracts would have paid excess profits tax on over one-third of its income and the other company with poor earnings in the base period would have paid on about one-fifth of its income instead of both companies being entirely exempt.

Even this plan, however, would have failed to reach substantial amounts of defense profits received by corporations which had especially poor earnings during the base period. To meet this defect we would suggest revising the 1940 proposal to provide that where the average earnings of the base period were less than the minimum of 4 percent, the excess profits tax should be applied at a low flat rate, possibly 10 percent, to that part of the current profits that is in excess of
the base period earnings but not in excess of 4 percent of invested capital. For example, if a corporation earned during the base period an average of $100,000 a year, while 4 percent of its invested capital amounts to $300,000, the first $100,000 of profits in the current taxable year would be entirely exempt from excess profits tax, the next $200,000, representing the difference between the $100,000 average earnings and the $300,000 credit on invested capital, would be taxed at 10 percent and any earnings over $300,000 would be subject to the regular excess profits tax rates. This minimum rate of tax would subject all increases in profits during the defense period at least to some excess profits taxation without unduly burdening concerns whose increased earnings are not truly defense profits.

We would suggest also that the rate allowed on new capital be the same as that originally suggested, namely, 8 percent, with 10 percent for additions to capital that do not bring the total invested capital above $500,000. Any maximum return on capital must be a somewhat arbitrary figure because businesses differ widely in the degree of risk they face. Accordingly,
it is desirable not to set too low a maximum rate of return.

Similarly, it would be desirable to keep the tax rate low on that part of profits which is immediately above the credit. To this end we suggest that tax rates be graduated in accordance with the rate of return on invested capital starting with a moderate initial rate.

Moreover, with this new broad excess profits base, it would be possible to adapt ourselves quickly and much more easily to a need for still larger revenues if the emergency should so require. The future is especially uncertain during an emergency period, and we might have to act quickly. It is better to have a broad excess profits tax base carefully worked out while we still have the time than to patch up the present law and take the risk of finding ourselves confronted with the necessity of improvising such a base on short notice at a later date.

Thus far I have outlined the principles of excess profits taxation which in our opinion should be followed in this emergency period and have indicated ways in which the existing law fails to carry them out. If you share our belief in these principles, I believe you will agree that a plan like the one I have outlined
is the logical method of putting the principles into practical operation. Variation in details is not a matter of concern, so long as the plan adopted taxes both defense profits and excess profits, which the present law does not do.

IV. Possible alternative

If these principles are not to be the guide for taxing corporations during the emergency period, it would be well to bear in mind the disadvantages of the tax in its present form, which involves the administrative difficulties inevitably accompanying excess profits taxation but fails to tax large amounts of profits that it properly should reach. A simpler, more easily administered plan would, of course, be to abandon the excess profits tax and to increase the corporation income tax by enough to produce the desired revenue. With such an increase in the corporation income tax there should, in my judgment, be coupled a provision for reducing the tax when the earnings of the corporation are immediately made subject to the individual income tax.

This kind of a plan would be in harmony with the idea of integrating the corporation and the individual taxes, placing chief reliance on the taxation of income of individuals. Profiting from our experience with previous plans of this general character, many difficulties previously met can very likely be avoided and
equitable taxation of profits to the individual stockholder provided.

I do not set forth this plan as one that carries into effect the principles which I previously discussed. It is based on principles of its own and is suggested as an alternative, not a substitute.

When I first appeared before the Committee in executive session and discussed this tax program with you generally, I told you that I thought there were certain types of durable commodities, such as electric refrigerators, automobiles, watches, clocks, and cameras, the reduced consumption of which would be helpful to national defense, not only because the plants are adaptable to defense work, but also because the materials used in these commodities are used in defense articles and the workmen who manufacture these things are possessed of the very skills that are needed in many of our defense plants. During that first discussion different members of the Committee expressed the view that taxes on some of these articles should be higher than were recommended and I assured them that we would not object to some increases on these particular articles. Since that time there has been so much discussion about various excise taxes that I think I should repeat to you what I said before -- that I do
believe these articles are the type that it is highly desirable to tax not only for revenue but also to reduce demands for goods which compete with the defense program.

We cannot expect to devise a painless tax bill. The situation calls for sacrifices. As Secretary Morgenthau has already told you, we have had unmistakable evidence that the people are willing to make sacrifices according to their ability. Outside the tax field greater sacrifices are being asked and cheerfully made. There is no basis for comparing the sacrifice of those who are asked to exchange the security of a job and a home for a soldier's pay and a soldier's hardships with the sacrifices of those who are asked to pay even drastically higher rates of tax.
FROM: MR. SCHWARZ'S OFFICE

TO: The Secretary

The first committee members to have a chance are pounding John a bit on the economy issue. Robertson of Virginia on the Democratic side and Treadway on the Republican side are going after him.
Excess Profits Tax

Almost a full committee was on hand to hear Mr. Sullivan's statements. Their comments and questions indicated that their opinions on excess profits taxes had not crystallized but that the Treasury program would get favorable consideration. Many members seemed to welcome a higher EPT yield to offset excise cuts they want to make.

Some resistance to abandoning the average earnings method of computing the excess profits credit was evident. Robertson, bringing out that a majority of small corporations used the average earnings credit, wanted (and got from Mr. Sullivan) assurance that the policy of favoring small corporations under the EPT law would be continued.

Disney remarked that most refund cases under the World War EPT arose from difficulties in computing invested capital. Buck said he would oppose the Treasury plan unless appreciation in assets were included in computing invested capital. Crowther and
Carlson indicated an interest in providing further relief for "growth" corporations.

Excises

Doughton asked if Mr. Sullivan agreed with the Henderson recommendation that no increases be made in excises on goods not competing with defense production (tobacco). Mr. Sullivan replied that if there were increases in the EPT yield and in excises on articles competing with defense production, reductions in other excises would be possible.

McKeough appeared to favor elimination of the proposed increases on tobacco, gasoline, and beer. He asked if the proposed higher EPT yield would compensate for the loss of revenue resulting from the elimination of such excises, suggesting that the Treasury estimates of yield were too low. Mr. Sullivan replied that the Treasury estimates were meant to be as accurate as possible. As the estimates now stand, increased EPT yield would not completely compensate for the revenue loss from elimination of the increases mentioned by McKeough.

Broadening the Base

Robertson and Treadway asked if the Treasury is still opposed to lowering the personal income tax exemptions. Mr. Sullivan replied that it is.
Non-defense Spending

Republican members criticized Mr. Sullivan for failure to recommend reductions in non-defense spending. Mr. Sullivan replied that although he favors possible economies, he does not regard it as within his province to recommend specific cuts. He emphasized that even if one billion dollars is saved, the revenue goal should still be 3½ billions. Disney said the Treasury program would raise much more than 3½ billions.

Differences between Treasury and Henderson-Eccles Plans

Implying that the differences between the two plans indicate a split in Administration opinion, Jenkins and Knutson asked whether those differences have been composed and whether the Treasury plan represents the President's views. Mr. Sullivan pointed out that the President had approved this morning's statement and said the Treasury proposals could be regarded as the Administration's program. Knutson remarked that he was inclined to go along with the Treasury proposals rather than the Henderson-Eccles plans because taxation is in the province of the Treasury.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 19, 1941

TO Miss Chauncey
FROM Secretary Morgenthau

Please see that we have all the drafts that Roy Blough prepared for me on the tax bill. I think we have them all, but I haven't got the one that he brought to me at the house at twelve o'clock on Sunday. As far as I know that is the only one that is missing, and that was the next to the last one that I received. The one which they brought to the house Sunday night at six o'clock, when Jere Cooper and Doughton were there, I think is the final draft.

5/21/41
Miss Chauncey reported that she has all of these drafts.
Claude Mahoney: In other capital developments, the House Ways and Means Committee heard a recommendation from the Treasury today that Congress revise the excess profits tax laws and impose a six percent income surtax. This program, according to Assistant Treasury Secretary Sullivan, would net the Government more than a billion dollars above present corporation taxes. The corporate levies, Sullivan said, are necessary in order to recapture some of the profits being made from the defense program, profits you might be spending for expensive automobiles.

Announcer: Washington. The Treasury Department has urged Congress to stiffen the excess profits tax to help pay for the defense program, and this plan has the implied approval of President Roosevelt -- for Assistant Secretary of the Treasury John Sullivan told the House Ways and Means Committee that it would be correct to infer that he was speaking for the Administration in urging such a program.
Announcer: Before the House Ways and Means Committee today, Assistant Treasury Secretary, John Sullivan, urged that Congress stiffen the excess profits tax to help finance the defense program and Sullivan told the Committee that it would be correct to infer that this suggestion has the endorsement of the Administration.

Announcer: The figure-filled House Ways and Means Committee received an even more bewildering array of proposed tax levies from the Treasury Department today. The Government's fiscal experts have now revised their plans to tax excess profits and urge that an even larger slice be cut for Uncle Sam. The amount now runs as high as 65 percent and would be on top of the companies' normal tax of 30 percent.
MEMORANDUM

May 19, 1941

To: PRICE ADMINISTRATION COMMITTEE
From: R. K. Thompson, Secretary

Appended hereto are:
1. Minutes of the meeting of May 15.
2. Agenda for the meeting Wednesday, May 21, at 11:00 a.m.
SUMMARY OF STENOGRAPHIC TRANSCRIPT OF MEETING OF PRICE ADMINISTRATION COMMITTEE
May 15, 1941
11:00 a.m.

Chairman: Mr. Henderson

Present: Secretary Wickard, Miss Elliott, Messrs. March, Ryder, Ezekiel, Clayton, Lubin, Pike, Shaughnessy, Nelson, O’Connell, Goodloe, Barnes, Weiner, Hamm, Calbraith, Ginsburg, Thompson

1. Installment credit

Mr. Henderson reported that Rolf Nugent of the OPACS staff and Director of Consumer Credit, Russell Sage Foundation, has prepared a memorandum on the place of consumer credit in defense, which is available to committee members who wish to read it. Mr. Nugent has been in consultation with Federal Reserve Board representatives concerning the possible restriction of consumer credit on automobiles and other commodities which utilize materials needed for defense production.

Mr. Hamm pointed out that so far as the Federal Reserve Board is concerned, the problem principally resolves itself into one of administration. He added that over-all control would probably be simpler than control of a specific commodity.

Mr. Henderson emphasized that no commitment has been made to the Federal Reserve Board concerning any commodity or commodities, but that since it would take several months to construct the mechanics of a system of control, the spade work is under way so that the mechanism will be available if it is decided to use it. He added that before any action is taken an expression of the committee would be asked.

2. Stock pile of lead

Mr. Weiner outlined the desirability of having a Government stock pile of lead of from 50 to 100 thousand tons accumulated before shipping difficulties become acute. No dissent was expressed to following this matter through the regular procedure. Mr. Weiner said he would make available to the members of the committee a memorandum which had been prepared on the subject.

3. Bituminous coal

Mr. Henderson spoke of the possibility of another walkout if current negotiations do not result in the solution of the North-South wage differential controversy in the bituminous coal industry. He pointed out that, since the Bituminous Coal Division has received sporadic reports that coal is now being sold at a premium of from 25 to 75 cents a ton and in some cases even higher than the mine prices which were set by
the Bituminous Coal Commission, another walkout would probably necessi-
tate another calling on prices. Because of OPACS responsibility for both
prices and civilian supplies, Mr. Henderson expressed the hope that the
National Mediation Board would be drawn back into the negotiations be-
fore another walkout occurs, and suggested the desirability of so recom-
miting to the President.

The consensus was that, without making a specific recommenda-
tion, Mr. Henderson on his own responsibility should apprise the Presi-
dent of the current price difficulties and indicate the feeling that
prompt intervention of the Mediation Board might prevent another walkout.

4. Automobile production

Mr. Henderson expressed his belief that neither the present
rate of production nor the proposed cut to 50 percent could be main-
tained in the automobile industry, since some manufacturers have scraped
the bottom of the barrel so far as certain necessary supplies are con-
cerned. Mr. Weiner reported Mr. Whiteside's opinion that not more than
a 40 percent production is possible in the face of present shortages of
rare metals and of the present demand for steel for the railroad program
and all other requirements.

Mr. Nelson expressed his concern and that of the Priorities
Division that because materials which are now not needed in the defense
program are rapidly being put into automobiles and other commodities and
when the program further expands and need for speed is even greater than
it is now, they will be unavailable instead of being in stock piles. He
suggested that an intense study should be made of this matter by a special
committee. He also pointed out the necessity of attempting to prevent
unemployment as far as possible when the production of automobiles and
other commodities is decreased.

In this connection, there followed a general discussion of the
necessity of moving along several lines to insure adequate supplies of
materials needed in defense production. Mr. Henderson reported that
Mr. McConnell of the Production Division and others have considered
various problems of conservation involving the curtailment of civilian
requirements, the use of an industry committee for allocation, and ex-
pansion of facilities. Mr. Clayton suggested that it might be well to
appoint a committee to study the problem of reduced civilian consumption
of materials necessary in the defense program. Mr. Nelson added that the
use of substitutes and the reduction of the number of choices or selec-
tion of items produced by a single manufacturer would make equipment
available to produce commodities needed for an expanding Army.

5. Price of hides

Mr. Galbraith reported that there has been a general high
advance in hides prices although the domestic market is fairly well
controlled. He added that representatives of the four largest packing
companies are to confer informally with representatives of OPACS and OPM
to explore the possibility of working out stabilisation of hide prices.
at a level which will make it possible to continue bringing in South American hides and not necessitate any significant advance in the price of shoes.

6. Nitrogen situation

Mr. Galbraith reported that, though at present there will only be isolated shortages in the Southeast, the nitrogen situation by next year will probably be very bad. Allied Chemical has not yet started construction of a plant at West Henderson which is badly needed to add to present facilities, and the increased tightening of shipping facilities will make the securing of Chilean nitrate increasingly difficult even though prices there remain unchanged up to now. Secretary Wickard added that unless the use of nitrates in some fertilizer mixtures can be curtailed the situation may become critical.

7. Control of speculation in commodity exchanges

Mr. Galbraith reported that four meetings are scheduled next week with commodity exchanges which do not come under present Federal regulations of the CEA. It is hoped to secure agreement on a substantial increase in the marginal requirements and for a segregation of accounts to avoid the strictly speculative accounts in future.

Secretary Wickard reported that one of the problems facing the Commodity Credit Corporation is that if they continue to offer corn of a certain kind at 70 cents, as has been done in the past, they will play into the hands of speculators. He also pointed out that on the basis of some unauthorized reports that meat and other prices would go up 10 or 20 percent there have been some increases. He reported his gratification at the way the packers have cooperated, making it possible for the Department to accumulate several million pounds of pork and lard at less than the present replacement price. Though there is difficulty at present in selling some of the stored meat, Secretary Wickard expressed the belief that there would be no unwarranted increase in the price of hogs unless there is some unforeseen agitation.

The committee adjourned at 12:55 p.m. to meet Wednesday, May 21st at 11:00 a.m.
OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

OFFICE MEMORANDUM

To: Price Administration Committee

From: R. K. Thompson, Secretary

May 19, 1941

The following items are on the agenda for discussion at the meeting to be held on Wednesday, May 21, 1941, at 11:00 a.m.:


2. Combed yarn situation.

3. Question of shipping rates, as raised in memorandum addressed to Secretary Wickard by Dr. Ezekiel under date of May 10.
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmite herewith a copy of despatch no. 1480, dated May 17, 1941, from the American Legation at Ottawa, with its enclosure of a certified copy of a note dated May 15, 1941, from The Right Honorable W. L. Mackenzie King, Secretary of State for External Affairs of Canada. This note sets forth the guarantee of the Canadian Government to the Government of the United States of commitments, obligations and covenants which the Company, "War Supplies Limited", may give to any Department or Agency of the Government of the United States.

Enclosure:
Copy of despatch no. 1480 with enclosure.
Ottawa, May 17, 1941

Subject: Transmitting certified copies of note regarding creation of "War Supplies Limited."

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

In accordance with a telephone conversation today between the Minister and Mr. Richardson, I enclose herewith five certified copies of note No. 65, dated May 15, 1941, which has been received from the Canadian Secretary of State for External Affairs in regard to the creation of "War Supplies Limited."

Respectfully yours,
For the Minister:

[Signature]

John F. Simmons
Counselor of Legation

[Extra copies of note No. 65]
DOMINION OF CANADA

CITY OF OTTAWA

LOCATION OF THE
UNITED STATES EMBASSY

I, John F. Simmons, Consul General of the United States of America at Ottawa, Canada, duly commissioned and qualified, do hereby certify that the annexed copy of Note No. 25, dated May 15, 1941, from the Department of External Affairs, Canada, is a true copy of the note in the files of the Legation, the same having been carefully examined by me and compared with the file copy and found to agree therewith word for word and figure for figure.

In witness whereof I have hereunto set my hand and official seal this 17th day of May, 1941.

John F. Simmons,
Consul General of the United States of America, Ottawa, Canada.

Service No. 372
No fee prescribed.
DEPARTMENT OF
EXTERNAL AFFAIRS
CANADA

Ottawa, May 15, 1941

Sir:

As an instrument of putting into effect the principles of the Hyde Park Declaration, agreed upon between the President of the United States and the Prime Minister of Canada, and following conversations had in Washington by officials of the Canadian Government and officials of the United States Government, a company known as "War Supplies Limited" has been created. This company will have a representative in Washington.

The Canadian Government hereby guarantees to the United States Government all commitments, obligations and covenants which this company may give to any Department or Agency of the United States Government in connection with any contracts or orders which may be given to the said company by any Department or Agency of the United States Government. The Canadian Government agrees to waive notice of any change or modification which may be made from time to time in these commitments, obligations or covenants.

Accept, Sir, the renewed assurances of my highest consideration.

(signed) C. L. Mackenzie King
Secretary of State for External Affairs

The United States Minister to Canada,
United States Legation,
Ottawa, Canada
Upon an appointment made by Sir Frederick Phillip, Sir Edward Peacock called on me at 4 o'clock this afternoon. He said that he and Mr. Gifford were obliged to fly down to Washington just for this afternoon to discuss a variety of matters with Phillip and other British officials, and he wanted to drop in on me to mention one point.

Peacock referred to the circumstances, of which he knew we were aware from our message sent to him through Phillip recently when representatives of Morgan and Stanley and Dillon and Reed called on us, giving rise to a consideration of the possibility of revising the Viscose transaction. I told him that the Secretary had definitely opposed any revision when the bankers called on him recently. He said this was the message he had received from Phillip and it was entirely to his liking, since he realizes how important to us it is to have the Viscose transaction go through as originally planned. Again last week, however, the question was raised by the manager of Viscose, who is the one principally working for the revision. Peacock insisted that Hanbury Williams, the banker who came out from England with him and who also is interested in Viscose, was not taking any initiative, and is ready to go back to England at any moment. Peacock thought, moreover, that the question was settled until this morning when he had a call from the bankers. Harold Stanley told him that over the weekend the bankers had talked with some of the seventeen underwriters. The latter have become quite nervous and feel that the market is so soft that it may not be possible to realize nearly as much through a slightly worse issue of Viscose securities as originally contemplated. The people wanting to see the deal revised have been scouting around to see if they cannot raise as much money on a loan, or even more, then might be obtained through this out-and-out sale. Peacock has thought that this counterplan could not succeed, but the visit of Stanley this morning has made him a little nervous. He is under the impression that the bankers will request another interview with Secretary Morgenthau this week. He wanted to let us know what is taking place in the meantime, that is, he feels a duty to report directly to us, and not oblige us to depend upon reports from the bankers or the market. When I asked whether he desired to make a report directly to the Secretary, Peacock said that there was nothing sufficiently definite at this time to warrant it. He is returning to New York tonight. He is making some progress on other deals, but finds that the poor state of the market, particularly following the Vichy developments, is a real handicap.
(True copy as received at 10:30 a.m. May 19, 1941, from the Department of State, of message sent to American Embassy at London, and as dictated to Mr. Brown of Secretary Hull's office at 6 p.m. on Sunday, May 18, by Mr. Cochran of the Treasury, after a conversation by telephone with Secretary Morgentau at 5:15 p.m. May 18, 1941.)

AMERICAN EMBASSY

LONDON

FOR THE AMBASSADOR FROM SECRETARY MORGENTHAU

I would appreciate cabled report of circumstances and underlying purpose of visit of J.M. Keynes to this country.

S:ASB

Copy:lap:5/19/41
TO:

Mr. Bell White

For you and Mr. White to read
then return to Secretary's files.

From: Lieut. Stephens
The following telegram is strictly confidential for the Secretary of the Treasury:

Reference is made to your telegram of today, no. 1713 of May 18, 8 p.m., from the Department.

Reference also, telegram of March 18, 8 p.m., no. 1060 from the Embassy: As was set forth in the latter telegram (addressed to the President, Secretary Hull, and Secretary Morgenthau), shortly after I arrived in London I was told by both the Prime Minister and the Chancellor of the Exchequer that they were deeply concerned about the report that the United States, under its lease-lend act, would take over a much smaller amount of the existing commitments of the British in the United States than they had contemplated would be taken over. It was the belief of the Prime Minister and the Chancellor of the Exchequer that they should have more leeway and freedom than they would be given under the arrangements as then contemplated.

I informed them at that time that I could not do much more than report to Washington what they had said, since the matter was a complicated one and had been discussed in
many conversations at Washington between you and representatives of the British Government. I made the suggestion that it would be better to have such conversations at Washington, should it be desired to pursue the matter further. The British representatives and you would then together have all of the data on which decisions could be based. The idea apparently took root from our discussions that the British might well send a representative from over here who had current knowledge of what they needed, so he would be available for further discussions with you. Both the Prime Minister and the Chancellor selected Keynes, and I personally thought they made a good choice in him. To me it appeared that Keynes had a broad view of the situation, and he seemed to be the most likely of all officials in the British Treasury to understand the difficulties facing the Americans and the British. Also, I believed that these difficulties presented a problem common to both countries. It was my belief that both you and President Roosevelt knew Keynes and liked him, and I also knew that you were putting work on a program for saving, and I hoped he might be of some help to you on that program.

Before Keynes left I sent telegram of April 22, 9 p.m., no. 1590 from the Embassy. Keynes told me, prior to his leaving, that he believed there had been considerable relaxation in the tension over the financial situation after the
Brown and Williamson loan was announced. In addition Keynes said that it was his hope that while he was in the United States he could learn more about the economic problems connected with our own war effort and make an effort to find out how the United States was thinking on possible economic problems that may arise after the war.

The following is the text of the official announcement of Keynes' visit - which I believe covers his strictly official work: (in paraphrase) At the request of the Chancellor of the Exchequer, Mr. John Maynard Keynes is making a short visit to Washington for the purpose of discussing the operation of the Lease-Lend Act and other related matters with the United States Administration and the British Supply Council.

It was Keynes' idea, when he left London, that he would not stay more than about six weeks in the United States. His health has not been good, and just before he left he had some difficulty in a bombing raid.

It is my sincere hope that the visit of Keynes is not proving to be unhelpful to you.

END MESSAGE.

WINANT

EA: LWW
Secretary of State,
Washington.

1996, nineteenth.

FOR TREASURY.

British Treasury orders issued today require all payments to Mexico, the six Central American Republics, Cuba, Haiti, Dominican Republic, Venezuela and Equador to be made in sterling into accounts to be called "Central American accounts" which will be available only for payments to the sterling area or to other Central American accounts. United Kingdom exports to the countries concerned must be paid for in sterling from a Central American account or in dollars or in registered sterling.

WINANT

RR
MEMORANDUM

FROM  British Supply Council

TO  Mrs. Helen S. Klotz

Compliments of E.N. Gray
**STATEMENT NO. 15**

**AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS**

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<tr>
<th>Plane</th>
<th>Destination</th>
<th>Assembly Point</th>
<th>By Sea During Week Ending April 26, 1941</th>
<th>By Air During Week Ending May 17, 1941</th>
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<td>Hudson V</td>
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<td>(via Gander)</td>
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British Air Commission
May 19, 1941

Regraded Unclassified
## Allison Shipments

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

May 19, 1941.
## Shipments of Airplane Engines

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<td>July 21 - Aug. 17</td>
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<tr>
<td>April 20 - 25</td>
<td>19</td>
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<td>April 27 - May 3</td>
<td>9</td>
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<td>May 4 - 10</td>
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<td>May 11 - 17</td>
<td>93</td>
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<td>May 18 - 31</td>
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<td>June</td>
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<td>July</td>
<td>475</td>
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<tr>
<td>August</td>
<td>580</td>
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<tr>
<td>September</td>
<td>700</td>
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<tr>
<td>October</td>
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<tr>
<td>November</td>
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<tr>
<td>December</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>1942</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>730</td>
<td></td>
</tr>
</tbody>
</table>

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

May 19, 1941.

Regraded Unclassified
DEPARTMENT OF STATE
WASHINGTON

May 19, 1941

The Secretary of State presents his compliments to
the Honorable the Secretary of the Treasury and encloses a copy
of a paraphrase of telegram no. 392 dated May 17, 1941 from the
American Consulate General at Zurich, regarding commercial and
financial negotiations between Germany and Switzerland.

Enclosure:
No. 392, May 17,
from Zurich.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Zurich.

DATE: May 17, 1941, 4 p.m.

NO.: 392

This telegram should be held in strictest confidence.

An informant who has recently come back from Bern, where he attended a session of the Swiss Parliament, has given me the following information:

(a) There is no substantial factual foundation for rumors of the German demands for demobilizing the Army of Switzerland. It is probable that the Germans are circulating such rumors throughout this country. However, there may be some foundation for these rumors in the fact that Switzerland is making great efforts to secure the largest possible amount of German iron in the present negotiations to extend the clearing agreement between Switzerland and Germany, the expiration date of which is June 30 of this year. The Germans, however, do not want to give this iron, stating that the construction of fortifications in the mountains by Switzerland is still going on and that they are reluctant to contribute material which will be used for fortifications being built against a possible future German invasion.

(b) The report that the Germans are demanding a credit of one billion francs for financing commodity exports (this sum would also cover the amount which Germany owes Switzerland in clearing account) is true. According to my informant, however, Switzerland has replied that Swiss industries cannot in the present circumstances manufacture goods on such a scale and that acceptance of such conditions was there-
fore impossible. In this connection, I ought to point out that all of the Reich's clearing agreements have contained special accounts with provisions for allotment of funds to the Reichsbank as free exchange consisting of 12 percent of the total payments in these accounts into the clearing office of Switzerland. It is said that this foreign exchange is used mainly to take care of interest payments to Switzerland; however, it can also be used outside of the latter country.

(c) This source denied that the Germans were making any demand that decrees be introduced against the Jews.

STEWART
(Translation of code message received from the Swiss National Bank, dated Zurich May 19, 1941, by Mr. Cochran in the Treasury on May 19, 1941.)

2wm px
Zuerich 29/27 cde 19 1735

1941 May 19 AM 11 1/2

H M Cochran

United States Treasury Department Washington

Since our wire of 9 May please be advised that our Director Victor Gautier is leaving Lisbon, Portugal today by Clipper for New York, New York.

Banque Nationale Suisse, Zurich.
CONFIDENTIAL

No. 472, to
Embassy, China.

AMERICAN CONSULATE GENERAL,
Shanghai, China.
May 19, 1941.

SUBJECT: Detention at Shanghai of the S.S. PRESIDENT COOLIDGE on account of a silver shipment made by the Chase Bank.

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to refer to this office's despatch no. 1775, October 27, 1936, and to the exchange of telegrams between the Department and this Consulate General on the subject of the shipment of certain silver stocks on the S.S. PRESIDENT COOLIDGE and to enclose a copy of a personal and confidential letter addressed to me under date of April 5, 1941 by Mr. A. E. Schumacher, Second Vice President of the Chase Bank, Shanghai. The letter from Mr. Schumacher sets forth certain overtures made by the Japanese in connection with a proposal to ship the silver now in the vaults of the Chase Bank to the United States Treasury. Shortly after the above letter was written Mr. Schumacher proceeded to the United States on leave and nothing further has been heard from the Japanese proposals.

The Department's attention is especially invited to the statement contained in the last paragraph of Mr. Schumacher's letter to the effect that "the silver that is held by us is the property of the Central Bank of China, whose head office is now in Chungking" and that "it was originally lodged with us in 1936 and was used from time to time as collateral for various commitments of the Central Bank of China" but that "at the moment there are no obligations of the Central Bank which would give us a lien on the silver".

It will be observed that Mr. Schumacher did not look with favor on the proposals made by the Japanese and that he was not willing to associate himself with any transaction not in conformity with local Customs regulations.

Respectfully yours,

Frank P. Lockhart
American Consul General
Enclosure:

1/- Copy of letter from Mr. Schumacher

851
FPL: IMF

In quintuplicate to the Department
Copy to Embassy, Chungking.
Copy to Embassy, Peiping.
Copy to Embassy, Tokyo.
Enclosure No. 1 to despatch No. 472 of Frank F. Lockhart, American Consul General at Shanghai, China, dated May 19, 1941, on the subject: "Detention at Shanghai of the S.S. PRESIDENT COOLIDGE on account of a silver shipment made by the Chase Bank."

COPY

THE CHASE BANK

Shanghai

April 5th 1941

Personal and Confidential.

Mr. F. P. Lockhart, Consul General,
American Consulate General,
Shanghai.

Dear Mr. Lockhart:

I mentioned to you yesterday that I had a caller who was very much interested in the silver now in our vault. The caller, a Japanese by the name of J. Aiuchi, is the civilian adviser to the Naval Attache’s Office. He came to see me the first time on March 28th, then again on April 2nd, and again this morning. The gist of our conversation, beginning with his first call, was as follows:-

Mr. Aiuchi told me that the Japanese authorities know that we still have the silver that we tried to ship out in October 1938 but which had to be unloaded and returned to our vault. The Japanese authorities, according to Mr. Aiuchi, are interested in buying our silver. I pointed out to Mr. Aiuchi that our silver is not for sale and that we are in no particular hurry to dispose of it but that we would like to ship it to the United States as we would like to sell the silver to the United States Treasury. I pointed out to Mr. Aiuchi that we would be very much interested in having our previous export permit reinstated so that we could ship the silver to San Francisco and, if necessary, we would pay the export duties that may be chargeable on the silver. I also pointed out that there is only one market for silver and that is the United States Treasury and that if the United States Treasury did not approve of the method of the disposal of the silver there would probably be no way of selling it. I also took the occasion to point out that the silver has very little value to anyone unless the United States Treasury is willing to take it and that the United States Treasury would probably not buy it from anyone but us and that if we should 'lose' the silver, the United States Treasury might decide not to purchase any more silver from the Far East, including Japan. Mr. Aiuchi then suggested the possibility of the Japanese Navy buying the silver, taking delivery of it and paying for it in Shanghai, and they would load it on their own transports and take the silver to Japan, without getting a Customs permit. In
Japan it would be put on a ship for San Francisco consigned to us. I told Mr. Aiuchi that we would not want to be party to any transaction that was not in line with the local Customs regulations but that if we were to sell the silver and get paid for it we would have no control over what the buyer intended to do with it, but on the other hand we would not do anything with our silver that would interfere with the possibility of the U. S. Treasury buying it and if the U. S. Treasury did not like the way the business was handled they would not have to disapprove of it but they could refuse to buy the silver.

I am passing this information on to you in case further negotiations take place or in case a more definite proposition should be submitted to us.

For your confidential information the silver that is held by us is the property of the Central Bank of China, whose head office is now in Chungking and it was originally lodged with us in 1936 and was used from time to time as collateral for various commitments of the Central Bank of China but at the moment there are no obligations of the Central Bank which would give us a lien on the silver. We would not enter into any agreement for the sale or shipment of the silver without the agreement of the Central Bank but we know that the Central Bank is quite anxious to have the silver removed from Shanghai provided that they get the benefit of the silver. We ourselves are anxious to get the silver out of Shanghai because as long as it remains here there is always the possibility of claims by other authorities who may want to get the benefit of any assets of the Central Bank.

Yours very truly,

(Signed) A. E. Schumacher
Second Vice President.

AES:LP
C/C - U. S. Treasury Office.

Copied by: LMF
Compared with: MB

Copy bj: 6-19-41
May 19, 1941

My dear General Arnold:

Thank you very much for your memorandum of May 17th in regard to American equipment in Egypt.

Yours sincerely,

(s) H. Morgenthau, Jr.

Major General H. H. Arnold,
Acting Deputy Chief of Staff,
War Department,
Washington, D.C.
SECRET

May 27, 1943

REGARDED FOR M. MEMORANDUM:

Subject: Status of American Equipment in Egypt.

The following cablegram arrived during my temporary absence from
the city, so perhaps you may have already received it. It outlines the
status of American equipment in Egypt:

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 an
account of their load of eight 500-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 Tonkans are available
for combat operation. They will be in the air in approximately ten
weeks.

3. Samumoos and Locators have been grounded pending
replacement of the cast steel bearing spacer rings in K-1830 engines.
Noises and Locators have been employed in transport duty and have
proved satisfactory except for engine burn due to desert
conditions. Air observers will inspect combat units after the
Tonkans are in operation. Further detailed information will be
sent forward.

4. The following is the status of American planes in
Egypt:

<table>
<thead>
<tr>
<th>Type of Plane</th>
<th>Available for Ferry</th>
<th>Under Repair</th>
<th>Under Repair but not in use</th>
<th>Ejected from U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Martin</td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Tonkan</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Sambroo</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Locator</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

E. E. Arnold,
Major General, Air Corps,
Acting Deputy Chief of Staff.

Regraded Unclassified
PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMBASSADOR, RIO DE JANEIRO.

TO: Secretary of State, Washington.

DATED: May 19, 1941 - 3:55 p.m.

No.: 498

The Brazilian Government is being approached by the French Government concerning the possibility of buying Brazilian cotton to be stored in Brazil until it can be transported with interest payments on the section of Brazilian Government bonds held by the French. Since its signature in May, 1940, the agreement providing for these interest payments has been entirely inoperative.

CAFFERY

EH: COPY
5-36-K1
DEPARTMENT OF STATE
Washington

May 19, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 486 dated May 18, 1941 from the American Embassy at Rio de Janeiro, regarding a conversation between the American Ambassador and an attache of the French Embassy at Rio de Janeiro.

Enclosure:

No. 486, May 18, from Rio de Janeiro.
PARAPHRASE OF TELEGRAM RECEIVED.
DATE: May 18, 1941, 6 p.m.
NO. 1: 485.

The Vichy Government has just sent a telegram to the French Embassy in Rio, which it appears was also sent to all of the other French diplomatic missions in the Western Hemisphere and to the French Financial Attaché and Paymaster General in New York City. The following is the substance of the instructions contained in this telegram:

Certain French missions have not been drawing the full amount of dollar allotments which are available to them in New York for the upkeep of the chancellories but have supplied their needs in part by using the funds of French creditors. In the future the missions must draw the entire amount of their monthly allotments whether or not there is a need for them. However, they must not waive the right to draw upon other French assets that can be transferred. If possible, the missions must build up sufficient reserve funds to maintain the missions for as long a period as a year. These reserve funds should be kept in their safes or in other safe places and may be converted as may be advisable. I am sending by airmail an exact reading of this telegram from Vichy. Department is requested to inform the Treasury Department.

An attaché of the French Embassy here gave me this information. He offers his future services to the United States Government for purposes of information because he does not like the trend of events in his country. I have the impression that his services would involve
a financial consideration, although he did not say so.

He added that he cannot add much worthwhile information to the foregoing as yet, in view of the fact that his Embassy is not being closely informed by Vichy. He said that the staff of his Embassy have nothing to do. The French Embassy does not keep in contact with the German Embassy in Rio de Janeiro.

CAPPERY

EA:NSG

eh:copy
5-30-41
DEPARTMENT OF STATE
Washington

In reply refer to
HA 840.51 Frozen Credits/1780

May 19, 1941

The Secretary of State presents his compliments to
the Honorable the Secretary of the Treasury and, with
further reference to this Department's letter of
February 3, 1941, concerning the transfer of funds from
French Government accounts to the Central Bank of
Argentina to effect payment for certain exports of meat
and wool, transmits herewith a copy of telegram no. 445
dated May 16, 1941 from the American Embassy at Buenos
Aires.

Enclosure:

No. 445, May 16,
From Buenos Aires.

cc:copy
LS
GRAY
BUENOS AIRES
Dated May 16, 1941
Rec'd 5:21 p.m.

Secretary of State
Washington
445, May 16, 6 p.m.

Supplementing Embassy's despatch 1866 and telegrams 75 and 235, additional documents supporting packers' claims were sent by air mail by Central Bank on April 29 at request of Treasury Department. Official of Central Bank has expressed appreciation of any assistance the State Department can appropriately render to secure unblocking French Government funds for payment of packers' accounts.

ARMOUR

NPL

EH: COPY
5-20-41

Regraded Unclassified
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 19, 1941

SECRETARY MORGENTHAU

FROM Mr. Wiley

FBI reports:

May 19. Italian employees of the Banco di Napoli of New York and Chicago have received instructions to be ready to depart immediately for Buenos Aires. There is a fear that an executive vice president intends to flee with the bank capital. New York State Bank Examiners are investigating. A meeting is being held today of Italian employees to discuss problems concerning their departure. Between May 8 and 15, 1941 (on four days), the Banco di Napoli in New York withdrew from the Corn Exchange $665,000 in currency.
## 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 17, 1941**

<table>
<thead>
<tr>
<th>Petroleum Products</th>
<th>Japan</th>
<th>Russia</th>
<th>Spain</th>
<th>Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel and Gas Oil (including Diesel Oil)</td>
<td></td>
<td></td>
<td></td>
<td>192,858 Bbls.</td>
</tr>
<tr>
<td>Crude -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blended or California High Octane Crude*</td>
<td></td>
<td>73,000 Bbls.</td>
<td></td>
<td></td>
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<tr>
<td>All Other Crude</td>
<td></td>
<td>87,000 Bbls.</td>
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<tr>
<td>Gasoline -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gasoline A**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gasoline B*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Other Gasoline</td>
<td></td>
<td></td>
<td></td>
<td>11,000 Bbls.</td>
</tr>
<tr>
<td>Lubricating Oil -</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Aviation Lubricating Oil***</td>
<td>3,312 Bbls.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>All Other Lubricating Oil</td>
<td>21,557 Bbls.</td>
<td></td>
<td></td>
<td>19,100 Bbls.</td>
</tr>
<tr>
<td>Tetraethyl Lead***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Boosters*, such as Iso-Octane, Iso-Hexane, or Iso-Pentane

### Scrap Iron and Scrap Steel

| Number 1 Heavy Melting Scrap            |       |       |       | 9,205 Tons    |
| All Other Scrap                         |       |       |       | 6,440 Tons    |

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

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 25, 1940.

Aviation Gasoline.

As defined in the President’s regulations of July 25, 1940.
TO      
Secretary Morgenthau

FROM     
Mr. Haas

Subject: The Business Situation, Week ending May 17, 1941.

Summary

(1) Prices of domestic agricultural products advanced last week under the influence of Congressional approval of mandatory crop loans at 85 percent of "parity" and of continued Government purchases under the lend-lease act. A restraining influence came from Administration warnings against speculation in commodity futures.

(2) General commodity prices and living costs are rising more rapidly. The BLS all-commodity index showed the large rise of 0.8 point to 84.9 in the week ended May 10. In April, the NICE cost of living index rose 0.6 to 83.3 (1926 = 100), the largest rise since September 1939.

(3) The Federal Reserve index of industrial production in April was 139 (1935-1939 = 100, adjusted) compared with 143 in March. All of the decline arising from the coal strike has now been more than regained by the New York Times index of business activity, which reached 126.1 in the week ended May 10 compared with the previous high of 124.3 in the March 29 week.

(4) Partly because of unusually heavy loadings of coal, freight carloadings have now reached a total of 837,000 cars, which is but 500 cars less than the seasonal peak reached last fall. Hence, the need becomes more evident for additional equipment before next October. In order to expedite deliveries by freight car builders, a scheme has been worked out with OPM which, it is claimed, would make possible the building of 160,000 cars in 9 months, provided the necessary materials can be secured.

(5) Further recovery of the steel industry from the effects of the coal strike will carry ingot production this week to 99.9 percent of capacity, compared with a low of 94.3 at the end of April. Shipments of finished steel by the U. S. Steel Corporation in April declined only 2 percent from the previous month's record high.
Increased prices for domestic agricultural products

Prices of domestic agricultural products spurted upward last week in response to the final Congressional approval on mandatory loans on five farm products at 85 percent of "parity." (See Chart 1.) However, some decline occurred at the end of the week. With Government purchasing of food products under the lend-lease act a continuing bullish influence, prices of other farm products showed a substantial advance, carrying upward the prices of various substitute and competing products. On the other hand, certain restraining influences operated to dampen price advances, including a warning from Price Commissioner Leon Henderson against speculation in certain imported commodities and an announcement from the Commodity Exchange Administration that they intend to tighten the regulation of speculation in futures markets under their supervision. Recent steep increases in the prices of raw products have already begun to influence the cost of living.

Higher loan rates on agricultural products

The extent of increase recently in the prices of four of the products on which a mandatory loan rate of 85 percent was approved by Congress last week is shown on Chart 2. (Tobacco is not included because of inadequate price quotations.) A substantial increase occurred in the prices of cotton, corn, rice, and wheat between the end of February and the end of April, but, except for rice, a striking further increase was reported for the two weeks ended last Friday. The change in the last two weeks shows the influence of Senate and House approval of the 85 percent loans.

On the basis of the latest parity prices available, as of April 15, farm prices of cotton and wheat at that time were approximately 66 percent of parity; therefore, they could rise noticeably before reaching 85 percent. Corn was already about 75 percent. But tobacco was over 85 percent and rice was over the full 100 percent.

A major problem in administering the new loan program, if approved by the President, is the handling of the very large stocks, especially of cotton and wheat, already under loan. Of the total cotton loans, for example, on the 1940-41 crop, something over one-half the quantity has already been withdrawn. At current price levels, a substantial further amount may come out of loan. Should these loan holdings be frozen by Government action, on the other hand, a step which has been mentioned as one possibility, an additional bullish influence would be imparted to prices of agricultural products.
Government purchasing of agricultural products

Purchasing of agricultural products by the Government since March, partly for aid to Britain and partly for relief distribution, has been a continuing influence in the direction of price increase, an influence which is represented by price changes in lard, butter, and hogs shown on Chart 2. Purchases for the account of Britain alone, including meats, poultry products, and canned citrus fruit and juices have totaled approximately $90 millions, according to Mr. Carl Robbins, President of the Commodity Credit Corporation.

Since March 15 the Federal Surplus Commodities Corporation has purchased about 210.5 million pounds of lard and pork. In the same period Federal agencies have bought something like 22 million dozen shell eggs and just recently they have bought frozen eggs equivalent to approximately 11 million dozen shell eggs.

As a result, egg futures prices (not shown on the chart) reached a new high for 6 years, while lard spot prices have increased 50 percent since the end of February. (Refer to chart.)

From the point of view of price control, not only the direct but also the indirect effects of the proposed loan program and the Government purchasing must be considered. Thus, prices of coconut oil and cottonseed oil, which were already stimulated by shortages of imported oils, have risen additionally because of the agricultural program; indeed, they have risen relatively more since early March than have the commodities directly affected. (Refer to chart.) Print cloth prices have also shown an indirect effect of the Government program, rising almost 40 percent since the end of February. Raw cotton prices have risen 24 percent in the same time. A current announcement from the Price Administration indicates that a price ceiling lower than current market prices on combed yarns will be imposed within a few days.

All-commodity index considerably higher

Even without the increases in prices last week, the all-commodity index for the week ended May 10 showed an advance of 0.8 to 84.0 (BLS, 1926 = 100), a very substantial advance for this index. (See Chart 3, lower section.) The rise was caused primarily by increases in coke, oils and fats, rubber, and foods. These increases, especially in food prices, have
also begun to affect the cost of living as shown on Chart 3, upper section. The NICB cost of living index (1926 = 100) rose 0.6 in April to 83.3, the largest advance since September 1939.

Warning against commodity speculation

Administrator Henderson last week asked industry officials from the cocoa, coffee, and rubber trade to confer on measures to prevent excessive speculation. The Commodity Exchange Administration asked all markets under their supervision to appoint committees to discuss methods of restraining speculation. According to press statements, officials are not particularly concerned about the behavior of the lead futures market but the cottonseed oil and soybean oil markets are under scrutiny. In the week ended May 16 the total volume of futures contracts traded, on a daily average basis, declined but little from the unusually high level of the previous week (see Chart 4, upper section), while the volume of trading in cotton (see Chart 4, lower section) showed an increase.

Business activity shows further rise

The Federal Reserve Board's index of industrial production (1935-1939 = 100, adjusted) declined in April to 139 from 143 in March. But a substantial rise has occurred in the first half of May.

Business activity, as measured by the New York Times weekly index, advanced sharply in the week ended May 10, and as a result, all of the decline arising from the effects of the coal strike has been erased. Furthermore, the previous record high of 124.3 established in the week ended March 29, has been exceeded by a good margin as the index now stands at 126.1. (See Chart 5, upper section.) Barron's index of business activity also rose during the week ended May 10, although at a much slower pace than the Times index, since the gain amounted to only 0.6 point.

The principal factor in the upsurge in the Times index has been the resumption of coal shipments in heavy volume. As a consequence, freight carloadings have now climbed to more than 837,000 cars, or only 500 cars below the seasonal peak reached last fall. (See Chart 5, lower section.) In view of the fact that the normal seasonal pattern calls for a further rise in traffic of about 16 percent between now and the early part of October, the need for additional equipment becomes increasingly apparent.
At the beginning of last week, the Association of American Railroads held a meeting in Chicago and approved the recently recommended program of buying 120,000 new freight cars for service in 1942 and 150,000 new cars for service in the following year. Since the announced program calls for "an increase in ownership" of 270,000 in the 2 years, an additional number will be necessary to cover replacements for cars retired from service. According to the president of the Association car retirements might be held down to as little as 30,000 annually during the next two years. This figure contrasts sharply with the 82,000 cars retired in 1939 and indicates the intention to keep old cars in service as long as possible.

Currently, freight carloadings are benefitting from the efforts of the bituminous coal industry to make up for ground lost in the recent strike. Although soft coal production during the week ended May 10 showed a further rise, it was still 21 percent below the abnormally high figure reached at the end of March. (See Chart 5, middle section.) Due to the loss in production arising from the strike, bituminous coal output thus far this year is 7 percent below the corresponding period of 1940, despite the higher rate of consumption. The steel industry furthermore has seriously depleted its reserve stocks. Thus, any further tie-up in production which may eventuate if current negotiations between the United Mine Workers and the Southern mine operators break down would be extremely unfortunate.

Automobile production and sales at high level

Although strikes caused automobile production last week to decline about 5,000 units below the previous week's high level, the resulting total of 127,000 units was still no less than 29 percent above output in the corresponding week of 1940. (See Chart 5, middle section.) Preliminary reports from dealers during the first 10 days of the current month indicate that retail sales in that period ran about 50 percent ahead of the corresponding period of last year. Although automobile production is currently expected to continue at high levels in the immediate future, estimates of production in the model year beginning next August continue to be reduced. Thus, as compared with the originally indicated reduction of 20 percent in 1942 model production, leading manufacturers are now reported to be expecting a reduction of at least 40 percent.
Steel operations show further recovery

The steel industry last week made further progress in regaining ground lost during the recent coal strike, and as a result, steel ingot production rose 2.4 points to 99.2 percent of capacity. This figure compares with a rate of 99.8 percent the week before the strike began and a low of 94.3 percent at the end of April. (See Chart 5, lower section.) During the current week, steel operations are scheduled at 99.9 percent of capacity, which is 0.1 point above the previous high.

Operations at the Carnegie-Illinois Steel Corporation's blast furnaces in the Chicago district have now recovered so that the company already has a record number of furnaces in blast in that area and expects to have all of its 23 furnaces in the district in operation very shortly. Beehive coke is again moving to blast furnaces, but a tight supply situation for this product is bound to exist for some time to come, since April production is estimated at only 57,000 tons, as compared with 586,000 tons in the previous month.

U. S. Steel Corporation's backlog still rising

Despite the adverse effects of the coal strike, shipments of finished steel by the U. S. Steel Corporation in April declined only 33,000 net tons or 2 percent from the previous month's record high total. However, new orders in April showed a further slight rise to a new peak, with the result that the company's backlog continued its steep climb up to a new high level. (See Chart 6.) New orders received by the U. S. Steel Corporation during the week ended May 8, the latest available, declined to 158 percent of capacity from 165 percent (revised) in the previous week. In view of the existing large order backlogs and the heavy pressure on the industry for deliveries, the adequacy of existing production facilities continues to engage attention.

Mr. Leon Henderson, in recent testimony before the House Ways and Means Committee, indicated the need for a considerable expansion in the industry, including the building of 10,000,000 more tons of pig iron capacity.

In view of the fact that freight car builders have been hampered by a lack of steel for cars already ordered and that a very heavy volume of additional business is impending, it is reported that the Association of American Railroads, the American Railway Car Institute, and the OPM have worked
out a plan for construction of a large number of cars for which orders may be placed by July 1. It is said that car builders have been asked to go on a 24-hour basis, and it is claimed that this rate of operation would enable them to build 160,000 cars in 9 months, provided priorities are put into effect to supply the necessary steel and other materials.

Estimates as of May 1 submitted to the OPM indicated that Class I railroads and railroad equipment builders would require 4,900,000 net tons of finished steel in 1941, as compared with 3,450,000 net tons in 1940. Car builders were expected to need nearly 1,500,000 net tons of steel in 1941, of which only 46 percent actually was on order. In connection with the estimated requirement of steel in 1941 mentioned above, the Railway Age points out that this figure may understate requirements, since consumption of finished steel by the railroads and equipment manufacturers was actually somewhat higher in 1929 and in 1926.

**New orders continue very high**

Our new orders index for the week ended May 10 rose to 213.1 from 199.8 in the preceding week largely because of increased orders for textiles. The steel component declined somewhat to 81.1 from 84.6 in the previous week. (See Chart 7.)
MOVEMENT OF BASIC COMMODITY PRICES
Domestic and Imported
AUGUST 1940 = 100

Weekly Average

11 Imported Commodities
17 Domestic Commodities

Daily

11 Imported Commodities
17 Domestic Commodities

Percentage Change for Individual Commodities, August 1940 Low to May 9 and to May 16, 1941

17 Domestic Commodities
- Cottonseed Oil 98.1%
- Lord 82.1%
- Print Cloth 71.2%
- Wheat 44.6%
- Hog 42.0%
- Berkey 35.3%
- Butter 34.0%
- Cotton 32.5%
- Resin 23.8%
- Lead 23.2%
- Zinc 15.1%
- Corn 13.1%
- Copper 11.8%
- Steers 10.0%
- Steel Scrap diam. 8.7%
- Steel Scrap exp. 2.7%

11 Imported Commodities
- Cocoa 92.1%
- Burden 85.0%
- Tallow 69.0%
- Hides 67.2%
- Coffee 61.2%
- Wool 54.6%
- Flaxseed 31.9%
- Sugar 29.5%
- Rubber 27.2%
- Silk 14.9%
- Tin 13.5%
PRICES OF SELECTED COMMODITIES AFFECTED BY 1941 FARM PROGRAM

Percentage Change Feb. 28, 1941 to Apr. 25 and to May 16, 1941

Directly Affected

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Feb. 28 to Apr. 25</th>
<th>Apr. 25 to May 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>40.0%</td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>23.0%</td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>16.0%</td>
<td></td>
</tr>
<tr>
<td>Corn</td>
<td>17.0%</td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>17.0%</td>
<td></td>
</tr>
<tr>
<td>Hogs</td>
<td>16.0%</td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>16.0%</td>
<td></td>
</tr>
</tbody>
</table>

Indirectly Affected

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Feb. 28 to Apr. 25</th>
<th>Apr. 25 to May 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coconut Oil</td>
<td>93.0%</td>
<td></td>
</tr>
<tr>
<td>Cottonseed Oil</td>
<td>65.0%</td>
<td></td>
</tr>
<tr>
<td>Tallow</td>
<td>55.0%</td>
<td></td>
</tr>
<tr>
<td>Print Cloth</td>
<td>36.0%</td>
<td></td>
</tr>
<tr>
<td>Flour</td>
<td>14.0%</td>
<td></td>
</tr>
<tr>
<td>Steers</td>
<td>-4.0%</td>
<td></td>
</tr>
</tbody>
</table>

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

P - 216

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COMMODITY PRICES AND COST OF LIVING
1926 = 100

Monthly

Cost of Living, N.I.C.B.

889 Commodities, B.L.S.

1935 1936 1937 1938 1939 1940 1941

72 74 76 78 80 82 84 86 88 90

PER CENT

Weekly

889 Commodities, B.L.S.

28 Basic Commodities, B.L.S.*

1939 1940

52 56 60 64 68 72 76 80 84 88

PER CENT

*28 Commodities Prior to January 1940

Regraded Unclassified
SELECTED BUSINESS INDICES

BUSINESS ACTIVITY

Seasonally Adjusted
Est. Normal x 100

SHORT TONS MILLIONS

BITUMINOUS COAL PRODUCTION

CARS THOUSANDS

AUTOMOBILE PRODUCTION

CARS

FREIGHT CAR LOADINGS

STEEL INGOT PRODUCTION

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

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REPORTED NEW ORDERS, SHIPMENTS, AND INDICATED UNFILLED ORDERS OF THE U.S. STEEL CORPORATION

Chart 6
CONFIDENTIAL

1938 1939 1940 1941

NET TONS
THOUSANDS

Reported New Orders

Reported Shipments

1938 1939 1940 1941

NET TONS
MILLIONS

Indicated Unfilled Orders

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

1 - 133 - A

Regraded Unclassified
TO Secretary Morgenthau
FROM Mr. Haga

Work Projects Administration employment decreased from 1,560,000 persons during the week ended April 30, 1941 to 1,519,000 during the week ended May 7, 1941.

Attachments
<table>
<thead>
<tr>
<th>Week ending</th>
<th>Number of Workers (In thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2</td>
<td>1,747</td>
</tr>
<tr>
<td>October 9</td>
<td>1,763</td>
</tr>
<tr>
<td>October 16</td>
<td>1,768</td>
</tr>
<tr>
<td>October 23</td>
<td>1,776</td>
</tr>
<tr>
<td>October 30</td>
<td>1,779</td>
</tr>
<tr>
<td>November 6</td>
<td>1,783</td>
</tr>
<tr>
<td>November 13</td>
<td>1,786</td>
</tr>
<tr>
<td>November 20</td>
<td>1,807</td>
</tr>
<tr>
<td>November 27</td>
<td>1,822</td>
</tr>
<tr>
<td>December 4</td>
<td>1,832</td>
</tr>
<tr>
<td>December 11</td>
<td>1,855</td>
</tr>
<tr>
<td>December 18</td>
<td>1,872</td>
</tr>
<tr>
<td>December 25</td>
<td>1,878</td>
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<tr>
<td>January 1</td>
<td>1,880</td>
</tr>
<tr>
<td>January 8</td>
<td>1,887</td>
</tr>
<tr>
<td>January 15</td>
<td>1,894</td>
</tr>
<tr>
<td>January 22</td>
<td>1,895</td>
</tr>
<tr>
<td>January 29</td>
<td>1,895</td>
</tr>
<tr>
<td>February 5</td>
<td>1,892</td>
</tr>
<tr>
<td>February 12</td>
<td>1,893</td>
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<tr>
<td>February 19</td>
<td>1,885</td>
</tr>
<tr>
<td>February 26</td>
<td>1,867</td>
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<tr>
<td>March 5</td>
<td>1,806</td>
</tr>
<tr>
<td>March 12</td>
<td>1,764</td>
</tr>
<tr>
<td>March 19</td>
<td>1,736</td>
</tr>
<tr>
<td>March 26</td>
<td>1,708</td>
</tr>
<tr>
<td>April 2</td>
<td>1,662</td>
</tr>
<tr>
<td>April 9</td>
<td>1,634</td>
</tr>
<tr>
<td>April 16</td>
<td>1,607</td>
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<tr>
<td>April 23</td>
<td>1,586</td>
</tr>
<tr>
<td>April 30</td>
<td>1,560</td>
</tr>
<tr>
<td>May 7</td>
<td>1,519</td>
</tr>
</tbody>
</table>

Source: Work Projects Administration
<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Number of Workers (In thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>July</td>
<td>3,053</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>3,171</td>
</tr>
<tr>
<td></td>
<td>September</td>
<td>3,228</td>
</tr>
<tr>
<td></td>
<td>October</td>
<td>3,346</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>3,287</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>3,094</td>
</tr>
<tr>
<td>1939</td>
<td>January</td>
<td>2,986</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>3,043</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>2,980</td>
</tr>
<tr>
<td></td>
<td>April</td>
<td>2,751</td>
</tr>
<tr>
<td></td>
<td>May</td>
<td>2,600</td>
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<tr>
<td></td>
<td>June</td>
<td>2,551</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>2,200</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>1,842</td>
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<tr>
<td></td>
<td>September</td>
<td>1,790</td>
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<tr>
<td></td>
<td>October</td>
<td>1,902</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>2,024</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>2,152</td>
</tr>
<tr>
<td>1940</td>
<td>January</td>
<td>2,266</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>2,324</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>2,288</td>
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<tr>
<td></td>
<td>April</td>
<td>2,092</td>
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<td></td>
<td>May</td>
<td>1,926</td>
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<tr>
<td></td>
<td>June</td>
<td>1,665</td>
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<tr>
<td></td>
<td>July</td>
<td>1,701</td>
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<td></td>
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<td>1,691</td>
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<td></td>
<td>September</td>
<td>1,704</td>
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<td></td>
<td>October</td>
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<td></td>
<td>November</td>
<td>1,821</td>
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<tr>
<td></td>
<td>December</td>
<td>1,878</td>
</tr>
<tr>
<td>1941</td>
<td>January</td>
<td>1,695</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>1,867</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>1,708</td>
</tr>
<tr>
<td></td>
<td>April</td>
<td>1,560</td>
</tr>
</tbody>
</table>

Source: Work Projects Administration

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

They include certified and noncertified workers.
Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £21,000
Purchased from commercial concerns £19,000

Open market sterling was again quoted at 4,03-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns £5,000
Purchased from commercial concerns £10,000

The Canadian dollar weakened slightly to close at 12-7/8% discount, as compared with 12-11/16% on Saturday.

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

Swiss franc .2320-1/2
Swedish krona .2385
Reichsmark .4005
Lira .0505
Argentine peso (free) .2380
Brasillian milreis (free) .0550
Mexican peso .2070
Cuban peso 2-7/16% discount

In Shanghai, the yuan in terms of our currency remained at 5-11/32¢, and sterling was also unchanged at 3.50-7/8.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, a price of 23-7/16d was fixed for spot silver, off 1/16d. The forward quotation was also 23-7/16d, unchanged. The U.S. equivalent of this price is 42.56¢.

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 75,000 ounces under the Silver Purchase Act. This consisted of new production from various foreign countries, and was bought for forward delivery.

The Federal Reserve Bank's report of May 14, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled $75,969,000, an increase of $219,000 since May 7. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on May 14:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>May 14</th>
<th>Change from May 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits for Japan and Manchuria..................</td>
<td>$51,235,000</td>
<td>+$ 289,000</td>
</tr>
<tr>
<td>Deposits for China..................................</td>
<td>17,341,000</td>
<td>-$ 473,000</td>
</tr>
<tr>
<td>U.S. Treas. Bills, comm. paper, etc................</td>
<td>25,427,000</td>
<td>+$ 475,000</td>
</tr>
<tr>
<td>Claims</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>$41,026,000</td>
<td>+$ 746,000</td>
</tr>
<tr>
<td>Other - mainly Jap. import bills..................</td>
<td>7,531,000</td>
<td>+ 319,000</td>
</tr>
</tbody>
</table>
Personal and Secret

May 19th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

[Signature]

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.
Telegram from London dated May 16th.

1. **Naval.** 275 survivors from HMS Salopian have been picked up.


4. Night of 13th/14th, east bombarded Gazala.

5. R.M. 15th, bombers attacked convoy of 5 merchant ships near Heligoland. 3 ships 5,000, 4,000, and 1,600 tons left burning considered total losses. 2 HE 109's attacked, 1 shot down, 1 damaged. We lost 1 Blenheim.

6. **Royal Air Force.** Daylight 16th; fighters carried out offensive patrols. 1 troop carrier destroyed over Northern France, another damaged on the ground; 1 bomber shot down into the sea and one HE 109 probably destroyed and another damaged.

7. Night of 15th/16th. 146 aircraft sent to attack Hanover (102) Berlin (5 Stirlings and 5 Manchester) others to channel ports to attack shipping and to lay mines. Four bombers missing including 1 Manchester.

8. Night of 13th/14th. Wallingtons bombed two aerodromes in Rhodes; also Bughazi. Following night Royal Air Force raided two aerodromes in Cyrenaica and one south of Athens. Our aircraft have attacked Italian aerodromes; three enemy aircraft damaged on the ground at Arbil and successful attacks made on Mosul station and enemy communications.


10. 14th. 25 dive bombers attacked Tobruk without result.
results; several enemy aircraft damaged by anti-aircraft fire.

11. **Malta.** Heavily attacked nights of 13th/14th and 14th/15th also by fighters on 14th and 15th. Luqa aerodromes objective. About 7 of our aircraft damaged on the ground and three Hurricanes shot down.

12. **Crete.** Harbour at Suda Bay and two aerodromes attacked by enemy aircraft on 13th and 14th without serious damage. 8 enemy aircraft shot down, 1 damaged.
Telegram from London dated May 17th.

1. Naval. During transport of expeditionary forces to Greece merchant shipping lost 36,000 tons, damaged 6,000 tons. During evacuation of Greece 147,000 tons lost, 57,000 tons damaged.

2. Imports into Great Britain by ships in convoy during week ending May 10th, 891,156 tons compared with average of 695,048 tons for past ten weeks.

3. Apart from Mediterranean, shipping losses have tended to show improvement in April. For first time losses by air attack have exceeded those by U-boat largely due to heavy casualties in the Mediterranean.


5. Military. Iraq. By morning of the 15th our advance troops from Palestine were reported 70 miles from Rutba.

6. Syria. French troops especially vicinity of aerodromes reported standing to expectation of imminent attack by British.

7. Iraq. Tribes along Tigris Euphrates also. . . . . . . . . tribes Northern Iraq reported solidly against Rashid Ali.

8. Royal Air Force. 16th. Eight Blenheims sent to attack shipping, sank 2,500 ton merchant vessel which had been Norwegian. One missing.

9. Night of 16th/17th. Main operations: 93 aircraft sent to Cologne and 22 to attack shipping. Out of total of 135, one missing.

10. Syria. 15th. Eight Blenheims escorted by two Tomahawks attacked aerodromes at Damascus, Kayak and Palmyra. At least 16 German aircraft were seen, one was burnt. Two French fighters followed our aircraft to Palmyra but did not attack.
11. German Air Force. 16th. Continuous small fighter sweeps carried out over Kent. Two Messerschmitts 109 shot down by aerodrome defences. Our fighters destroyed five enemy fighters. We lost one Spitfire, pilot safe.

12. Night of 16th/17th. About 150 enemy aircraft came over, 120 attacked Midlands, 20 were seen mining 100 H.E. bombs were dropped on a Cornish aerodrome. Night fighters destroyed 2 enemy aircraft. We lost one Beaufighter.

13. Iraq. 16th. Three Heinkel bombers attacked Habaniya destroying engine repair section and causing other damage. One was damaged by fighters, we lost one Gladiator destroyed and another damaged. One training type aircraft also destroyed by Messerschmidt. 110's.
CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, May 19, 1941

TENTATIVE LESSONS BULLETIN
No. 106
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.

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BRITISH NOTES ON COLLECTION OF INFORMATION IN BATTLE

SOURCE

These notes were prepared by the British War Office shortly after the fall of France.

CONTENTS

1. REPORTS OF ENEMY ACTION AND MOVEMENTS
2. SITUATION TELEGRAMS AND INTELLIGENCE SUMMARIES
3. COOPERATION BETWEEN INTELLIGENCE AND OTHER STAFF BRANCHES
4. USE OF MOTOR CONTACT OFFICERS
5. DUTIES AND EMPLOYMENT OF INTELLIGENCE OFFICERS
6. ORGANIZATION OF INTELLIGENCE OFFICES
7. ORGANIZATION FOR EVACUATION AND EXAMINATION OF PRISONERS
8. SECURITY
9. SUMMARY

CONFIDENTIAL

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BRITISH NOTES ON COLLECTION OF INFORMATION IN BATTLE

1. REPORTS OF ENEMY ACTION AND MOVEMENTS

A report is almost useless unless it shows both time and place. A shelling report is of little value unless, in addition, it embodies an attempt to estimate caliber of shells and, roughly, the direction from which they were fired.

Reports must give in precise detail what has been actually seen, or they will inevitably give rise to rumor. It is wrong, for instance, to report merely "Tanks at X" when four or five have been seen in that locality. The exact number should be given; otherwise X is certain to hold a complete armored division before the report has gone far.

Nothing lends itself so easily to rumor as the threat of parachute troops. Bursting antiaircraft shells can easily be reported as parachutists. False reports of parachute landings may cause serious disorganization and waste of effort. Reports on parachute operations should not be forwarded unless they come from reliable informants who can be certain that they actually saw a man attached to a parachute, and the man landing or after landing.

The battalion intelligence section must remain one of the main sources of battle information. Every effort should be made to equip it with instruments necessary for good observation. It may frequently be possible for the battalion intelligence section to use the telescopes allotted to the battalion signal section.

2. SITUATION TELEGRAMS AND INTELLIGENCE SUMMARIES

Situation telegrams sent at stated hours are a useful check on the situation for higher formations. These telegrams must not, however, cause any delay in transmission of important items of information, which must be sent on as they arrive. A combined O and I* telegram saves congestion of communications and acts as a check on any divergences between O and I. Higher formations should lay down a form on which situation telegrams and intelligence summaries can be based.

Separate reports for enemy air activity are impracticable in battle; such activity should be treated and reported in the same way as any other form of enemy activity.

*O, standing for "Operations," corresponds to the American G-3 or S-3; I, standing for "Intelligence," corresponds to the American G-2 or S-2.

CONFIDENTIAL

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Intelligence officers of lower formations must realize that they are primarily concerned with enemy operations and activity only on their own front and immediate flanks. On the other hand, however difficult communications may be, higher formations should attempt to give their subordinates a picture of the general situation at least once every twenty-four hours. Failure to do this may result in the formulation of decisions based on faulty premises in lower formations.

This should not be taken to mean that a full dress daily intelligence summary is essential. Short reports telegraphed or sent by liaison officers will frequently be the only practicable means of distributing information in time for it to be of value.

3. COOPERATION BETWEEN INTELLIGENCE AND OTHER STAFF BRANCHES

There must be the very closest liaison between 0 and I. In principle, establishment of separate 0 and I offices should be avoided; if this is unavoidable, the senior 1 officer should be in the 0 office.

Intelligence staffs should also make a point of establishing close contact with the artillery and engineer staffs. Artillery OP's have exceptional opportunities for observing enemy movements and activity, and information of great importance and accuracy will frequently be obtained through artillery channels. Under modern conditions, information supplied from engineer sources may be of the utmost value to the General Staff.

4. USE OF MOTOR CONTACT OFFICERS*

Motor contact officers are provided primarily for the use of the operations staff; they should, however, work for the intelligence staff as well. On leaving or returning to his headquarters, a motor contact officer should invariably visit the 1 as well as the 0 staff to find out their requirements or give them any information obtained.

*The following is from the report of an American official observer in London in August, 1940:

"Motor contact officers are not liaison officers in the ordinary sense, but . . . young, physically active, and dependable men of sufficient education and background to complete successfully an intensive four-week staff course. In this course they absorb enough knowledge of orders, map reading, and organization to be able to deliver messages, military information, and orders intelligently. These officers have been of value in facilitating exchange of information; each of their missions has been, in effect, an officer patrol."

CONFIDENTIAL

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5. **DUTIES AND EMPLOYMENT OF INTELLIGENCE OFFICERS**

The presence of motor contact officers does not absolve intelligence officers from the duty of going forward to get information, and intelligence officers of all grades must be prepared at any time to use motorcycles for obtaining important information which does not come in through the usual channels. This applies particularly to intelligence officers of lower formations, in which commanders will often be too occupied with the situation at the moment to send back frequent reports.

In higher formations, over-specialization of intelligence officers for particular duties should be avoided. The I staff forms part of the General Staff, and intelligence officers must be prepared to undertake a wide variety of tasks.

On the other hand, the tendency, sometimes evident in lower formations and units, to use the intelligence officer as an odd job man should be avoided. The collection and transmission of intelligence is the primary task of the intelligence officer, and, if he is taken for other duties, intelligence as a whole is certain to suffer.

6. **ORGANIZATION OF INTELLIGENCE OFFICES**

During periods of static warfare, there is always a tendency towards over-elaboration in maintenance of card indices and a large number of maps. This procedure is impracticable in mobile warfare, and any attempt to maintain such records and an elaborate filing system will almost inevitably break down. The staff should train so as to be able to work with the minimum number of maps and few documents, including a battle message board and the intelligence log; the latter is always an essential.

7. **ORGANIZATION FOR EVACUATION AND EXAMINATION OF PRISONERS**

The more mobile operations become, the greater will be the difficulty and delay in getting prisoners to the rear for detailed interrogation. Greater importance, therefore, is attached to preliminary interrogation of prisoners by divisions for the purpose of establishing identifications and obtaining information of immediate tactical importance. When large numbers of prisoners are being taken, higher formations must be prepared to send interrogators forward for assisting divisional intelligence officers.

Important prisoners such as officers and specialists, and deserters must be interrogated at the earliest possible moment, and transport should be made available for their evacuation if possible. Other prisoners will be evacuated by march route.
Escorts should be reduced to a minimum through provision of bicycles, motorcycles, and automatic weapons where possible.

8. SECURITY

Instructions against the spreading of rumors cannot be too stringent or repeated too often. One of the greatest dangers in mobile warfare is the flood of rumors concerning the presence of the enemy in all directions. All ranks must be continually reminded that, when they are passing on information of whose reliability they are not certain, this fact must be clearly stated.

Large numbers of suspects brought to unit or brigade headquarters may present a problem with which intelligence officers at these headquarters have neither the organization nor the qualifications to deal. Personnel of field security sections should be sent forward so as to be available to assist in such situations.

9. SUMMARY

a. Keep reports short, but make sure that they are accurate and precise and that they give the necessary details as regards time and place.

b. Keep in closest possible touch with the O, artillery, and engineer staffs.

c. Make full use of motor contact officers, both to take information forward and to bring situation reports back.

d. Do not wait for information; go out and get it. For this purpose a motorcycle is the best means of transport.

e. Do not be academic, and never pigeon-hole information; it will always be of use to someone.

f. Do not allow an intelligence office to become over-elaborate. Keep methods and equipment simple and ensure that the whole organization is mobile.
SITUATION REPORT

I. Western Theater.

Air: German. Limited activity over Great Britain.

British. Continued attacks on the Invasion Coast on the 17th and 18th. Last night raids were made on Kiel and Emden. Scale of effort was below normal on both days.

II. Mediterranean and African Theaters.

Ground: North Africa. There were attacks and counterattacks at Tobruk by both sides. In the Sollum sector there was patrol activity.

East Africa. The Italian Force at Amba Alagi, commanded by the Duke of Aosta has surrendered. This removes one of the main centers of resistance in East Africa. The Italians are still holding out in the Gondar and Jimma regions, northwest and south of Addis Ababa respectively.

The British have occupied Gibissire (Giabassire) in southern Abyssinia (Ethiopia) and the Port of Dante in northeast Italian Somaliland.

Air: No reports of important activity.

III. Middle Eastern Theater.

Iraq: Limited ground activity. Iraqi ground forces appear to be organizing in the Mosul area. Some guerilla fighting seems to be developing in the Fort Rutbah area on the oil pipe line. German aviation is becoming increasingly active.

Syria: No confirmation of reported ground encounters. The British are continuing their bombardment of Syrian airdromes.
Paraphrase of Code Cablegram
Received at the War Department
at 23:37, May 19, 1941.

Bucharest, filed 17:50, May 19, 1941.

1. Sixty-two German trucks of the largest size crossed
the Danube southward over the pontoon bridge at Giurgiu on May 17th.

2. The Russian ships CARMEN SILVA and ZEOLI manned by
crews of mixed nationality sailed empty from Constantza for Burgas,
apparently with the purpose of loading troops at the latter port.

Two other Russian ships, the MATERINA and NANCHE sailed from
Constantza for the Piraeus on May 17th. These latter ships carried
 cargoes of gasoline and munitions.

3. The Turkish schooner HUNTAKERIN which has been anchored
off Constantza since April 16th is loading 250 tons of gasoline in
draw and is awaiting orders to sail for Rhodes.

RATAY

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War Plans Division
Office of Naval Intelligence
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Paraphrase of Code Cablegram
Received at the War Department
at 11:56, May 19, 1941

Budapest, filed May 19, 1941.

1. The only train travel out of Zagreb is to Belgrade and to Sisak near Pluss. In general all bridges in Yugoslavia are destroyed and in the area occupied by Hungary 76 bridges are down.

2. I do not believe a Russo-German break will take place. As of possible significance a tele of unknown veracity reports that on May 20th the German antiaircraft defense system for occupied Poland was completed.

PARTRIDGE

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Sofia, filed May 4, 1941.

So far as I can find out, German forces secured control of the Islands of Thassos and Leros and the Gulf of Corinth by a preliminary bombing, after which they landed with small boats and also with rafts, with outboard motors attached. At Leros and Thassos, parachute troops were employed. On many other islands there are no Greek troops. During March small motor boats and pontoon bridging material was seen passing through the Bulgarian capital.

JENNI

Distribution:
Secretary of War
State Department
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Assistant Chief of Staff, O-2
War Plans Division
Office of Naval Intelligence
London, filed 9:00, May 19, 1941.

1. **British Air Activity over the Continent.**
   - Night of May 17-18. Cologne was attacked by 95 British bombers and Rouen by 19, and 16 conducted operations over Rotterdam, Ostende, and French and Belgian airfields. The Coastal Command performed missions against Villeneuve and Dieppe.

2. **British Air Activity over Britain.**
   - Night of May 16-17. One hundred thirty-five British bombers took part in the operations against Germany.

3. **German Air Activity over Britain.**
   - Night of May 16-17. The only German air activity was on a minimum scale in dropping mines in the sea off Devon and in the Bristol.

4. **British Air Activity, Continental.**
   - (1) Night of May 17-18. One bomber was shot down in operations over France and Belgium.
   - (2) Night of May 16-17. One bomber was shot down in large scale raids over Germany.

5. **German Activity, British Theater.**
   - (1) Night of May 16-19. In mining attacks off the North coast one plane crashed on shore from an minesweep.

6. **British Air Activity, Middle East Theater.**
   - Daylight, May 19.
   - (1) **Greece.** Three German occupied airfields, Komotini, Kastoria, and Argos, were attacked.

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(2) Libya. Bengazi was again attacked. Fighter squadrons
came to the destruction of 19 Axis supply vehicles moving east on the Tobruk, Barqa and Gupescos roads and damaged many additional. A large gasoline
dump was set on fire and destroyed in the vicinity of Abu Arad.

(3) Egypt. The airfield at Bashi and the emergency field
at Beqishal were bombed.

(4) Burma. Four bases in Burmese British planes bombed
German aircraft on the ground at Paleyps.

5. German Air Activity, Middle East Theater.

6. German Air Losses, Middle East Theater.

Daylight, May 12. Three German planes out of eight were shot
down in German mining attacks on the Suez Canal.

Daylight, May 12. Burma. Two planes were set on fire and
destroyed in British attacks on Paleyps airfield and two others damaged.

7. During the week beginning May 3 imports carried by ships in
convey were in the neighborhood of 200,000 tons greater than the average
for the month preceding ten weeks. With the exception of the Mediterranean
Theater, losses of ships by air bombing were greater than submarine torpedoing
in the month of April for the first time of the war. Shipping losses in
the Mediterranean were exceptionally heavy on account of the evolutions
from the Balkans.

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8. Public opinion of the Kurdish tribes in Iraq and of the
natives along the Euphrates and Tigris Rivers is united against Rashid Ali.
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Paraphrase of Code Cabledram
Received at the War Department
at 23:33, May 19, 1941.

Sofia, filed May 19, 1941.

With regard to your telegram No. 20: A source regarded as
fairly trustworthy asserts that the Danube from Budapest as far as
Belgrade has been opened to transportation. The Communications
Department of the Bulgarian Government reports that the Danube is
open to freighters from the Black Sea to Belgrade. The following
rail transport routes are open: Sofia to Belgrade; Belgrade to
Zagreb; Luhljana to Trieste. I am informed that traffic is halted
between Oreb (Zagreb?) and Luhljana. The evidence of genuine sabotage
conducted against the railroads is very slight. At Novisad, a bridge
which had been half destroyed is now being repaired. All Bulgarian
railroad service is hindered by German troops and materials moving
to northward.

JADWIN

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