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July 23, 1941
9:15 a.m.

Marriner
Eccles: Hello.

HMJr: Hello.

E: Hello.

HMJr: Hello, Marriner?

E: Marriner speaking.

HMJr: Henry talking. How are you?

E: I'm fine. I.....

HMJr: Well, are you home?

E: Yeah.

HMJr: Well, you sound as though you were in San Francisco.

E: (Laughs) I'm not.

HMJr: What?

E: I'm not.

HMJr: I see.

E: I'm - I called up yesterday, and with reference to that required modification you suggested in that Executive Order.....

HMJr: Yes.

E:and I talked to Bell about it.....

HMJr: Yes.

E:and I wondered if it would be possible for Henderson and I to talk to you.

HMJr: I beg pardon?

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E: What is it?

HMJr: I couldn't hear you.

E: If it would be possible for Henderson and I to talk to you about it.

HMJr: Well, here's the trouble. Dan put up very strenuous arguments and told me that I was wrong and gave all the arguments. I'm leaving at two o'clock, unfortunately, and - hello.....

E: Yes.

HMJr:and I've just tied myself up like a knot in order to get my desk clear, but.....

E: Well, I'm - I feel that if I could - the - the way the thing is, Henry.....

HMJr: Yeah.

E:it isn't very satisfactory; and I think if you were in my position, you'd feel about like I do about it.

HMJr: I - I think I would.

E: They.....

HMJr: I think I would; and I think if you were in my position, you'd feel the way I do.

E: Well, I think it - I think it - it's equivalent to - hello.....

HMJr: Hello. I'm right here.

E: Yeah. I say, it's equivalent to a veto, really; and it's one agency having a veto power over another, and what it really does is give us the responsibility.....

HMJr: Yeah.

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E:on the thing, and in effect, gives you the authority.

HMJr: Well, that isn't the way.....

E: What I - I wouldn't - I wouldn't mind at all the requirements that we advise with you on the matter before we do anything. The - any other powers we have - for instance, we have - we have power to put margin requirements.

HMJr: I know.

E: We have other powers, and we have never undertaken to do any of them without advising.

HMJr: Well, I - I - you see the way I feel, I may be wrong, but it's just the way I feel. Hello..... Hello.....

E: Yes.

HMJr: I don't know. Somebody keeps getting on the wire. Are you calling direct from your house or through your switchboard? Hello..... Go ahead.

Operator: Operator.

HMJr: He was cut off.

Operator: He was?

HMJr: If he's talking through his switchboard, see if you can't get him directly onto ours.

Operator: All right, I'll do that.

HMJr: Please.

Operator: Thanks.

HMJr: Hello.

E: Hello. Yeah. This is a better connection.

HMJr: Yeah. I don't know. Yeah. This is much better.

E: Yeah. Well, what - what I was saying.....

HMJr: Well, I was trying to explain to you my position.

E: Yes.

HMJr: I mean, so that you could just see it and the reason I feel this way. I just feel that we're going into a - well, maybe a five year period of very, very difficult times. There's going to be a lot of these things. This is only one of maybe a half a dozen. And I feel that they - I may be wrong - and if I was in your position I most likely wouldn't agree to it. But I simply feel that the Treasury has to have the final say during what I would call, the coming war period, as to anything that might cut across its raising the money for the Government. Now that's - I could talk for an hour and that boils down the way I feel. Now, this is the first thing that's come up recently. In normal times I wouldn't feel that way, but I - I do feel that way, and I feel the responsibility terrifically and it worries me and I don't sleep nights, and I just feel like here's something - today, you and I are getting along beautifully, the whole Board; but supposing we had a row.

E: Why yes. You're in this position here.....

HMJr: See? And then you say, "Well, I'm sorry, you can go to hell and....."

E: Yeah. (Laughs)

HMJr: ".....we're going to run this thing and so forth and so on."

E: Well that - that has never happened. At no time has - there's no time, Henry, since I've

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been in Washington, have we ever undertaken to do anything - whether we agreed or disagreed - we have always discussed any matter that affected the Treasury. There is this feature - this is a Presidential Executive Order - it isn't statute - so that the President at any time can veto that Order in fifteen minutes' notice. He can modify that Order. It - it isn't - it isn't as though this was a statutory provision.....

HMJr: Well, look.....

E:because the President - the President's got the veto power immediately - any time.

HMJr: Well, this is what - this is what I'm willing to do. Take the thing over. Draw it two ways - I mean, little sheets drawn in the way I'd like it and the way - like you'd like to have it. See?

E: Yeah.

HMJr: I won't put any arguments in to the President. I'll let you present the case. And you can say, "This is the way Henry would like it, and this is the way I like it," and I won't put up any arguments; whichever way the President decides, I'll be satisfied. Now, that's fair, isn't it?

E: Well, the only thing is that if - if - if that is in the Order, I'm sure the Board wouldn't - they just wouldn't want the Order at all.

HMJr: But that's fair, isn't it, Marriner? I'll let you present the case. I won't send any communication to the President. I haven't discussed it with him, and I won't discuss it with him until you see him. Now, what could be fairer?

E: Yeah. Well, that's all right. That's all right.

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If you feel the way you feel about it, of course, you - your -you - you've got a right to your feelings and your convictions in the matter.

HMJr: I do, and I give you my word I'll not communicate with him until you've seen him.

E: Yes.

HMJr: And you can present the case, but just have a little piece in there saying, "Now this is the way Henry'd like to have it."

E: I will show him exactly what you want - that you'd like to put in - and I would put up the arguments to him that I'm putting up to you.

HMJr: And then tell him how I feel about it, and why I feel that way.

E: Is this thing a - just let me mention this, then I'm through.

HMJr: That's all right.

E: The - it isn't possible for us to - to restrict the use of Consumer Credit without it being favorable to your bond market. It couldn't possibly be otherwise because what - what you undertake to do is to make it impossible for - for people to - and institutions - to loan as much in that field as they otherwise would. You'd cut it down, which releases funds available for your security market.

HMJr: Well, I - I'm conscious of all that; but I just feel that this is one of maybe a dozen things that are going to come along. This is the first one, and I'd like to have it out on the first one. Now, if I get licked, okay. There'll be no hard feelings.

E: Well, now I've had a chance to tell you the way I feel about it and.....

HMJr: Yeah. Now you know how I feel, and you can be the advocate at the Court of His Majesty.

E: Yeah. All right. Well, I.....

HMJr: I'll leave it to you.

E: Yeah. Well, okay then. I'll - if we see the President about it, I'll give him a copy of the suggested - you like the idea generally; I mean, you feel that something ought to be done in this field?

HMJr: Oh, very definitely.

E: And the only question is that you'd like to have the - the veto, in effect, is what it is - the - in other words, nothing can be done without your approval.

HMJr: That's right. What - the way - whatever way O'Connell wrote it is the way I'd like it.

E: I was - I was thinking that we could - you could require that we advise with you, but you feel that you ought to have the - the.....

HMJr: Yeah.

E: Well, as a practical matter, the way O'Connell has written it.....

HMJr: Yeah.

E:he says every rule, regulation, or policy - I mean, the thing is so general and so all-inclusive.....

HMJr: Yeah.

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- E:that if you made - if you made a regulation and then you - and you approved to the regulation, and then we come along and there's going to be all kinds of rules, rulings to be issued. People are going to raise questions whether or not this is within the regulation - we've got to - we'll have to issue a lot of rulings. They'll be innumerable.
- HMJr: Well.....
- E: You could - it - it really becomes, I'm sure, the way that is, even if we consented to it, almost an impossible operating procedure from a practical point of view.
- HMJr: I see.
- E: That - that every single thing we did - it would be just like, for instance, in - in your freezing of funds now.....
- HMJr: Yeah.
- E:and in - in - if you issued a license for every single item. You've got all kinds of rules and matters are handled that they're just innumerable. You don't - you'd practically have to have a member of your staff of your organization, I think, sit right with our organization and you'd have to give them power to - to act for you in connection with practically everything that was done.
- HMJr: Well now, let me tell.....
- E: Now, I'm sure as a practical matter to live up to that thing to the letter the way it is, that's what would have to be done.
- HMJr: Well, let me tell you what we do on frozen funds. We've got an agreement with the State Department and Dean Acheson sits with us and a Mr. Shea for Justice, and we don't make a move unless they agree to it.

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E: Yeah, but - in case of every individual license, I mean, you've - you - you don't with reference to policy.

HMJr: On policy they pass on everything.

E: Yes. Well, I - I - what I'm saying is if the - if this suggestion could be changed.....

HMJr: Yeah.

E:to the effect that - that we wouldn't - that we'd make no regulation whatever governing this thing without first - see, we don't make them without first - consulting and advising you.

HMJr: Yeah.

E: Well, you might say within a period of so many days before it's done.

HMJr: Yeah.

E: If we then proceeded to be arbitrary, you can always ask the President to say it affects your financing and.....

HMJr: Yeah.

E:and - and ask him to.....

HMJr: But I don't want to bother him. He - he's got too much and he's not interested.

E: Well, of course.....

HMJr: He's not interested.

E: I know, but there's always that - there'd be always that question that he could cancel the Executive Order. Well, I've - I'll state the best case I can for you.

HMJr: Well, I - I'm - what could be fairer? I'm going to let you present it.

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E: Well, that's - that's all right, then.

HMJr: And he'll hear nothing from me until after he's seen you.

E: Yes. Yes. Well, I'll discuss it with him then.

HMJr: Okay.

E: And - by the way, I listened to your radio talk last night.

HMJr: Did you?

E: On the Defense Savings.

HMJr: Oh, yes. Did you like it?

E: I thought it was - I thought it was very good.

HMJr: Thank you.

E: I think it - I think it not only was good on the - ought to help the Defense Savings field.....

HMJr: Yeah.

E:but I think it ought to be - it ought to help generally from a standpoint of - of general interest in the situation.

HMJr: Well, we were doing it two-thirds for morale and one-third for the defense.

E: Well, I - I - that's what I meant. I meant that - I think it's pretty good - it was pretty good generally speaking - it was put over in - you must have had some preliminary discussion, because it went over just as smoothly as if it - as if you were old professionals.

HMJr: Well, it was all written out beforehand.

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E: Well sure, but I mean it was - it was awfully well done.

HMJr: Thank you.

E: Yeah. Well, all right then.

HMJr: Thank you.

E: Good-bye.

HMJr: Good-bye.

July 23, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Sullivan
Mr. Schwarz
Mr. Elough
Mr. White
Mr. Cochran
Mr. Thompson
Mr. Foley
Mr. Bell
Mr. Odegard
Mr. Graves
Mrs. Klotz
Mr. Haas
Mr. Kuhn

H.M.Jr: Do you want to do taxes first?

Thompson: I have nothing this morning.

Bell: I have nothing.

H.M.Jr: Harold, I was delighted at the arrangement of the Bond organization for that broadcast that took place here yesterday. Everything went off beautifully. Thank you and Odegard and Kuhn particularly, and Callahan.

Graves: And Gilchrist.

H.M.Jr: And Gilchrist. They did a swell job.

Thompson: The programs were wonderful over the radio.

Bell: That seven thirty was a good program.

H.M.Jr: To show you for instance, I was talking with Dan Bell's friend, Marriner Eccles.

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Bell: Gee, that is terrible.

H.M.Jr: He said, "You must have worked that out in advance because the thing went so smoothly. Did you work it all out in advance?" Dan Bell's friend Marriner Eccles is supposed to be intelligent.

Klotz: Poor Dan. (Laughter)

H.M.Jr: He can take it and like it.

Bell: Just like that.

H.M.Jr: Incidentally, I had my talk with Marriner, which meant I listened, and I told him I was very sorry. I was not changing my position, but he could take over two drafts, his draft and our draft, and tell the President that is the way I felt. I had not communicated with the President, and he could be my advocate at the court. On that basis we will try it. Harold?

Graves: Nothing.

H.M.Jr: Harry?

White: Here is that book you once spoke of.

H.M.Jr: Spoke on?

Klotz: Of.

H.M.Jr: When I went to school, it was of.

White: Spoke of, yes. It still is. That book ought to be required reading for every Government official.

H.M.Jr: The President said so yesterday in his press conference.

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White: Who did?

H.M.Jr: To everybody. Oh, yes, he had the book and he recommended it at his press conference, didn't he, Chick?

Schwarz: Right, sir.

H.M.Jr: He told me he did.

Schwarz: He had that and Dave Coyle's little book on his desk.

White: I didn't know that, but I agree with him.

H.M.Jr: For once.

White: I have agreed with him before. I don't do it as often as I used to.

H.M.Jr: What else, Professor White?

White: I have this telegram. I am wondering whether you would want to reconsider it.

H.M.Jr: Why shouldn't it go?

White: I don't see why it should appropriately go from you. I think if we want to we can take it up with the English here.

H.M.Jr: You don't like it?

White: No, I think it better not go.

H.M.Jr: You don't like it very much?

White: No, I don't think it is that important.

H.M.Jr: All right, if you are not going to fight about it, I will tear it up.

White: I see. Do you want to have discussions continued with the English while you are gone, Mr. Secretary?

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H.M.Jr: Mrs. Klotz reminds me to tell you that that letter to Elmer Thomas really ought to go out today.

White: Well, maybe it is circulating.

H.M.Jr: Well, supposing it stops circulating and finds its way to Papa?

White: Well, it will gather the initials. Do you want to sign it before you go?

H.M.Jr: Twelve o'clock today.

White: All right. Mr. Bell, Mr. Foley, Mr. Cochran, when they get it, will initial it.

H.M.Jr: I want it in the hands of Mrs. Klotz so there is no argument. It is somewhere around the office.

Bell: It isn't in my office. I cleaned my desk this morning.

White: All right, it will be on your desk - with or without the signatures.

H.M.Jr: Give it to Mrs. Klotz in person.

Klotz: Some kind of an acknowledgment anyway.

White: No, I think it had better be handled briefly the way it is and I don't think there will be any disagreement.

(Mr. Haas entered the conference).

H.M.Jr: Get Foley - I have already told Bell to tell you about Oumansky, Foley and Bernstein.

White: Oumansky, Foley and Bernstein?
It sounds like a bum orchestra.

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- H.M.Jr: It was. (Laughter)
Continue with the English? The answer is yes.
- White: That is all.
- Bell: Is there any answer to go to the State Department?
You kept the Welles letter.
- H.M.Jr: Yes.
- Bell: Is he coming back?
- H.M.Jr: Yes. You might let Mr. Welles' office know
that he is putting it up to his Government, that
it should be between the Russian Government and
the Treasury, and that it should be an agreement
coterminous with the trade agreement, but outside
the trade agreement.
- Bell: And informal?
- H.M.Jr: Yes, but just the same thing as I said before,
just the same. Chick?
- Schwarz: There is still a tremendous interest in the
freezing situation. I think to help the law-
yers, we can blast out a story.
- H.M.Jr: Have you seen the French?
- Cochran: I am not sure. Have you seen the ticker this
morning?
- H.M.Jr: The reason I am teasing is, the other day I
had Madame Tabouis, who speaks, I guess about
as beautiful French as anybody can. It is so
good that I can understand almost everything
she says. It is just beautiful. So I said
I wanted to hear it because it is very
beautiful. So Merle starts talking and he
jabbers away in French and he says, "Oh, but,
Madame, what you ask me in French, that is
frozen funds, using the English words."

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So I said, "Isn't there a word for that in French?" He says, "Oh, yes, gelés funds."
(Laughter)

You don't mind that, do you?

Cochran: No, that is good French.

Odegard: You asked about the ratings of the Texaco show.

H.M.Jr: Yes.

Odegard: The Hooper ratings will not be in for some time. The C.A.P. ratings should have been in by the twentieth, and we are calling - Mrs. Betts is calling to see if she can't get that rating for the ten thirty meeting.

H.M.Jr: All I know is what the President told me that Steve Early told him, that they are running number two for the country.

Odegard: Well, I don't think he has the rating. He is relying on the old rating.

H.M.Jr: The old rating was number three, wasn't it?

Odegard: Yes.

H.M.Jr: All right. Who am I to argue with the White House. George?

Haas: I have nothing.

H.M.Jr: Roy?

Flough: Nothing this morning.

Cochran: I wasn't able to get Sir Frederick Phillips before I came in, but I am positive he is going to be here beyond the first of August. I asked him a few days ago.

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- H.M.Jr: Well, I just didn't want him to leave without saying goodbye.
- Cochran: Surely. I will get him yet this morning. But he didn't feel that he ought to go away while Purvis was going to be away.
- H.M.Jr: I have said goodbye to Purvis.
- Bell: Keynes thinks Phillips ought to stay here, and I encouraged him all I could.
- H.M.Jr: Who thinks so?
- Bell: Keynes. He doesn't think Phillips ought to go back personally. He can go back for a holiday but he ought to go back.
- H.M.Jr: I would be glad to have Phillips stay here. I get along very well with him.
- Bell: I told him that you would. I thought he ought to encourage the people over there to send him back.
- H.M.Jr: Just as long as they don't send the editor of that other financial paper over here. What is his name?
- Schwarz: Brendan Bracken?
- H.M.Jr: No, he has been here already.
- White: Sir Walter Layton?
- H.M.Jr: Yes.
- White: Well, he isn't of the other, he is of the same, but a former editor. Crowther has replaced him.
- H.M.Jr: I thought he was the same. Is that right?

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- Kuhn: Yes. Layton was the owner of "The Economist". I think he still has an interest, but no editorial direction.
- Sullivan: They ploughed right through until five o'clock yesterday afternoon. I think they will finish before noon today. Only two changes in the afternoon in the bill. One was in the exemption in the excess profits tax in favor of those companies mining certain ores. And we eliminated that entire exemption. We had opposed it last year and the House refused to include it. It was included in the Senate and then the House had given in in conference but the entire exemption section has now been removed. The rates on wine were lowered a little bit, but those are the only two important changes. The figure you asked for as to how much our loss would be if the Treasury's suggestion on mandatory joint returns were enacted, the figure is twenty-four million dollars.
- H.M.Jr: You would lose?
- Sullivan: That is right.
- H.M.Jr: Twenty-four million dollars?
- Sullivan: That is all.
- H.M.Jr: Well, that is not very much.
- Sullivan: No, it isn't. You will recall I told you that Mr. Davidson of Fiduciary Counsel was interviewing a lot of people who had a large number of State and Municipal bonds and was drawing a statement which is to be published in full-page advertisements, and he hoped that we wouldn't object to it, and that he could be free to say that we didn't object and we might comment favorably, and I told you he was going to send along the petition. I think it is a pretty good one. Would you like to hear it?

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H.M.Jr: Sure, is it funny?

Sullivan: No. It isn't funny. Some of the people he has got who are going to sign this, one fellow owns more tax exempt securities than anybody else in the country and has already agreed to sign it. It is in the form of a petition to Congress.

"We urgently request the Congress of the United States to enact proper and constitutional legislation for the purpose of eliminating the tax-free income feature from all securities of any governmental agency, including state, cities, counties, and so forth.

"If there is no proper method of applying this change immediately to the securities already issued, we then urge that all new issues be made taxable. This would gradually but inevitably reach all issues, because millions of dollars of such bonds are being replaced by new issues each year.

"Buying state bonds is merely loaning money to the state. As long as these securities are legally sold, they will be bought. No one can be criticized for buying them. On the contrary, citizens of any state would be considered unpatriotic if they refused to loan money to their state. The only possible method of closing the door to tax-free income is to remove the tax-free privilege. We urgently request that Congress initiate such action immediately."

H.M.Jr: Wonderful.

Sullivan: I think we ought to give them a little encouragement.

H.M.Jr: Sure. Do you know who the man is who owns the most bonds?

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Sullivan: Yes.

H.M.Jr: Who is it?

Sullivan: Marshall Field.

H.M.Jr: I didn't know that.

Sullivan: I suggested to this fellow that he get some governors to sign it and make it more of a cross-section.

H.M.Jr: What with not having to pay taxes on his securities and being able to deduct his loss from PM, he ought to be sitting pretty.
(Laughter)

What else?

Sullivan: That is all, sir.

H.M.Jr: All right.

Foley: Down at Miami we have ten planes that the Procurement Division bought for the British, and they are to be Lend-Leased.

Now, the State Department is asking that they have U. S. markings on them, because they have got to go into Brazil and they don't like - Brazilian authorities don't like British marked planes going in there.

They are being flown over by one of the subsidiaries of Pan-American employed by the British for this purpose. They are being followed by a clipper and the clipper arrives a day afterward and brings back the pilots.

I think it is perfectly all right for them to go over with U. S. markings on them, because they are - the title still remains in the

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United States to all this Lease-Lend equipment, but I thought you ought to know about it in case something happened to them.

H.M.Jr: When does title pass?

Foley: Title doesn't pass. The stuff remains in the United States all the time. We just let them have the use of the stuff.

H.M.Jr: Is that true with all of it?

Foley: That is the position that they have taken over there in respect to all of it.

Bell: Leased, isn't it?

White: Why doesn't it have Brazilian markings if it is going to be in Brazil?

H.M.Jr: It is going to Takoradi.

Foley: It goes to Trinidad, Brazil, and Bathurst, West Africa. Over there the mechanics will change the markings and make them British markings and put them in shape to be flown up into the Mediterranean country.

H.M.Jr: All right.

Foley: Here are the people that you wanted to go to Manila.

H.M.Jr: Who else has seen this?

Foley: Merle, Harry, Delano.

H.M.Jr: Bell?

Foley: No, Dan gave me his proxy because he had to go down on the Hill.

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Bell: It is all right.

H.M.Jr: From Pehle's office, Mr. Saxon, thirty-five, bachelor, with blue eyes, James J. Saxon.

Why do they put in the color of his eyes?

Foley: For passport purposes. I thought maybe the State Department would be interested.

H.M.Jr: Twenty-eight, bachelor, with prospects.

Foley: No prospects. (Laughter)

White: They are good in the Philippine Islands.

H.M.Jr: What was that, Harry? Is it repeatable?

White: Really not good enough to repeat. I said they would be better in the Philippine Islands.

Thompson: Saxon may be eligible for the draft.

H.M.Jr: He says Saxon is almost to be reached in the draft.

Foley: I don't know anything about that. He is subject to the draft and may be called for duty at any time, but it will be necessary to obtain deferment from the draft board. No difficulty is anticipated.

H.M.Jr: Well, I won't ask for deferment.

Thompson: Well, Pehle talked to me, and I told him I didn't think the Secretary would ask for a deferment. I told him I wouldn't recommend it.

H.M.Jr: No, I won't ask for it.

Thompson: Probably he ought to clear that with his board

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before he goes.

Sullivan: I don't think they are going to take any more who are twenty-eight.

H.M.Jr: Clear it with the draft board before he goes, will you, but with no recommendation from the Treasury.

Foley: As I understood it, all he was going to do was to get permission from the local draft board for the fellow to leave the country.

H.M.Jr: That is all right, if he can get it.

Now, in the Comptrollers office, you just give their names.

Foley: Well, they are kind of fussy about that around there. They didn't want to divulge any secrets. (Laughter)

H.M.Jr: They don't say what they are.

Foley: No, just where they are.

Klotz: That is a scream.

H.M.Jr: Are you sending Sol Adler? Was he the fellow that was down in Chile?

White: No, that was Speigel.

H.M.Jr: You are sending Sol Adler because he is good or because you want to get rid of him?

White: No, no, he is - (Laughter) I will have a time living that down. No, he is good, and he is on the Far East now.

H.M.Jr: He is good?

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White: Yes, he is good.

H.M.Jr: O.K.

White: With the understanding with Mr. Foley that we won't keep him there more than a few months at the most.

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

Foley: Nothing else. Are you going to call Welles about that?

H.M.Jr: No. Why not let Merle handle it?

Foley: All right.

Cochran: I had a suggestion, Mr. Secretary.

H.M.Jr: He handled the Coe matter very well. He got Coe diplomatic status, which we have never been able to get before.

Cochran: I spoke with Ed yesterday. Should we suggest a vice consul to be assigned there in addition? I thought we might get some one from Japan who would know Japanese, one of their language officers.

H.M.Jr: Good.

Cochran: You wouldn't need to put that on the list.

H.M.Jr: I think that would be good.

Cochran: It might make them feel a little better.

H.M.Jr: I think that is an excellent suggestion.

Foley: Won't somebody have to talk to Sayre about that and tell him these fellows are coming?

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H.M.Jr: Sure. Let Merle do the diplomatic end.

H.M.Jr: I will go over this morning.

H.M.Jr: He handled the Coe matter very well. Let him do it.

Bell: There is a question as to whether that shouldn't be done through the Interior, isn't there.

Thompson: Yes, it comes under the Division of Territories.

Bell: I should think a cable ought to be sent to Sayre on what you are doing.

Foley: The trouble is, Dan, that may tip our hand, and they have been very, very careful to keep this a secret over in the State Department, and they haven't told the boys on the third floor anything about it, and that was why I thought it ought to be handled with Welles, because he was particularly careful that Dean should mention this to nobody else in his office and not to the career guys at all.

H.M.Jr: Well, let Merle handle it. I am leaving at two. I will be back here on the night of the thirty-first just to be here for the one day, and then I will come back again Monday.

Bell: The night of the thirty-first or the first?

H.M.Jr: I will be back here on the night of the thirty-first.

Bell: And be available the first?

H.M.Jr: Yes.

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Lieutenant Stephens is at Malone at the end of the telephone. He will see me at noon every day or sooner, if there is an emergency.

If there is something moves on Japan, I would like to know about it, you see.

- Schwarz: Any directions, Mr. Secretary, as to what to tell the press?
- H.M.Jr: You can tell them tomorrow when you call the thing off that I have gone away for a week's rest.
- Bell: How long does it take you to get to a telephone?
- H.M.Jr: I can get to a party line up there in about fifteen minutes.
- Bell: Would you want to talk on the telephone on the Japanese thing if there is anything doing on it?
- H.M.Jr: I can get up to Malone, twelve miles, in about twenty minutes.
- Bell: Sure, that isn't very long.
- H.M.Jr: Where they have got a good wire. I can get up to Malone in twenty or twenty-five minutes, if you can find me. I recommend that everybody take it easy while I am gone. I am sincere. We have all worked hard. Things are fine. I saw the President yesterday. Very much in the room, I am so pleased. After about two months now they have found out what is the matter with him and it is nothing serious and it is nothing but what can be cured, and it has just made all the difference in the world. For the first time,

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I have really seen him gay and kidding, and his mind is free. I was with him for forty-five minutes. They have finally found out what is the matter with him, and they say it is nothing but what can be cured, but these dumb doctors, I don't know why they didn't give him this certain test two months ago or two years ago. To me it is unbelievable, because it is something he must have had for years now. It is just unbelievable that they wouldn't have tested that, made that certain test, but I thought everybody would like to know that - I mean, he is a changed person. For the first time, I have seen him his old self. It is the first time in months.

We have been - on the first of August we wanted to take one of our Defense Bonds, and I walked in there and he said - Miss Tully came in and said, "Mrs. Klotz, Mr. President, wants you to sign a check for twelve hundred dollars." He said, "What does Mrs. Klotz want that for? Why can't she wait until the first of August?" He says, "I am not going to sign any check for Mrs. Klotz." He was a little annoyed. He says, "After all, I don't want to lose any interest on my money." (Laughter) Grace says, "Well, Mrs. Klotz wants it." He said, "You tell Mrs. Klotz she shouldn't bother me. She should wait." Grace said, "Well, Mr. - " he says, "Don't bother me." So she says, "Well, Mr. President, it is only dated August 1." He said, "Well, why didn't you say so in the first place? Well, I guess I don't get any interest on my money anyway."

Bell: Have you got it?

H.M.Jr: Yes. But Grace knew, so we started ten days early to make the thing in time, and we got it. She came in while I was there.

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Bell: So that is twelve hundred dollars that he
 wants?

H.M.Jr: Yes, he wants his thing on the first. I
 got quite a kick out of it.

O.K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 23 1941

TO Secretary Morgenthau
FROM Mr. Foley

It is proposed to send the following persons immediately to Manila:

(a) From John Pehle's office:

Richard P. Aikin, age 35, bachelor
James J. Saxon, age 28, bachelor

(b) From the Comptroller of the Currency's office:

A. L. Price of Seattle
L. B. Dunham of Portland

(c) From the Legal Division:

Lehman C. Aarons, age 32, married
T. Maxwell Anderson, age 30, bachelor

(d) From Dr. White's office:

Sol Adler, age 34, bachelor
Lawrence Hebbard, age 29, bachelor

It is expected that Aikin, Aarons, and Adler will stay in the Philippines only temporarily.

I am canvassing the situation to see whether or not we should also send a group of men out to Hawaii.

8.11.76

OK. 10m 7

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 23, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

In accordance with the instructions which the Secretary gave me in this morning's Staff meeting, I called Mr. Acheson's office at 10:05 a.m. Mr. Acheson was in a meeting, so I spoke with his assistant, Mr. Donald Hiss, who is entirely familiar with Foreign Funds Control problems.

I read to Mr. Hiss the list of persons proposed for immediate sending to Manila, which list Mr. Foley had submitted, and the Secretary had approved, at the Staff meeting. I also told Mr. Hiss that the Secretary of the Treasury would look with favor upon the Department of State adding to the group in Manila a Foreign Service Officer with experience in Far Eastern matters. I suggested that such an officer might be available either in the Department of State or among the Foreign Service Officers now on duty in Japan. I raised several questions, which Mr. Hiss said he would look into and call me back.

At 12:30 Mr. Hiss called me. He had not yet been able to see Mr. Acheson. In reply to my inquiry about passports, Mr. Hiss had learned from Mr. James McKenna of the Passport Division that passports are not required for direct travel to the Philippine Islands. If anyone of the group contemplates going to China, application should be made at once for a passport. In case decision is taken after arrival in the Philippines to travel to foreign territory in the Orient, passports could be obtained in Manila. Mr. Hiss agreed with my thought that the members of the group should be definitely on Commissioner Sayre's staff, and that if passports are applied for, "special passports" indicating that the bearers are traveling on official business of the Government should be issued.

Mr. Hiss and I agreed that it might not be necessary to withdraw any Foreign Service Officer from Japan to Manila at present, since we already have a Foreign Service Officer, Mr. Salisbury, on Mr. Sayre's staff. Mr. Salisbury speaks Japanese and has had much experience in Japan, as well as in the Department of State. Mr. Hiss is still working on the recommendation that someone go from the Department of State. He thinks there is a possibility that Mr. J. Bartlett Richards, a Foreign Service Officer who formerly served as Trade Commissioner at Manila, and who also knows China, may be sent.

Mr. Hiss is working on the question of earliest possible transportation of the group. He will keep in touch with Mr. Foley on this subject and will also discuss with Mr. Foley the question of salaries, expenses etc.

As to instructions to Commissioner Sayre, Mr. Hiss said that the State Department had authorization to communicate through the American Consul at Manila with the Commissioner when matters of foreign relations are concerned. In such cases copies of the messages are provided to the Department of the Interior in Washington. In the present instance, it was our feeling that the message to Mr. Sayre should go in the most secret code, which would be presumably that utilized by the Department of State with its Consul at Manila.



July 23, 1941
10:30 a.m.

RE DEFENSE SAVINGS BONDS

Present: Mr. Edward
Mr. Sloan
Mr. Sparks
Mr. Buckley
Mr. Duffus
Mr. Mahan
Mr. Graves
Mr. Powel
Mr. Kuhn
Mr. Callahan
Mr. Odegard

H.M.Jr: This is the only copy of the agenda I have.

Graves: Yes, we have all of that covered. I might give you some statistics this morning if you would like to have them. On the basis of cash deposits at the Treasury, total sales of our Bonds, all series, through the 21st, that is day before yesterday, were eight hundred eighty-seven million, of which three hundred three million was the E Bond, eighty-three million the F Bond, and five hundred one million the G Bond. That is on the basis, I say, of cash deposits and understates the true total on account of items in transit by as much as fifty to sixty million. I might say that there is a possibility if not a probability that sales by the end of this month will reach a billion.

H.M.Jr: They have got to.

Graves: Well, they will certainly go over a billion in actual sales, but allowing for items in transit, there is a possibility we won't reach that figure on that basis.

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H.M.Jr: O.K.. Harold, just - could I get the direct mail reports first so we will be sure to have time.

Graves: Yes, from Mr. Buckley.

H.M.Jr: I sure want to get that thing.

Buckley: "Test Series No. 1, consisting of approximately 96,000 pieces mailed on June 21st at a cost of \$1,182, is still pulling. The campaign has so far produced 234 orders, amounting to \$107,310 worth of bond sales. In addition, quite a number of letters have been received similar to the following: 'I have already purchased \$3,500 worth of these bonds and intend to buy more from time to time as funds become available.'

"Test Series No. 2, consisting of 11 separate mailings of approximately ten thousand each, went into the mail on Saturday, July 19th. These mailings were designed to test the relative pulling power of a folder and order blank versus a letter, folder and order blank; a new three-color folder versus a one-color folder; a new letter versus those used in the first series; one state where we have active field representation versus another state where we have practically none (Michigan - Massachusetts).

"Other mail order activities already under way, include:

- a two-million mailing to all customers, urging them to start buying regularly;

- a mailing to corporations, associations, partnerships, trustees, etc., featuring "F" and "G" bonds;

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- a mailing to all new customers as the orders are received, thanking them for their order and attempting to turn them immediately into regular purchasers.

- a mailing to all regular purchasers, enclosing three order blanks for distribution to their friends or relatives.

- a large mailing is planned for October that will have the advantage of all the conclusions that we should be able to reach shortly as the result of these and subsequent tests."

I have in addition a complete report here with samples of the first series of tests up to yesterday.

H.M.Jr: Well, have any of those gone far enough along that you think they are a success?

Buckley: In the first series of tests, we have had about twenty-three actual mailing days. I don't think it is fair to come to any definite conclusions for at least another week or two, because they haven't started to fall off yet, and I don't know where they are going to stop.

H.M.Jr: That is unusual, isn't it?

Buckley: I am sorry to say I can't answer that either, because there is no precedent. We have never done this before. It has never been done in exactly this way before.

H.M.Jr: When I come back after the first of August, you certainly ought to know then.

Buckley: Yes, I should think we could come to some, at least tentative, conclusions at that time, and I should want to. Incidentally, I will collaborate with John Blair, if it is agreeable with you, in reaching those conclusions.

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H.M.Jr: I wish you would.

Buckley: I would like to very much.

H.M.Jr: This song, "Any Bonds Today", when will that new cover be finished?

Graves: Mr. Powel told me it would be some time around the first of August.

H.M.Jr: Why can't they turn that thing out in a couple of days?

Powel: Well, a design has to be drawn. Paper is very hard to get.

H.M.Jr: I should think the design would have been drawn two weeks ago. I got that song in May. Isn't there even a design finished?

Powel: A design is finished, plates are being made, and it will go to press probably tonight or tomorrow.

H.M.Jr: I don't see why that is, Harold.

Graves: The Government Printing Office, I understand, is slow.

H.M.Jr: Is it on them or is it on us?

Powel: A little of both.

H.M.Jr: Here we get the song, we have it, and we just hang around waiting for somebody to get a cover. I don't see why they can't get a cover. I am very much disappointed. I thought they would have the thing printed and have it out and available and the publicity. I think we got that song, didn't we, sometime in May?

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- Powel: I will have to look back through the file as to exact dates.
- Kuhn: It has already gone to all the radio stations, Mr. Secretary, and the letters in reply are so enthusiastic that I sent them on to Mr. Berlin to look at.
- Powel: In other words, professional copies are being used.
- H.M.Jr: But I want to get it in the hands of the people. All I am waiting for is somebody to sit down in one day and do a cover. I am very much disappointed.
- Powel: It has been done.
- H.M.Jr: But I thought you would tell me you had it because I wanted to go ahead with this mailing.
- Graves: We are going ahead with the mailing on the basis of using the --
- H.M.Jr: Harold, it is awful, it is a disgrace, to have to use a thing like that.
- Graves: Mr. Buckley can give you the figures on that mailing.
- H.M.Jr: What is the use of giving me the figures? We have got nothing to mail out. Berlin takes the trouble and we take the trouble, and then we haven't got any songs.
- Powel: Would you be satisfied to mail those people the professional copies with a statement that the final sheet music copy will come? I think they will be more flattered.
- Graves: Mr. Secretary, this task is going to - we are still getting a large number daily on that.

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H.M.Jr: But if I had copies I would hope to tell Buckley today. Now here you have got --

Buckley: About ten per cent.

H.M.Jr: A thousand requests for fifty-seven hundred copies. Go ahead and mail everybody one. Go ahead. Let's get the thing in the hands of the people.

Graves: Would you want to mail everybody one or send out this post card again to our whole customer list?

H.M.Jr: That is what I want to do.

Graves: If you want to do that we don't need the songs just yet because we have got to --

Buckley: They have got to be printed and addressed. The chances are we will have the new songs by the time the new requests come in, I believe.

H.M.Jr: I would like to send a postal card, one of those return postal cards, to everybody that has bought a bond since the first of May.

Buckley: All right, sir. We will find out how many that is and order them right away.

H.M.Jr: Order them right away and then maybe Mr. Powell can get somebody to --

Graves: Well, you put it that way, everybody that has bought a bond since the first of May - it is going to be several weeks yet before we will have plates for the May purchasers, won't it, Gene?

Sloan: Yes, it will be maybe a couple or three more weeks before we get them right up to date, but we have the whole owners' list from the time we started.

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H.M.Jr: But that is a different thing, Gene.

Sloan: Yes, I know.

Graves: Mr. Morgenthau said he was interested in sending to purchasers since the first of May, and I am saying we haven't got that list yet.

Sloan: No, sir.

Graves: And will not have it for some weeks, so if that is what you want, we have plenty of time.

H.M.Jr: Who did this mailing go to?

Buckley: This went to customers, old customers, before April 30.

Graves: Purchasers prior to May 1.

H.M.Jr: How many are there?

Buckley: Two million, approximately.

H.M.Jr: All right, I want to mail it to the two million.

Buckley: All right, we will do that. And as many since May 1 as we can get.

H.M.Jr: But you had better not put them in the mail until August 1, because you don't want a lot of people writing in and then sitting there waiting for the copies.

Buckley: No, we will have them all ready to go.

Graves: Couldn't we get the post cards manufactured? That will take until August 1, I suspect.

Buckley: And having them addressed, two million of them, will take some time too. We will go right into production on them.

H.M.Jr: Will you do that?

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Buckley: Be glad to.

H.M.Jr: Will you be ready?

Powel: Sure, I will have them rolling, any number you want.

H.M.Jr: I would hate to call your bluff and ask to see the drawing.

Powel: You can't, it would be an engraving, but I will show you the engraving.

H.M.Jr: All right.

Graves: Now, I think maybe you would like to hear about chain stores and advertising and publicity in Michigan on that project. Mr. Mahan can tell us about that.

Mahan: Well, Mr. Secretary, there are now twelve thousand five hundred retailers selling stamps in Michigan.

H.M.Jr: Twelve thousand five hundred?

Mahan: Yes.

H.M.Jr: I think that is wonderful.

Mahan: And the estimate is that there will be another ten thousand added probably in the next ten days.

H.M.Jr: In Michigan alone?

Mahan: That is right. As of yesterday, every town of over twenty-five hundred population in Michigan has retail stores selling stamps.

H.M.Jr: Can I interrupt you just a minute? I would like to repeat what you said. I think it would be a nice thing to send Mr. Berlin a

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letter and tell him about this return and that we are going to mail postal cards to two million people.

Buckley: I will be glad to do it.

H.M.Jr: Because after all, he is entitled to know that.

Buckley: Yes.

H.M.Jr: Would you mind? If you would just start over again, please.

Mahan: Well, there are twelve thousand five hundred now selling. Within the next ten days, it is safe to say there will be ten thousand additional stores selling. As of yesterday, every town of over twenty-five hundred population in the State has retail stores in that town selling stamps.

H.M.Jr: Grand.

Mahan: There are six chains - five chains and the independent retail grocers, which adds up to around three thousand stores. Then the variety and drug stores, a couple more thousand, and then about seven thousand miscellaneous stores that do not belong to the chain groups, the regular groups. That brings the total up to the twelve thousand five hundred that I gave you. There are two national associations participating in Michigan. There are thirteen local Michigan associations covering practically every type of retailer who are cooperating and then in addition, there are local associations such as chambers of commerce and so forth. There are a number of those in Detroit and Grand Rapids. The mailing has been made to a hundred and eight thousand Michigan retailers of their tax notices and that was a very good bulletin and told them the whole

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story. The Michigan State Police and the Department of Conservation and the State Highway Department and the Department of Agriculture are all participating in their shows at county fairs and that sort of thing this year, having stamp booths and information.

- H.M.Jr: May I interrupt you a minute? Harold, what about my suggestion that we ask these people to let us know about their sales?
- Graves: Mr. Mahan has the answer on that also.
- H.M.Jr: May I have the answer on that, because I am very much interested in that?
- Mahan: I would like to do that through their associations, have them collect the information.
- H.M.Jr: I don't care how you do it, but I am very keen to have it.
- Mahan: I think probably we should call for our first report about the first of August. That would give them a chance then to --
- H.M.Jr: Could I just make this - if they knew that we were going to have that, they might begin to set up their books that way so we could get the information from them.
- Mahan: I think most of them are already doing it.
- H.M.Jr: I am very keen to have that. J.G. Penny or Sears Roebuck has so many - the name of the town and how many stamps they have sold for that month. If I could get that.
- Mahan: I can get that, I am sure.
- H.M.Jr: That would flow in to George Haas and he will put it on his machines, you see, and he can run it off and tell us all kinds of things,

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the population, and which towns are doing well and which aren't. I mean, it will be very helpful to you (Graves).

Graves: Yes. Mr. Mahan's point, which I think is a good one, is that this will go better if we can induce these various associations to adopt this voluntary reporting system rather than to have it imposed by the Treasury.

H.W.Jr: I am more than pleased to let him handle it as long as I get the results.

Graves: Yes.

Mahan: The distribution of sign material is the best we have probably been able to make to date, because first of all, the distribution in larger centers was made by the State organizations. Then we followed up with distribution to post offices all over the State to fill in the chinks and then there is a very interesting thing happening which will - which can probably be duplicated in other States. We have practically all of the wholesalers in the State of Michigan. Their men are carrying stamps which they furnish to the store. The wholesalers are buying the stamps themselves and reselling them to the small merchant and they also carry signs so if the merchant doesn't have signs they have a small stock which they equip him with, and I think probably if we can set that up in other States, and there is no reason why we can't do so, that will be a very, very helpful thing for the whole program.

We have had very - the theaters, as a matter of fact, are all - there are six hundred sixty-seven motion picture theaters in the State supplied with display material and

and most of them are selling or will be selling stamps. The material, the publicity, has been very good. The newspaper press association have cooperated, urged all papers to run material.

The radio stations have averaged three announcements a day or better, and the Cunningham Drug Company on July 19th completed their one thousandth broadcast since the thing broke.

H.M., Jr: Grand.

Mahan: There are a couple of other companies also using their program. All the State trade papers have carried material, and altogether it is a very excellent publicity and radio job, and I have gathered just typical samples of that material which I thought I would pass on to you.

H.M., Jr: I wish you would. I don't know how these retail stores would like it if we continued to go on like we did last night. Mr. Phillips of the Railroad Brotherhood recommended that we don't buy luxuries.

Mahan: I think they are pretty much in agreement with that. That was something that was discussed in the meeting - the original meeting in Detroit, and they indicated that they were interested in seeing people exercise some thrift.

H.M., Jr: I love this advertisement. Pork and beans and Fels Naphtha Soap and Defense Savings Stamps. Your old minute man sure shows up in funny places.

Mahan: There were two hundred thousand of those distributed. That is a circular distributed from door to door.

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- Powel: There is a picture of the statue of the real minute man at Concord. That was taken three days ago.
- H.M.Jr: I agree with the daughter of the sculptor that if there was some way we could give her father some recognition, it would be fine.
- Powel: I went up and looked at it. He wrote his own name on the back of it. He wrote "D.F. French 1873." But it is a nice picture, if you would like to have it.
- H.M.Jr: No, thanks. Are you finished, Mahan?
- Mahan: Yes.
- H.M.Jr: It is an excellent report. I am delighted. If you can do as well as that in every State, it will be marvelous. Harold?
- Graves: You asked about factory distribution of posters.
- H.M.Jr: Yes.
- Graves: Maybe you would like to have that subject discussed next by Mr. Sparks.
- Sparks: Since you asked about that, Mr. Secretary, the large posters have been sent out, large posters of the picture we have seen before, with the special emphasis on having it placed at the entrances and other conspicuous parts of all plants and factories and industries in the country. In addition to that, we have received and sent out the small poster with the line across the bottom, "Ask about your payroll allotment plan." That also has been sent out with the request that the small poster be placed on all bulletin boards and in cafeterias and other gathering places of the employees in the plants.

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H.M. Jr: Have you checked up at all?

Sparks: We have just sent them out, sir.

Graves: You see, they went ahead and manufactured this special poster to be put in factories. Instead of using the words, "For sale at your bank or post office," they have, "Ask about your payroll savings plan." Those were just in the process when you made your inquiry. While Mr. Sparks is on his feet, he might go ahead and tell you what is going on in the field organizations.

Sparks: Well, a summary report of field organization, Mr. Secretary, is as follows: We now have State Administrators in thirty-one States, Deputy Administrators in twenty-five States, State Chairmen in twenty, Governors' acceptances as Honorary Chairmen in twenty-nine States, and in thirteen States the Organizational Committee has held its meeting and launched its organization. Twenty-six States have been visited by field representatives from the Defense Savings Staff here in Washington. We have taken all these States and graded them A, B, C, and D. The A group are States in which the organizational work is pretty nearly completed. There are four States in that group, which represents about the - a coverage of about thirteen per cent of the population. In the B group, where the work is well under way, there are five States, representing about nine per cent of the population. In the C group, where the work is already started but has not progressed very far, there are twenty-three States, representing forty-five per cent of the population, and in the last group where we have not launched any State organization as yet, there are sixteen States, representing about thirty-three

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per cent of the population. Last week you inquired about the salary allotment plans with particular reference to the percentage of participation by employees in these plants.

H.M. Jr: That is right.

Sparks: I am afraid we are going to have to let that pot come to a boil before we can get some definite information. The only thing we have been able to obtain which may indicate some kind of a trend, is that Mr. Jeffers, President of the Union Pacific Railroad, has advised us that eighty-eight per cent of the employees in the home office are already participating and that was within one week after the plan was launched. The Fort Worth shops of the Texas and Pacific Railroad Company report an eighty-five per cent participation within thirty days after launching the plan.

H.M. Jr: How much?

Sparks: Eighty-five per cent in the Fort Worth shops.

H.M. Jr: Keep plugging to get them, will you?

Sparks: We have got cards out and we are keeping pounding on that.

H.M. Jr: Because we have got to have information.

Sparks: We have some work going on in the States that I have included in the unorganized classification. Mr. Graves has been working, as you know, personally, on those States and there are some meetings scheduled, one with the Virginia Bankers Association, which you spoke to me about yesterday. Mr. Poland is in California interviewing a good many persons with a view to picking the Chairman or Administrator. Mr. Fisher is in Illinois, and although

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arrangements have not been made, there is a great deal of consideration being given to Mr. Robert D. Stewart, President of the Quaker Oats Company, as a possibility for state chairman.

H.M.Jr: Of what state?

Sparks: Illinois.

H.M.Jr: Better check him politically. I think he is very active.

Graves: It is his nephew who is active.

H.M.Jr: America First?

Graves: Yes, that is right, Mr. Houghteling is out there now and has checked all that.

H.M.Jr: Oh, all right.

Graves: It is the nephew that is in the America First group. This fellow is your kind on the international and defense situation.

H.M.Jr: All right. Does that complete your report?

Sparks: That completes it, sir.

H.M.Jr: Thank you.

Graves: Mr. Edward, you might tell us about the banking business.

Edward: Mr. Secretary, as you know, we started this banking program without the idea that it wouldn't be any coercion or compulsion or urging anybody to do anything. It was all on a voluntary basis.

Nearly ten thousand of the banks are in and

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there are some forty-five hundred who are not in. About three weeks ago we got a complete list of all the banks who have qualified and sent it to the secretary of each and every state association in the Nation with a suggestion that they check that list against the banks in the various states and follow through and make an effort to bring the others in. Since that list has gone out, about four hundred have already come in and there are others, of course, that we have not yet heard about. There are some last - the last figures show eighty-two percent of the national banks are qualified and eighty-four percent of the mutual banks and about fifty-eight percent of the state banks.

The state banks, of course, a good many of them are very small and haven't seen the necessity of them, some of them, of qualifying, because they say, "Well, we sell them a bond, but they just go right over to the post office and get them." We are trying to get them away from that.

Here is something I will leave on your desk. We sent this, Mr. Secretary, along with our list trying to get them in and telling them the necessity for them. Some strange things have developed in this banking situation, however. I guess this is a strange country of ours. For instance, you asked the other day if I saw Mr. Houston. I didn't, and I wanted to, and I have written him. The state happens to tail the ticket in qualified banks.

H.M.Jr: Which is his state?

Edward: Tennessee, where we built the TVA and all that. And Kentucky happens to be the next man on the list. But don't worry, they will be writing.

H.M.Jr: You most likely have thought of this, but

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with that offer of cooperation from the Federal Reserve System, can't we get some help from them --

Edward: You mean from the Federal?

H.M.Jr: Well, yes.

Edward: Yes, sir, we are going to get some help from them. We have had two conferences with them and we have given them all the material that we have gotten out so far and asked them to study it and tell us how they can cooperate.

H.M.Jr: Didn't Ronald Ransom go down and fix up Georgia?

Edward: He is down there doing it. When he asked what he could do, that is the first thing I told him, "Go to Georgia." Now, these banks have offered to do a lot of advertising. Here is the best advertisement I have seen this week. That is a Seattle clipping. Every employee in the bank has his name signed that he has bought a security.

H.M.Jr: Very good.

Edward: I think, Mr. Secretary, that the banks are coming along all right.

H.M.Jr: I have got no complaint. In fact, I am pleased.

Edward: That is my opinion.

H.M.Jr: I am pleased. They are all right.

Edward: Of course we expect to follow through. Here is something here that I think is going to be very helpful, something along the same lines of the selling of the stamps.

My bank, for instance, instead of running a

- 19 -

Christmas club this year, is running this tax club. We run a Christmas club, but we run it for the purpose - first to sell him tax notes if he needs it and next to buy bonds.

H.M.Jr: Is that your bank?

Edward: Well, we bought it. These people sell it. It is gotten out by the Christmas Club Corporation in New York.

H.M.Jr: I see.

Edward: Any bank can buy it. We have already bought it. A number of other banks have bought it, and the others will, I am sure.

Graves: Mr. Callahan now. B. M., were you finished?

Edward: I would just like to say this in connection with your stamp sale program, I think it is a fine scheme. One thing came to my attention a day or two ago that I would like to throw out as a suggestion. The railroads in Canada are selling them in all the dining cars and you might think about that here.

Callahan: I have a report on the press, Mr. Secretary. These defense quizzes are now running in forty-four hundred and eleven newspapers.

H.M.Jr: My gosh!

Callahan: Of which eleven hundred and seventy-nine are dailies. That is eleven hundred and seventy-nine out of a total of fourteen hundred and twenty-nine on our mailing list. Thirty-one hundred and twenty-two weeklies and one hundred and ten foreign language newspapers.

H.M.Jr: You are better than Walter Winchell.

Callahan: I have these clippings here. We have about a

- 20 -

thousand papers in here, if you would like to look at them.

H.M.Jr: Not today, but bring it back today. I would another time.

Callahan: On radio announcements, that is one minute announcements, we have run up until yesterday one hundred ninety-four thousand nine hundred and thirty-one. We have run eighty thousand in May, with reports in June of seventy-two, and July of forty-one.

H.V.Jr: I have got just one suggestion and one criticism right on this. This goes for everybody beginning with Powel and down. I would like a little bit more on the stamps and a little less on the bonds all through the organization.

Powel: O.K., I am for that.

H.M.Jr: A little more on the stamps and a little less on the bonds. I think you have done a grand job, but I think it is a little weak on the stamps.

Powel: You will notice the quiz today we emphasized stamps, and I have felt that too very strongly.

H.M.Jr: O.K., Harold.

Graves: Yes.

H.M.Jr: All along. I mean, backing up - after all, if we are going to get the retail outlets now, which we are doing, then let's move it more onto stamps.

Powel: If you will look at today's quiz, you will see we have more on stamps there.

H.M.Jr: I did. I read it. I read it every day.

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- Powel: I quite agree with you.
- Sparks: One of the ideas, Mr. Secretary, is that the largest chain of movie houses in the state are running children's movie concerts on Saturdays and the admission is to exhibit one twenty-five cent stamp, and they place a date on the stamp each week so that the child has to show a new stamp in order to obtain admission the following week. That is in Florida.
- Callahan: I might add this in just one second in connection with publicity. We are arranging on August 23 a baseball day in some one hundred fifty parks throughout the country where baseball players will buy stamps from the postmasters.
- H.M.Jr: That is fine.
- Callahan: Commissioner Landis has okayed it as something which they will carry on with the help of the state organizations.
- H.M.Jr: O.K.
- Graves: Would you like to know what we are doing with the War and Navy Departments on the Treasury House? Mr. Duffus can tell us about that.
- Edward: Mr. Graves, I would like to say one word I overlooked a while ago. While we only have about somewhere around seventy or seventy-five per cent of the banks qualifying, Mr. Secretary, the best I can figure is that we have about ninety per cent of the total deposits because it is the small banks not in and I will give you those figures after the first of August.
- H.M.Jr: No, I know those figures. That is insurance and --

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Edward: I will give it to you --

H.M.Jr: Bank of America has had - they insure for eight or nine hundred million dollars' worth of deposits just in that one bank alone. I mean, that is misleading, if you don't mind my saying so.

I have got a suggestion, just for whatever it is worth. White, the State Commissioner in New York, who is President of the State Bank Examiners, and very friendly, I wondered if you could approach him and maybe get him to help us with the State banks.

Edward: Yes, sir.

H.M.Jr: Has that been done?

Edward: Yes, sir. They have all been contacted.

H.M.Jr: But White particularly, so that we can sort of bring him into the fold. Maybe have him come down and pat him on the back and --

Edward: They all have those lists and they are all working on them right now, and when you come back on the first of August, we are going to give you some different figures.

H.M.Jr: You say Tennessee is not so good?

Edward: Tennessee is tailing the ticket.

H.M.Jr: Are there a lot of State banks down there?

Edward: Yes.

H.M.Jr: Supposing you call up Mr. White on the phone and say, "Look, Mr. Morgenthau says he is a friend of yours. Couldn't you get hold of the State Banking Commission of Tennessee and tell them that they are not doing so well down there?"

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Edward: We already have contacted the Secretary of the State Bank Association in Tennessee --

H.M.Jr: But I want to get White.

Edward: I would like to give Mr. Houston the chance to do it first.

H.M.Jr: Well, don't forget, White is a good man and to follow him, and he is the President of the State Bank Examiners Association of America, and he has always been cooperative and he is a go-getter.

Edward: I would just like to give Mr. Houston a chance to straighten it out first.

H.M.Jr: Give White some other State, then.

Edward: All right, I will do that.

H.M.Jr: Try him out on some other State where there are small State banks. Small ones, that is what I like.

Edward: I will be glad to do it.

H.M.Jr: You see, I believe in what we said last night on our program, we don't want the big ones; we want the little ones.

Graves: Mr. Duffus?

Duffus: On Treasury House, the Navy has designated two men here in their Department to work with us nationally to put in Treasury Houses in the larger cities and to create mobile units to work the road into the very smallest towns. We are waiting for the Coordinator to be named by the Army and then we can set up definite plans to go national with the whole program.

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- H.M.Jr: I would like to make a suggestion which most likely Esso won't like, but if they are going to do it in New York, I would like to do it in Union Square. I would like to do it - it has got a certain connotation, that is where all the soapbox orators are and everything else.
- Duffus: You feel that that is better than Rockefeller Plaza?
- H.M.Jr: Yes, with the masses. You are right down in the foreign born element. I mean, if you look at the map of New York, that is where Manhattan is the broadest, through the middle, and you are right there with the masses and you get both downtown and the foreign born, and it is a big park.
- Powel: It is a beautiful park. Nate Orback and Moses, between them, have decorated up that park to the point where the communists are uneasy and have gone up to Central Park, and it is now the handsomest park in New York. You are right about the masses. They are around there but the May Day parade was a ghastly failure.
- H.M.Jr: Pardon?
- Powel: The May Day parade was a ghastly failure. Communists are uneasy among so much marble.
- H.M.Jr: You couldn't get that show on Rockefeller Plaza, and I don't like - I mean --
- Powel: You are quite right.
- H.M.Jr: Well, it is just the two ends of the pole, Rockefeller Plaza and Union Square, and I am for Union Square.

- 25 -

- Powel: How would you feel about Battery Park?
- H.M.Jr: No.
- Powel: Madison Square?
- H.M.Jr: Second choice.
- Duffus: We can have the Triangle --
- H.M.Jr: Just like last night, all of us fellows came in our business suits and Mr. Green showed up in the most beautiful white tuxedo.
- Powel: We ought to thank you for your two shots yesterday at the beginning of this meeting. I looked at both of them.
- H.M.Jr: It is the other way around. I think the whole organization did a beautiful job.
- Duffus: Mr. Secretary, what would you think of the Triangle in the middle of Times Square as a choice?
- H.M.Jr: It isn't big enough.
- Duffus: I meant just for a booth without too much display around it, as a circulation stand.
- H.M.Jr: That is all right, but I like the same kind of show as here, and either Union Square or Madison Square, either one will do.
- Powel: How do you feel about Central Park as a final question?
- H.M.Jr: No, there is too much feeling about Central Park. You go right up against - you immediately go right up against Mrs. Arthur Sulzberger --
- Powel: I know.

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H.M.Jr: and all that group. I wouldn't try it.

Powel: I know, but I was only asking for an opinion. I wouldn't think it is good either. Bob Moses is the man.

Duffus: Getting back to "Any Bonds Today", we sent an inquiry to the State Administrators as to how many copies of the band arrangement they would need for all their high school and college bands. Those are coming in and we have printed now twenty thousand copies to take care of that. That is on the band arrangement.

H.M.Jr: Wonderful.

Duffus: On the radio stations --

H.M.Jr: Those are printed?

Duffus: Those are being printed. We have sent out forty-five hundred copies so far. The orchestra arrangement was just - which Mr. Berlin had made special has just been received and will be printed as soon as Government Printing can take care of it. Those will be mailed out. We are getting from - getting a list of all the professional orchestras in the country, and they will each be mailed a copy. A great many of them have made their own special arrangements and are playing it now, of course. On the radio, we know definitely that two hundred stations are using the song an average of five times apiece per day at the present time and those letters are coming in at the rate of twenty-five a day advising us that they are using them, out of a total of eight hundred sent out. Here is the report showing we sold over eleven thousand dollars' worth of stamps across the street. We have started about fifty-four hundred new albums since it started.

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Graves: Now, Mr. Powel, I think --

H.M.Jr: Good, Mr. Powel.

Graves: He can tell us Wrigley.

Powel: I have got two subjects. I can handle them both here or one at a time. One is Christmas cards.

Graves: Tell us about the Wrigley thing, Harford, please.

Powel: All right. We have a little industrial series. It isn't so little now. It is of posters like this. I want to give you a show. They are coming off the press very fast. Each firm subscribes to fifty thousand of them. There are thirty firms. That is a million and a half posters which their salesmen put out in appropriate retail outlets. I am going to give you a show of them. I just put three in. So when we went to Wrigley and asked how he would like to be in that, he said the Treasury had very little salesmanship and why didn't they ask for something worth while. Our man told me that and a couple of us went to Chicago and called on him, paving the way by calling on the First National Bank first, which is his bank. They have bought a hundred and sixty-four 24-sheet posters and have received a hundred and seventy-five free. Wrigley saw the point and I now present a letter from him in which he gives us about six hundred thousand dollars' worth of advertising and probably more.

H.M.Jr: With fishes?

Powel: No, sir - or yes, sir. (Laughter)

The spectacular is being changed today as

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follows.

H.M.Jr: Can I read this and keep it here?

Powel: I wish you would.

H.M.Jr: I don't want to take everybody's time.

Powel: Most of your assistants tried to present it to you Saturday, or Friday, when you went away, and I of course telephoned copiously about it.

There are the fish and there is what it now is going to say at night.

H.M.Jr: This is what it is going to say?

Powel: This flashes on and off.

H.M.Jr: Oh, this does? And this is the stamps?

Powel: Surely. That is what you wanted.

H.M.Jr: Is that the way the sign is now?

Powel: That is the way the sign is now, only it says "Chew Wrigley's gum."

H.M.Jr: I thought you said it is a boy and a girl.

Powel: No, no. That is coming. It is being made and here it is.

H.M.Jr: Is this our design or his?

Powel: That is his fish and our bond. (Laughter)

H.M.Jr: You see, I have been in New York one night this whole winter, just one night.

Kuhn: Let's see how the sign works, Mr. Secretary.

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H.M.Jr: Just one night. Isn't that terrible?

Powel: Here is the boy and the girl.

H.M.Jr: And the one night I was to go I was to go I was to see Gertrude Lawrence, and she was sick.

Powel: There is the Marine and the girl, proposed for the new sign.

H.M.Jr: This is the way it is going to be?

Powel: Yes. Half of one and half of the other.

H.M.Jr: Oh, it flashes on --

Powel: We divide the run. These are 24-sheet posters and cards. Finally it is going to get on the sign. It is quite a hard thing to make the sign. Then the gum is going to be replaced by the album.

H.M.Jr: Who designed these?

Powel: Wrigley.

H.M.Jr: Oh, I see.

Powel: He gets a double run and we get the other ones.

H.M.Jr: He gets it?

Powel: Twice the run.

H.M.Jr: How?

Powel: The companies, they are never sold out clean. So there it is.

H.M.Jr: I congratulate you. I think that is a grand job.

Powel: We are approaching Coca-Cola next week and if

we get the Coca-Cola positions and the Wrigley positions, we will be all over America like hives.

H.M.Jr: I think it is wonderful.

Powel: And if you would glance at the letter --

H.M.Jr: I will. I think that is simply swell. I like these, too.

Powel: Do you want to know about Christmas cards?

H.M.Jr: Surely.

Powel: There are a hundred million of them sold, at a nickel average, a year; a hundred million dollars' worth. Those are Government figures. It is a young man's business and they have forgotten what happened to it in 1917. In that year they sold practically none because Judge Gary announced that he and his wife and all the executives of their associated companies and their wives were going to end this Christmas card racket and give the money to the Red Cross or buy War Savings Stamps. Now one old man in the business working in Boston named West called them all together and said, "This could happen again. Somebody will get up and say, 'Don't send Christmas cards.'" And he came to see me and I suggested that the cards contain stamps or stamp albums or stamp cards. They thought that was pretty hot and within forty-eight hours we are meeting with all of them.

H.M.Jr: Wonderful.

Powel: And the Christmas cards this year, a hundred million dollars' worth of Christmas cards, will be printed for less money by those people

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as a contribution, sold to the dealers so it can retail. The dealer will have the stamps ready. You can get a card with a whole album or you can get a card with a little - you know, cellophane pocket to put the stamp in, and the dealers, who are legion, will have the stamps.

- H.M.Jr: You say that business is a hundred million dollar business?
- Powel: A hundred million dollars in money, not counting postage.
- H.M.Jr: Wonderful.
- Powel: At a nickel. The average card isn't even six cents. The biggest companies are Rust Craft in Boston, Norcross in New York, and Volland in Chicago, all of whom we have seen and I think that pretty nearly every damn Christmas card in the country will have a stamp on it.
- H.M.Jr: It is a silly idea, but could we get it on the back of playing cards?
- Powel: Sure we could. We will try it.
- H.M.Jr: Try it. It is just a silly idea. I would love it.
- Graves: Have you any samples there, Harford, of the Christmas cards?
- Powel: Yes. I sent an enormous package back to Boston last night and within forty-eight hours I am meeting with them again and I will get more samples then.

I remember that you were once with the Conservation Commission and not only has Wrigley given us these boards, but General Outdoor Advertising Bureau has too. They have made

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a design and we have approved it. They are printing the whole thing. We have no printing expense.

- H.M.Jr: I am like William Green. For six years all his principals said he wouldn't sit down with CIO, so I have got to let my conservation ideas - Bill Green and I.
- Powel: Well, I think you don't want to spoil any beauty spots and if you see them in bad locations - are you going to Arizona?
- H.M.Jr: No.
- Powel: Or if any of us in the room see them in bad locations, it would be a great favor to Mr. Wrigley, General Outdoor, to others who are giving them to us, to report that in so that that board may be taken away.
- H.M.Jr: Can I tell them of the sign just before I turn off to go to my house, that he owns, that spoils the most beautiful view.
- Powel: Your house here?
- H.M.Jr: No, in the country.
- Powel: Sure. You mean up in Hyde Park?
- H.M.Jr: Is that about all?
- Graves: That is all.
- H.M.Jr: Again, the only thing, if they can put a little more emphasis on stamps.
- Graves: Very good, sir.

REPORT ON MAIL TESTING

July 23, 1941

Test Series No. 1, consisting of approximately 96,000 pieces mailed on June 21st at a cost of \$1,182, is still pulling. The campaign has so far produced 234 orders, amounting to \$107,310 worth of bond sales. In addition, quite a number of letters have been received similar to the following: "I have already purchased \$3,500 worth of these bonds and intend to buy more from time to time as funds become available."

Test Series No. 2, consisting of 11 separate mailings of approximately ten thousand each, went into the mail on Saturday, July 19th. These mailings were designed to test the relative pulling power of a folder and order blank versus a letter, folder and order blank; a new three-color folder versus a one-color folder; a new letter versus those used in the first series; one state where we have active field representation versus another state where we have practically none (Michigan - Massachusetts).

Other mail order activities already under way, include:

- a two-million mailing to all customers, urging them to start buying regularly;
- a mailing to corporations, associations, partnerships, trustees, etc., featuring "F" and "G" bonds;
- a mailing to all new customers as the orders are received, thanking them for their order and attempting to turn them immediately into regular purchasers.
- a mailing to all regular purchasers, enclosing three order blanks for distribution to their friends or relatives.
- a large mailing is planned for October that will have the advantage of all the conclusions that we should be able to reach shortly as the result of these and subsequent tests.

Edna Buckley

THE LIBRARIAN OF CONGRESS

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Washington, D. C.

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July 23, 1941

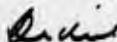
Dear Henry:

Your telegram reached the Library just after I had left for an outside appointment and didn't catch up with me until after the broadcast. I was particularly sad to miss it.

Immediately after our conversation the other evening I called Francis Hackett's publishers, secured his address in Nantuckett, and wired him to telephone Howard Dietz. So far I have had no word from either Howard or Francis.

My very best regards. It was great seeing you the other evening.

Faithfully yours,



Archibald MacLeish
The Librarian of Congress

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

July 23, 1941

Dear Mr. Geer:

This is just to tell you that I am delighted with the memorandum you submitted to me on July 15. I like your general approach, but I like particularly your specific proposals for working out a series of newspaper advertisements which our state and local committees could then insert for us.

I shall be very glad if you will go ahead with this project. It is understood that you and your associates will be acting for us in working out the subject matter of such advertisements. I assume that you will continue to work in close collaboration with Mr. Kuhn and members of the Defense Savings Staff, and that all copy will, of course, be submitted for their approval.

When you come to Washington again, which I hope will be soon, I want to tell you again how much I appreciate what you are doing for us. I am confident that the results are going to justify all the time and thought which you are giving to this problem of ours.

Yours sincerely,

[Signed] H. Morgenthau, Jr.

Mr. William D. Geer,
c/o Time, Incorporated,
50 Rockefeller Plaza,
New York, N. Y.

copy
to Mr. Thompson

FK/hkb
7/23/41

*no incoming letter on this
cc - Miss Gandy*

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JAFFREY
NEW HAMPSHIRE
TEL. 288 RING 4

July 23. 41.

Dear Henry:

Mr. Kuhn at the Treasury will have told you of my talk with him in regard to the NBC broadcast last night. I found the songs all of the same character: soulful and doleful. It would have been more effective to alternate them with one or two lively ones. I also would have preferred if the orchestra had not played continuously, especially when the commentator spoke. The match was so-so; Mr. Kuhn said it was by Frank Black and I realize that the NBC want to get something out of it when they donate their time. / I shall listen in again tonight although the Columbia network gets a very poor reception up here. I arranged with Mr. Kuhn that I would phone him if I had anything to suggest.

By the way, Deems Taylor would be an excellent man for supervising programs.

Always yours



CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales in July Compared with June, 1941
On Basis of Issue PriceFirst Eighteen Business Days
(June 1-21, July 1-22)

(Amounts in thousands of dollars)

| Item | Sales | | Increase or Decrease (-) in July Compared with June | |
|-------------------------|------------------|------------------|--|---------------|
| | July | June | Amount | Percent |
| Series E - Post Offices | \$ 37,187 | \$ 29,272 | \$ 7,915 | 27.0% |
| Series E - Banks | <u>66,651</u> | <u>44,042</u> | <u>22,609</u> | <u>51.3</u> |
| Series E - Total | 103,837 | 73,314 | 30,523 | 41.6 |
| Series F - Banks | 17,923 | 22,384 | - 4,461 | - 19.9 |
| Series G - Banks | <u>113,686</u> | <u>143,258</u> | - <u>29,572</u> | - <u>20.6</u> |
| Total | <u>\$235,146</u> | <u>\$238,956</u> | -\$ <u>3,510</u> | - <u>1.5%</u> |

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

July 23, 1941.

Source: All figures are deposits with the Treasurer of the United States
on account of proceeds of sales of United States Savings Bonds.Note: Figures have been rounded to nearest thousand and will not
necessarily add to totals.

UNITED STATES SAVINGS BONDS

CONFIDENTIAL

Daily Sales - July 1941

On Basis of Issue Price

(In thousands of dollars)

| Date | All Bond Sales | | | | Post Office Bond Sales | Bank Bond Sales | | | |
|-----------|----------------|-----------|-----------|-----------|---------------------------|-----------------|-----------|-----------|-----------|
| | Total | Series E | Series F | Series G | Series E | Total | Series E | Series F | Series G |
| July 1941 | | | | | | | | | |
| 1 | \$ 9,505 | \$ 2,387 | \$ 957 | \$ 6,160 | \$ 595 | \$ 8,910 | \$ 1,793 | \$ 957 | \$ 6,160 |
| 2 | 11,612 | 4,066 | 845 | 6,701 | 1,735 | 9,877 | 2,331 | 845 | 6,701 |
| 3 | 15,045 | 4,903 | 843 | 9,299 | 2,077 | 12,969 | 2,827 | 843 | 9,299 |
| 5 | 22,900 | 9,589 | 2,437 | 10,875 | 3,191 | 19,709 | 6,397 | 2,437 | 10,875 |
| 7 | 11,028 | 6,315 | 472 | 4,242 | 3,908 | 7,120 | 2,407 | 472 | 4,242 |
| 8 | 11,226 | 4,867 | 1,197 | 5,162 | 1,346 | 9,881 | 3,522 | 1,197 | 5,162 |
| 9 | 16,570 | 6,277 | 880 | 9,413 | 2,229 | 14,341 | 4,048 | 880 | 9,413 |
| 10 | 11,430 | 6,018 | 605 | 4,808 | 2,459 | 8,972 | 3,559 | 605 | 4,808 |
| 11 | 16,311 | 8,504 | 1,197 | 6,610 | 2,405 | 13,905 | 6,098 | 1,197 | 6,610 |
| 12 | 12,689 | 4,482 | 860 | 7,347 | 1,672 | 11,017 | 2,810 | 860 | 7,347 |
| 14 | 13,435 | 7,754 | 1,046 | 4,636 | 3,060 | 10,375 | 4,693 | 1,046 | 4,636 |
| 15 | 10,083 | 4,754 | 602 | 4,728 | 1,458 | 8,625 | 3,296 | 602 | 4,728 |
| 16 | 11,994 | 5,541 | 808 | 5,645 | 1,645 | 10,349 | 3,896 | 808 | 5,645 |
| 17 | 15,332 | 6,213 | 1,189 | 7,930 | 1,799 | 13,533 | 4,414 | 1,189 | 7,930 |
| 18 | 12,404 | 6,730 | 836 | 4,837 | 2,042 | 10,362 | 4,689 | 836 | 4,837 |
| 19 | 7,553 | 4,513 | 926 | 2,114 | 1,505 | 6,048 | 3,007 | 926 | 2,114 |
| 21 | 14,136 | 7,105 | 1,015 | 6,016 | 3,060 | 11,076 | 4,046 | 1,015 | 6,016 |
| 22 | 12,191 | 3,820 | 1,208 | 7,164 | 1,001 | 11,191 | 2,819 | 1,208 | 7,164 |
| Total | \$235,446 | \$103,837 | \$ 17,923 | \$113,686 | \$ 37,187 | \$198,259 | \$ 66,651 | \$ 17,923 | \$113,686 |

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

July 23, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

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



TREASURY DEPARTMENT

WASHINGTON

July 23, 1941

Memorandum for THE SECRETARY

The following report is made of Stamp sales at
"Treasury House":

| | |
|-------------|---------------|
| July 1 - 21 | \$10,949.95 |
| July 22 | <u>445.70</u> |
| Total | \$11,395.65 |

GRAVES

TREASURY DEPARTMENT

WASHINGTON

July 23, 1941

Memorandum for THE SECRETARY

The following report is made of requests received for "Any Bonds Today?" from the experimental mailing of 10,000 cards:

| | <u>No. Requests</u> | <u>No. Copies</u> |
|-------------|---------------------|-------------------|
| July 1 - 21 | 986 | 5704 |
| July 22 | <u>24</u> | <u>73</u> |
| Total | 1010 | 5777 |

GRAVES

DEFENSE SAVINGS STAFFADVANCE NOTICE RADIO PROGRAMS

WEDNESDAY - JULY 23, 1941

Time: 11:00 - 11:15 P.M.

Program: Kate Smith Speaks

Miss Marjorie L. Spriggs, Chief, Women's Programs will present Miss Smith with Treasury Department Citation for outstanding merit in promoting the sale of Defense Bonds and Stamps.

Station: WJSV and CBS Network

Time: 5:30 - 5:45 P.M.

Program: Paul Sullivan News

Station: WJSV and CBS Network

Time: 6:00 - 6:15 P.M.

Program: Easy Aces

Station: WMAL and NBC Blue Network

Time: 7:00 - 7:30 P.M.

Program: Quiz Kids

Station: WMAL and NBC Blue Network

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

Station: WJSV and CBS Network

Program: "MILLIONS FOR DEFENSE"

Treasury Hour Program starring Abbott and Costello, Irving Berlin, Ilka Chase, Helen Jepson, Raymond Massey, Albert Spalding, Alexander Woolcott, Barry Wood, Ray Block's Choir and Al Goodman's Orchestra.

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

July 23, 1941
12:55 a.m.

Harold Ickes: Hello, Henry.

HMJr: Harold? Henry talking.

I: Yes.

HMJr: I'm going away this afternoon for a week's rest.

I: Yeah.

HMJr: Before I left, I wondered if there'd been any weakening on the decision of last Cabinet.....

I: I haven't heard anything since then.

HMJr: So there's been no weakening?

I: I haven't heard a thing one way or the other.

HMJr: Well, we're ready to move.

I: Oh, I don't doubt that. It looks as if the Japs are ready to jump Indo-China, doesn't it?

HMJr: If they already haven't.

I: Yes. If they already haven't.

HMJr: Yeah.

I: Well, I suppose we'll do a little more appeasing.

HMJr: I hope not.

I: Well - what's your guess? Have any of your people guessed over there as to how much excess storage gasoline the Japs have?

HMJr: Oh, we have very definite knowledge.

I: What is it?

- 2 -

HMJr: Two years.

I: Well, I thought it was at least two years, and probably more.

HMJr: Well, we think of the aviation gas, that they've got two 'years' supply.

I: Yes. Now isn't that nice?

HMJr: What?

I: That's nice.

HMJr: Lovely.

I: Oh, yes. Oh, the hell with them.

HMJr: (Laughs)

I: Well, that - they stink over there, that State Department.

HMJr: Yeah.

I: Yeah.

HMJr: Will you.....

I: Well, all right. Good-bye.

HMJr: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

July 23, 1941.

TO Secretary Morgenthau

FROM J. J. O'Connell, Jr.

For your information.

The regular weekly meeting of the Price Administration Committee was held in Mr. Henderson's office yesterday morning at 11 o'clock.

The main topics of discussion were textiles and automobiles.

Mr. Henderson and members of his staff discussed the recent revision on the price ceiling order on textiles, and explained in some detail the considerations that led to the revision of the schedule. I gained the general impression that the concessions made by OPACS were somewhat on the generous side, but that there was nothing else to do, taking all of the facts into consideration. From the standpoint of the Procurement Division it was very desirable that the log-jam in the textile industry be broken, inasmuch as we were attempting to purchase very substantial quantities of textiles under lend-lease. Our attempts, prior to the revision in the price order, were without success, largely because of industry opposition to the prices fixed. Presumably we should now be able to make our lease-lend purchases in this field without the difficulties that have prevented them until recently.

Mr. Henderson also discussed at length the recent action in OPACS indicating a 50 per cent cut in automobile production for the next model year (beginning August 1). It was quite apparent from his discussion that he is having his difficulties with OPM, with particular regard to the jurisdiction and authority of each. He indicated that, having tried fruitlessly

Secretary Morgenthau,

2.

for several weeks to come to an agreement with OPM, he felt impelled to take affirmative action based upon the authority delegated to him under Executive Order creating his organization. What the outcome will be it is difficult to say, but it will be at least surprising if recent developments do not presage more friction between OPM and OPACS (if not a headon collision).

There was a general reference to the price legislation, which will probably be introduced in the Congress, supplemented by a message from the President, in the near future. Mr. Henderson asked cooperation of the Committee in connection with the legislation, and indicated that he hoped the agencies represented on the Committee would be able to testify in favor of such legislation during the public hearings on it.

The meeting adjourned at 12.45.

This morning I attended a meeting at OPM, the purpose of which was to set up an industry committee for the steel industry. The heads of practically all the major steel companies were present, as were representatives of many Government agencies. It was an organizational meeting, but one topic was adverted to again and again which may be of interest to you. That was the exportation of scrap iron and pig iron to Great Britain under the Lend-Lease Act. Several representatives of OPM pointed out that there is an absolute shortage of scrap iron in this country and that little can be done to relieve it inasmuch as the scrap iron just isn't here. In the face of this fact, the general question was raised as to the policy of shipping substantial quantities of scrap iron to the British. Several of the steel people complained along the same general lines, making inquiry as to why, in view of the present shipping problem,

Secretary Morgenthau, 3.

we should not ship only semi-finished or finished steel products to the British. Eugene Grace, President of Bethlehem, stated that this was particularly in point in view of the fact that much of the pig iron and scrap iron we are sending to the British is being used there for commercial steel items, some of which are re-exported. A number of questions along these lines were addressed to Mr. Mack during the meeting and Bob McConnell, who is also with OPM, raised the same question with me after the meeting. I pointed out that in so far as the Procurement Division is concerned, they are purely a purchasing agency and could not be expected to decide questions of such broad policy as are posed by this situation. It may be, however, that the Treasury Department might wish to consider this situation in view of our close contact with the British Purchasing Commission.

Joseph J. McConnell

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

July 23, 1941

FROM Messrs. Foley and Pehle

The matter Gordon Rentschler referred to was presumably the pending applications with regard to the Silesian-American Corporation.

These applications, which are now under study by the Treasury, State, and Justice Departments, involve several transactions which may be summarized as follows:

The Silesian-American Corporation owns or controls zinc, lead, and coal mines, and other properties in Germany and German-occupied Poland. The ultimate ownership of the Silesian-American Corporation is part American and part German. On August 1, bonds of the Silesian-American Corporation in excess of 2 1/2 million dollars will mature. A Swiss banking group is willing to provide the necessary funds to pay such bonds on condition that they are able to acquire all the American interests in the Silesian-American Corporation and the properties which it owns or controls. This would involve the Swiss paying for such interests at a cost in excess of an additional \$1,300,000.

On analysis, these transactions would appear to result in the ultimate German acquisition of the American interests in these properties.

J. Pehle
8.11.41

July 28, 1941

My dear Lord Beaverbrook:

The increased flow of planes from here is heartening to us, too. I hope the flow of aircraft will continue to increase until the whole world "feels a bit more comfortable".

Nearly a month has passed since your letter to me was written, and the Russians have held out. We have cause to be cheered, for the situation has undoubtedly improved.

Much has been said about your work, which I have followed attentively, and I was delighted when the Prime Minister put you in charge of war production. We are convinced here that the whole production setup will benefit from your splendid experience with aircraft. Nothing would please me more than if circumstances permitted us to talk over our common problems.

I appreciate your thoughtfulness in writing to me.

Accept my sincere regards and good wishes.

Yours,

(Aged) Harry Morgan

The Right Honorable
Lord Beaverbrook,
Office of the Minister of State,
12 Downing Street,
London, S.W.1.,
England.

July 23, 1941

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Office of the Minister of State,
12 Downing Street,
London, S.W.1.,
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Office of the Minister of State,
12 Downing Street,
London, S.W.1.,
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I appreciate your thoughtfulness in writing to me.

Accept my sincere regards and good wishes.

Yours,



THE SECRETARY OF THE TREASURY
WASHINGTON

July 22, 1941.

Dear Lord Beaverbrook:

Your letter of June 28 has given me much pleasure and I appreciate greatly your thoughtfulness in writing to me. It is good news that the flow of planes has increased, but when I recall the effort of the last two and a half years - and the need - I don't feel at all complacent. I know that you don't, although you are kind with words of praise.

It would give me a great deal of satisfaction if circumstances permitted us to talk over our common problems together. In press and broadcast so much has been said of your work, which I have followed attentively, that I feel I know you, but it is not a fully satisfactory sort of acquaintance. (You of course know your own needs best, but it seems to me you might profitably consider a visit to this country to improve your contact with us and to get a better grasp of our situation as it affects you. We haven't yet had a visit from any of the war cabinet and I think we should have.)

I was delighted when the Prime Minister put you in charge of all war production. Because of your magnificent record with aircraft we are convinced here that this action will measurably improve the whole production setup.

Accept my most sincere regards and good wishes.

Yours,

Secretary of the Treasury.

The Right Honorable
Lord Beaverbrook,
Office of the Minister of State,
12 Downing Street,
London, S.W.1, England.

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The original of this is with the
Secretary's private papers.

t

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OFFICE OF THE MINISTER OF STATE,
12, DOWNING STREET,

S.W.1.

25th June 1941

Dear Mr. Morgenthau,

There was an immense flow of aircraft over the Atlantic yesterday.

And when all those planes came in, flown from Newfoundland, I was suddenly conscious of how much you have done for us and how far you are responsible for the flow reaching us.

At the present time, I am like a spinning top. I cannot quite tell where the new events lead us. The transformation in the scene is so far-reaching, it has come so swiftly, that it is not possible yet to determine what new developments lie ahead.

Maybe we shall have something to explain in Spain and Portugal, where Communism is so deeply detested. Certainly, in Scandinavia we have explanations to make.

Just how we are going to go about it, I do not know. Thank God that is something for the Minister of Information to worry about, not for me.

The story goes that the Russians will hold out for several weeks. If they do, they may give us until next year. And I feel that at last we shall have gathered enough resources to give us a big fighting chance.

I said exactly the same thing last year: "If we are only given until 1941, we shall feel more comfortable." But I find that I am not a bit comfortable in 1941.

Some of my colleagues think more upon other

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

/spheres

-2-

spheres than the North West Approaches, but I am bound to say that I give more attention to what is called the "Battle of the Atlantic" than to any other phase of the war.

And if we are able to continue that battle with a measure of success offering us the hope and expectation of ultimate victory, much of our gratitude must be given to you.

This is well recognised and sincerely felt in Britain, not only among the politicians, but by the general public too. The people are aware of what they owe to your understanding and far-sighted statesmanship.

Yours sincerely,

Beaumont

July 23, 1941

Dear Dr. Fridenberg:

I am returning the letter of Arthur Krook to you dated June 30, which you sent to Secretary Morgenthau for comment.

It is well known that the Secretary favored and urged the liquidation of British assets in the United States to meet obligations for war materials incurred before the passage of the Lease-Lend Act. It is also a matter of record, however, that the Secretary declined to be drawn into any details of the Viscose sale or of any other marketing operation involving British assets.

These transactions were handled entirely by representatives of the British Government and the British interests involved, working directly with the private American purchasers.

Sincerely,

(Signed) H. S. KLOTZ

H. S. Klotz
Private Secretary.

Dr. Percy Fridenberg,
33 West 59th Street,
New York, N. Y.

Miss O'Rourke has file on this.

SB

The New York Times

WASHINGTON BUREAU
ALBEE BLDG. WASHINGTON, D. C.

June 30, 1941

Dr. Percy Fridenberg,
38 W. 50th St.,
New York, N.Y.

Dear Dr. Fridenberg,

Jesse Jones's friends
say that Morgenthau was brutal in the
matter of Viscose steel, insisting on the
British making ^{the sale} that great sacrifice and
for lease-lend propaganda reasons. Mor-
genthau's friends deny this, and say it
was a fair and good deal. There you are.

Yours faithfully,

Wm. H. Brock

Kindly return at your
convenience & if you please
let me know the truth about
Brock's intimation in the 5th column
(Times editorial page) that the sale
was forced by you. Respectfully, Percy Fridenberg
msf



TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

July 22, 1941.

Dear Dr. Fridenberg:

I am returning the letter of Arthur Krock to you dated June 30, which you sent to Secretary Morgenthau for comment.

The Secretary does not know of any controversy such as is indicated in Mr. Krock's note. It is well known that he favored and urged the liquidation of British assets in the United States to meet obligations for war materials incurred before the passage of the lease-lend act; ~~but he had no part in the arrangement of the terms of the Viscose sale or any other marketing operation involving British assets.~~ These were handled entirely by representatives of the British Government and the British interests involved.

Sincerely,

H. S. Klotz
Private Secretary.

Dr. Percy Fridenberg,
38 West 59th Street,
New York, N.Y.

July 22, 1941.

Dear Dr. Fridenberg:

I am returning the letter of Arthur Krock to you dated June 30, which you sent to Secretary Morgenthau for comment.

The Secretary does not know of any controversy such as is indicated in Mr. Krock's note. It is well known that he favored and urged the liquidation of British assets in the United States to meet obligations for war materials incurred before the passage of the lease-lend act; but he had no part in the arrangement of the terms of the Viscose sale or any other marketing operation involving British assets. These were handled entirely by representatives of the British Government and the British interests involved.

Sincerely,

H. S. Klots
Private Secretary.

Dr. Percy Fridenberg,
38 West 59th Street,
New York, N.Y.

HEG/mah
[Handwritten signature]

Dear Mr. Fridenberg:

I am returning the letter of Arthur Koch to you dated June 30 which you sent to Secretary Hingenthan for comment.

The Secretary does not know of any controversy such as is indicated in Mr. Koch's note. It is well known that ~~the Secretary has previously~~ favored and urged the liquidation of British assets in the United States to meet ~~their~~ obligations for war materials incurred ~~in the United States~~ before the passage of the lease-lend act; but he had no part in the arrangement of the terms of the viscose sale or any other marketing operation involving British assets. These were handled entirely ~~secretly~~ by representatives of the British government and the British interests involved.

Sincerely,
 (H.S. [initials])
 Under Secretary

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1941

TO Secretary Morgenthau
FROM Mr. Kamarok
Subject: Airplane Deliveries to the British

Summary

1. A total of 74 planes shipped is reported in the latest statement received (44 to England and 30 Tomahawks to the Middle East).

2. The largest movement of planes by air to date to England occurred last week. The 31 Lockheed Hudsons and the Consolidated Catalina going to England were all flown to their destination. This is more than triple the usual weekly shipment of 10 planes by air.

- 2 -

Division of Monetary
ResearchAirplane Shipments to the British
(From February 1 to July 20 by air
January 11 to June 28 by sea)

Table A. - Shipments by Area

| | Latest Week | Total Reported To Date |
|------------------------------|----------------|------------------------------|
| <u>To the United Kingdom</u> | | |
| Light and medium bombers | 41 | 562 |
| Heavy bombers | 0 | 41 |
| Naval patrol bombers | 1 | 72 |
| Pursuit | <u>2</u> | <u>13</u> |
| Total to United Kingdom | 44 | 688 |
| <u>To the Middle East</u> | | |
| Light and medium bombers | 0 | 150 |
| Pursuit | <u>30</u> | <u>461</u> |
| Total to Middle East | 30 | 611 |
| <u>To the Far East</u> | | |
| Light and medium bombers | 0 | 6 |
| Naval patrol bombers | 0 | 9 |
| Pursuit | 0 | 145 |
| Trainers | <u>0</u> | <u>55</u> |
| Total to Far East | 0 | 215 |
| <u>Totals</u> | | |
| Light and medium bombers | 41 | 718 |
| Heavy bombers | 0 | 41 |
| Naval patrol bombers | 1 | 81 |
| Pursuit | 32 | 619 |
| Trainers | <u>0</u> | <u>55</u> |
| Grand Total | 74 | 1,514 |

- 3 -

Division of Monetary
Research

Table B. - Shipments by Types

| | Latest Week | Total Reported To Date |
|---------------------------|----------------|------------------------------|
| Bell Airacobra (P-39) | 2 | 4 |
| Boeing B-17 | 0 | 21 |
| Brewster Buffalo | 0 | 145 |
| Consolidated Catalina | 1 | 81 |
| Liberator | 0 | 20 |
| Curtiss Tomahawk | 30 | 461 |
| Douglas Boston I | 0 | 1 |
| Boston II | 0 | 72 |
| Boston III | 6 | 89 |
| Glenn Martin Maryland | 0 | 150 |
| Grumman Martlet II | 0 | 9 |
| Lockheed Hudson I | 0 | 1 |
| Hudson III | 0 | 57 |
| Hudson IV | 0 | 18 |
| Hudson V | 31 | 297 |
| North American Harvard II | 0 | 55 |
| United Chesapeake | <u>4</u> | <u>33</u> |
| Grand Total - All Types | 74 | 1,514 |

Table C. - Plane Deliveries to the British by Weeks

| Week Ended | Light and Medium Bombers | Heavy Bombers | Naval Patrol Bombers | Pursuit | Trainers | Total |
|------------|--------------------------|---------------|----------------------|---------|----------|-------|
| Feb. 8 * | 22 | - | 3 | - | - | 25 |
| Feb. 15 * | 39 | - | - | 100 | - | 139 |
| Feb. 22 * | 35 | - | - | 27 | - | 62 |
| Mar. 1 * | 7 | - | 5 | 25 | - | 37 |
| Mar. 8 * | 16 | - | 3 | 10 | - | 29 |
| Mar. 15 * | 26 | 1 | 4 | - | - | 31 |
| Mar. 22 * | 17 | - | 2 | 22 | - | 41 |
| Mar. 29 * | 25 | - | 3 | 18 | - | 46 |
| Apr. 5 * | 21 | - | 7 | 73 | - | 101 |
| Apr. 12 * | 21 | 2 | 2 | 27 | - | 52 |
| Apr. 19 * | 20 | 3 | 4 | 5 | - | 32 |
| Apr. 26 * | 23 | 2 | 3 | - | 28 | 56 |
| May 3 * | 61 | 1 | 2 | 15 | 27 | 106 |
| May 10 * | 36 | 1 | 8 | 10 | - | 55 |
| May 17 * | 61 | 13 | 7 | 19 | - | 100 |
| May 25 * | 30 | 10 | - | 25 | - | 65 |
| June 1 * | 28 | 5 | 5 | 21 | - | 59 |
| June 8 * | 37 | 2 | 7 | - | - | 46 |
| June 15 * | 26 | 1 | 4 | 20 | - | 51 |
| June 22 * | 28 | - | 4 | 52 | - | 84 |
| June 29 * | 45 | - | 1 | 50 | - | 96 |
| July 6 * | 19 | - | 3 | 20 | - | 42 |
| July 13 * | 34 | - | 3 | 48 | - | 85 |
| July 20 * | 41 | - | 1 | 32 | - | 74 |
| | 718 | 41 | 81 | 619 | 55 | 1,514 |

* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending July 20 would report the shipment of planes by water for the week ending June 28.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 23, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

At 11:25 this morning Mr. Lang telephoned me from the Federal Reserve Bank at New York to state that the Chase Bank had just informed the Federal that Mr. Mulligan, for the Yokohama Specie Bank, had just withdrawn \$150,000 in cash from the Chase, one check being for \$100,000 and the second for \$50,000. A similar withdrawal for \$50,000 was made yesterday by Mr. Mulligan, thus making a total of \$200,000.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

97 ✓

For Miss Chauncey

DATE July 23, 1941.

TO Secretary Morgenthau

FROM Mr. Dietrich

With reference to Mr. Cochran's memorandum of today, regarding the reported inquiry by the Yokohama Specie Bank, New York, to the Guaranty Trust Company relative to the withdrawal of an additional \$100,000 in \$1,000 bills, Mr. Lang of the Federal Reserve Bank of New York reported late this afternoon that, as a result of a misunderstanding, this information was reported erroneously.



July 23, 1941

Mr. Kimball of the New York Federal Reserve Bank telephoned at 11:50 a.m. to say that Mr. Loree of the Guaranty Trust Company of New York had reported to him that the Yokahoma Specie Bank, Ltd., New York, yesterday withdrew cash in two lots of \$45,000 each in \$100 bills; today they have already withdrawn in cash two lots of \$100,000 each in \$100 bills.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 23, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

At 1:10 p.m. this afternoon Mr. Cameron telephoned from the Federal Reserve Bank of New York to state that the Guaranty Trust Company had informed the Federal that today the Yokohama Specie Bank had withdrawn \$100,000 in \$100 bills and \$100,000 in \$50 bills. These withdrawals are in addition to the \$150,000 withdrawn from the Chase which was reported in a separate memorandum today. Yesterday and today's withdrawals from the Chase totalling \$200,000 were in \$100 bills. Total cash withdrawals by the Yokohama Specie Bank during the past two days now amount to \$400,000.

Mr. Cameron also reported that the Yokohama inquired of the Guaranty about withdrawing an additional \$100,000 in \$1,000 bills. Up to the present time we have no confirmation that this amount has actually been withdrawn.



TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE July 23, 1941.

TO Secretary Morgenthau
FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|---------|
| Sold to commercial concerns | £31,000 |
| Purchased from commercial concerns | £28,000 |

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Company.

Open market sterling was quoted at 4.03-3/4. The only reported transaction consisted of £1,000 sold to a commercial concern.

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

| | |
|--------------------------|------------------|
| Canadian dollar | 11-5/8% discount |
| Argentine peso (free) | .2383 |
| Brazilian milreis (free) | .0505 |
| Uruguayan peso (free) | .4380 |
| Colombian peso | .5800 |
| Mexican peso | .2070 |
| Cuban peso | 1-5/16% discount |
| Japanese yen | .2358 |

In Shanghai, the yuan remained at 5-5/16¢, and sterling was unchanged at 3.94-1/4.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$2,110,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

In London, spot and forward silver were again fixed at 23-7/16d, equivalent to 42.55¢.

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 100,000 ounces under the Silver Purchase Act. This represented new production from various foreign countries, and was bought for forward delivery.

July 23, 1941

MEMORANDUM FOR GENERAL WATSON:

I am returning herewith, for the President's files, the attached letter from President Conant.

J. W. H.

cc - Miss Channing

July 23, 1941

MEMORANDUM FOR GENERAL WATSON:

I am returning herewith, for the President's files, the attached letter from President Conant.

HMG.

cc - Miss Chaunay

103

THE WHITE HOUSE
WASHINGTON

Hyde Park, N. Y.
July 3, 1941.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION AND
PLEASE RETURN FOR MY FILES.

F. D. R.

HARVARD UNIVERSITY
CAMBRIDGE, MASSACHUSETTS

Office of the President

June 30, 1941

President Franklin D. Roosevelt
The White House
Washington, D. C.

Dear President Roosevelt:

In these days of national emergency, no college president can refuse a call for assistance from the White House. I am very glad, therefore, to recommend to the Corporation that Dean James W. Laddis of the Harvard Law School be given a leave of absence so that he may accept the appointment as Under Secretary of the Treasury. I have no doubt that the Corporation will agree and feel that, however great the loss to Harvard may be, we are glad to know that one of our outstanding men can be of special assistance to you in this important position.

We are all hoping that the duration of the national emergency may be short and that it will not be long before Dean Laddis is back with us. His absence will mean a severe loss to the Law School in these critical times, when we have a serious financial problem arising from the diminution in our student body. We shall try to work out our problems, however, as best we can.

Very sincerely yours,

(signed) James E. Conant

JUL 23 1941

My dear Senators:

This is to acknowledge your letter of July 17, in which you inquire just what the position of gold mine operators will be under the national defense program, taking into consideration the U. S. Government's gold purchasing policy.

The defense program in no way affects the gold purchasing policy the U. S. Treasury has been steadfastly pursuing since the enactment of the Gold Reserve Act of January 30, 1934. However, as gold mining is not a defense industry, it does not appear that there are sufficient grounds for allowing the gold mine operators a preferred position in the procurement of machinery and supplies.

Sincerely yours,

[Signed] H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Elbert D. Thomas,
United States Senate,
Washington, D. C.

SA/1213:Dr1
7/22/41

cc - Miss Chaudry

UNITED STATES SENATE

July 17, 1941

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

My dear Mr. Morgenthau:

I have been asked by men in the mining industry to request an expression of your opinion as to the position of the gold mine operators of the United States under the defense program and whether the production of gold will be considered as important as various other minerals and whether the gold mine operators will be accorded equal treatment with the producers of coal, iron ore, copper, zinc, and other minerals and materials in the procurement of the necessary machinery, spare parts and supplies necessary for their operations.

During the last World War a number of the gold mines were forced to suspend production because of the cost of equipment and explosives and now the gold mine operators are anxious to ascertain, taking into consideration the Government's gold purchasing policy, just what their position will be under the national defense program.

Sincerely yours,

(signed) Elbert D. Thomas

Elbert D. Thomas

JUL 23 1941

Dear Mr. Currie:

Thank you for your letter of June 20. Mr. Cayne, the Canadian Financial Attache in Washington, was recently in Ottawa when the question of Canadian remittances to China was under discussion, and has been directly in touch with our Treasury on this subject. Mr. Cayne has been provided orally with all pertinent information available here, as well as advice obtained by the Treasury from banking institutions in New York. After communicating this information to Ottawa, Mr. Cayne has informed the Treasury that the Bank of Canada officials are now satisfied, and do not desire that any cablegram of inquiry be sent to Mr. Fox.

I think your suggestion for securing certain items for China in Canada with Lend-Lease funds is an excellent one and hope that the Joint Army-China Defense Supplies mission to Canada will be successful. I shall appreciate being kept informed on the progress of its negotiations.

Yours sincerely,

(Signed) _____

Secretary of the Treasury

Mr. Lashlin Currie,
Administrative Assistant to the President,
The White House,
Washington, D. C.

Init: EMC DWB

EMC:lap-7/23/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 27, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: Should the remittances of \$6 million a year from Canada to China be continued?

1. A large proportion of overseas Chinese remittances to China go to Kwangtung and Fukien. Canton and a substantial part of its hinterland in Kwangtung, and Amoy and Swatow, the two main ports of Fukien, are under Japanese occupation.

2. In 1938, of the \$600 million (Chinese) which were remitted to China from abroad, less than \$100 million (Chinese) went through the hands of Chinese banks. The remainder went to supply foreign exchange to the open market. Most of the remittances were financed through Hongkong. In 1939, \$230 million (Chinese), or about 12 percent of total remittances, and in 1940, \$450 million (Chinese), or less than 20 percent of total remittances, went through the hands of Chinese banks.

3. Of the foreign exchange going into the open market, part undoubtedly falls into the hands of the Japanese and another substantial part facilitates speculation and the flight of capital. China derives no net gain from remittances when the foreign exchange accruing from them is used in these ways.

4. In Canton the situation is somewhat obscure. On May 19 the Japanese instituted an official centralized money exchange in Canton to handle all transactions in military yen and yuan. It prohibited private and curb transactions and fixed the value of the military yen at 3.03 yuan, at which rate the military yuan was overvalued about 33-1/3 percent as compared with the prevailing rates in Shanghai. It is not surprising that a month later it was reported at Canton that the Japanese were continuing to ship Chinese currency to Shanghai because of the more favorable exchange rates prevailing in Shanghai.

Further information on the effects of the differential military yen-yuan rate in Canton and of the continued shipment of Japanese currency from Canton to Shanghai on how and where remittances to Cantonese are made, would appear to be desirable. In the absence of such information it can be assumed that these Japanese measures make it more likely that an increasing part of the foreign exchange accruing from remittances to Cantonese fall into the hands of the Japanese.

- 2 -

Division of Monetary
Research

5. However, in view of the absence of specific information concerning the mechanism of sending the remittances from Canada and their destination, it would be advisable to delay making any recommendation to the Canadian authorities until we can ascertain Mr. Fox's opinion on this matter.

6. One proposal which we might suggest to the Stabilization Board for its consideration is that the Canadian authorities permit these remittances on condition that they are handled by bona fide Chinese banks.



THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. Currie:

Thank you for your letter of June 20. I am enclosing a memorandum on the question of Canadian remittances to China. We are making the necessary inquiries from Mr. Fox.

I think your suggestion for securing certain items for China in Canada with Lease-Lend Funds is an excellent one and hope that the joint Army-China Defense Supplies mission to Canada will be successful. I shall appreciate being kept informed on the progress of its negotiations.

Yours sincerely,

Secretary of the Treasury

Mr. Lauchlin Currie,
Administrative Assistant to the President,
The White House,
Washington, D. C.

Enclosure

THE WHITE HOUSE
WASHINGTON

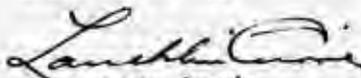
June 20, 1941.

Dear Mr. Secretary:

I was in Ottawa on Tuesday and while there Governor Tower of the Bank of Canada raised a matter with me which I undertook to pass on to the Treasury. Canada is now sending some \$6 million a year to China on account of emigrants' and charitable remittances. The Canadian position, as I understand it, is that they would permit these remittances to continue if they were convinced that they were serving a really useful purpose. They were, however, uncertain on this latter point. I suggested that our Treasury, through Mr. Fox, would doubtless be in a position to ascertain whether emigrants' remittances for Cantonese, remitted via Hongkong, result in payments to the designated recipients and exchange available for Free China; whether the same is true for remittances for charitable purposes; and the probable use of funds remitted via Shanghai.

There was another matter which I think will interest you. I took up with Mr. Howe, the Minister of Munitions and Supply, the possibility of securing certain items for China in Canada with lease-lend funds. I received so much encouragement that I have arranged for a joint Army - China Defense Supplies mission to go to Canada on Monday to explore the possibilities. Anything we can work out along these lines will, of course, ease the Canadian dollar exchange problem, and I will keep you informed as to the progress of our negotiations.

Yours sincerely,

Lauchlin Currie
Administrative Assistant
to the President.Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

C
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P
YCONFIDENTIALP A R A P H R A S E

A telegram (no. 262) of July 23, 1941 from the American Consulate General at Hong Kong reads substantially as follows:

The market at Hong Kong is quiet and Japanese in Hong Kong have made no further important sales of American dollars, according to information received in conversations with bankers who are regarded as reliable. Estimates in Hong Kong of total operations in Shanghai since the movement started about July 12 vary between the sums equivalent to from ten to thirteen million dollars (US currency).

LET

PLAIN

London

Dated July 23, 1941

Rec'd. 3:40 p.m.

Secretary of State,
Washington.

3156, Twenty-third.

FOR TREASURY.

Yesterday's announcement by Chancellor of the Exchequer in the House of Commons of the Reconstruction Finance Corporation's proposed loan and his statement that all stages of the necessary legislation would be completed next week has received on the whole a good press. A TIMES editorial states that "the agreement will be welcomed as a means of avoiding the heavy losses which would be incurred by the forced sale of the securities. It means that there need now be no repetition of the unhappy experience of the Viscose deal by which the shares held by Courtauld's Limited in American Viscose Corporation were sacrificed for very much less than their value to that company". The same editorial states that "the American authorities have shown a ready and sympathetic understanding of the difficulties throughout. Even before the Viscose deal it was realized that some way must be found for utilizing these securities other than that of liquidating them in an unfavorable market".

-2-3156, July 23, From London.

market". The editorial concludes with the point that every loan from a country to another country with an unfavorable balance of payments with it, is bound to have a disturbing effect on their mutual trade. The DAILY TELEGRAPH'S editorial describes the transaction as one "which opportunely bridges an awkward financial gap, and the terms may be fairly called indulgent". After referring to the magnitude of the lend-lease aid the editorial states: "there is nothing that can be called onerous in an arrangement which commits this country to an annual payment of only £3 million for a present relief so substantial and timely. Beside the dimension of our war expenditure that annuity may well seem a drop in the ocean".

Financial writers while a little less inclined to stress the generosity of the terms of the agreement nevertheless welcome it. The DAILY TELEGRAPH city editors, referring to the Viscose deal as now standing out in "sorry isolation", welcome the loan as means of avoiding outright sale and having the additional merit of leaving the control and management in British hands. The arrangements "represent a business-like compromise reached in a spirit of cooperation."

The TIMES city editor makes the same point and states that "the arrangement is a further tribute to the value

-3- 3156, July 23, From London.

the value of American friendship and to the willingness of this country to sacrifice much in the cause of the common effort." This writer finds that: "if there is any point likely to come in for criticism it is that the arrangement is an ominous one. The interest or dividends received from any particular security pledged as collateral will not so far as can be judged be earmarked to the amortization of such amount of the loan as may be represented by the value of the asset in question. The collateral, that is to say, will not be released independently of the remainder of the securities even though the particular flow of interest or dividend might justify it. It is true that the agreement provides that if by reason of payments made in reduction of the principal the aggregate amount of collateral is disproportionately large in relation to the unpaid amount of the loan the R. F. C. will consider releasing such collateral as may be satisfactory to it. But that is not quite the same thing". The TIMES city editor goes on to point out that the arrangement is of particular interest to British insurance companies and that it has been carried through with skill and goodwill. He notes that the practice of British insurance companies in the United States is to bring home only the interest receipts and to remit only at rare intervals and

4- 3156, July 23, From London.

vals and with the approval of state insurance commissioners some of the under-writing earnings, so that the effect of the present scheme on British insurance companies should therefore be limited.

The FINANCIAL NEWS in its article describing the terms of the loan comments that in parliamentary and city circles there was "fairly general agreement that the terms of the loan are reasonable and that the arrangement will prevent further transactions of the unsatisfactory type known familiarly in this country as the American Viscose deal. But one point which aroused criticism was the absence of information on the position of British companies concerned in respect of income. Rumors that the Treasury would make a sterling reimbursement in the form of one capital repayment were later denied by authoritative statements to the effect that the sterling equivalent of dollar earnings disbursed will be made available to undertakings concerned."

The FINANCIAL TIMES editorial describes the terms of the agreement as "reasonable without being generous" and states that "while Britain, the borrower, is engaged in the biggest war in history the security behind its obligation is such as to make the loan self-liquidating in essence the value of the security is based upon the prosperity

-5- 3156, July 23, From London.

prosperity of the United States itself. Coupled with the high quality of the pledged investments it cannot be other than extremely satisfactory to the lender, while it gives a fresh emphasis to the determination of Britian to make all sacrifices necessary to meet its commitments. That the sacrifices ~~in this case are~~ ^{in this case are} ~~substantial~~

hard cannot be gainsaid". This editorial points out that the outcome for individual companies depends on the attitude of the British Treasury and that it is hoped that when the necessary legislation is introduced the position in relation to subsidiaries or branches in the case of insurance companies and others will be clarified. "It should be possible to protect their effective ownership while--as is understood will be the case--compensating them in sterling for the loss income surrendered. The editorial concludes by pointing out that continuity of control will ensure the high standard already established which will benefit the creditor, the companies, and Great Britain, since the latter should eventually regain something of the purchasing power in the United States "from which the obligations of war are for the time being depriving us".

The MANCHESTER GUARDIAN'S financial editor points out that the terms are an improvement on the previous loan.

-6- 3156, July 23, From London.

loan. "The rate of 3 percent war loan 55-59. The present state of the British Government's credit has thus been recognized for the first time outside this country, although a number of artificial stimulants have been used to make it what it is today." This writer concludes by pointing out that to incur any debt repayable in dollars would be to invite a repetition of the last war-debt collapse if the liquidation were not linked with profit-yielding dollar assets and he welcomes this arrangement for this reason.

Other financial editors' comments re similar. The following extracts are noteworthy:

EXPRESS: "incidentally this smacks down Goebbol's propoganda that the United States is making use of the war to snatch Britain's most valuable assets one by one." This writer points out that the loan is small and will not pay for all the goods ordered before March 11 but it will help.

The NEWS CHRONICLE city editor points out that Sir Kingsley Wood said that the loan would provide exchange to be used "towards" meeting the cost of supplies ordered before March 11 and surmises that the size of the loan is conditioned more by the value of the collateral available than by the bill in question to be met.

The DAILY

-7- 3156, July 23, From London.

The DAILY HERALD financial editor heads his column "assets pawned for United States loan" and describes the loan as more like a banking transaction than an international loan. He considers that "both sides are to be congratulated on an amicable agreement which solves a difficult problem".

WINANT.

CSE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Managua, Nicaragua

DATE: July 23, 1941, 10 a.m.

NO.: 114

The Legation has been informed that the funds of Dombach and Gautier have been frozen. These funds are on deposit with the National City Bank of New York. Dombach and Gautier, it will be recalled, is the firm of architects which is constructing the American Legation in Managua.

Continual blocking of this account might make it impossible for the firm to ship material to Nicaragua. This would, no doubt, bring about the cessation of work on the Legation here. Therefore, it is urgent that these funds, which are on deposit in New York, be released immediately.

Dombach is a Swiss citizen. Gautier is an American citizen.

FLOURNOY

EA:PAK

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

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121

Buenos Aires

Dated July 23, 1941

Rec'd. 1:43 a.m., 24th.

Secretary of State,

Washington.

758, July 23, 9 a.m. (SECTION ONE.)

The managing director of the local branch of the First National Bank of Boston has requested the Embassy to intercede in its behalf in the following matter.

On February 20, 1941 the Tradesmen's National Bank and Trust Company of Philadelphia opened its irrevocable credit number 4638 totaling \$872,000 in favor of La Husen and Company of Buenos Aires covering wool shipments to the United States.

The First National Bank of Boston and other local banks have negotiated under shipments, drafts totaling approximately six hundred thousand dollars.

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Buenos Aires

122

Dated July 23, 1941

Rec'd. 1:52 a.m., 24th.

Secretary of State,

Washington.

758, July 23, 6 p.m. (SECTION TWO).

The Treasury was therefore requested urgently to issue license to the Tradesmens Bank permitting acceptance and eventual payment of all drafts under this credit in order to bring about the compliance with contracts entered into by the Tradesmens Bank, its (*), purchaser negotiating banks in Buenos Aires, and Lahusen and Company; all of which contracts were entered into in good faith prior to the issuance of the black list.

The Embassy is strongly of the opinion that it would be inadvisable for the Treasury Department to obstruct the completion or liquidation of similar contractual obligations in which American firms or banks are concerned as a result of transactions entered into prior to the issuance of the black list. In the Embassy's opinion the nonpayment or blocking of such transactions would cause irreparable harm to the standing of American firms and banks both here and the United States.

The local committee on economic relations is in agreement with the conclusions expressed in the above.

(END OF MESSAGE)

TUCK

RR (*) Apparent omission

Copy:dtg:7-30-41

BRITISH EMBASSY,
WASHINGTON.

July 23rd, 1941.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated July 22nd,

(ONE OF THE TWO BATTLE CRUISERS)

1. Soharnhorst has left Brest. Four destroyers believed with her.
2. Tobruk. Night of July 19th/July 20th two strong patrols inflicted upwards of 50 casualties on enemy. Our casualties 7. Indian unit repelled attack by 180 Italians and counter attacked with bayonets inflicting casualties and suffering none. During July 20th considerable enemy air activity. Damage nil.
3. Abyssinia. Deserters Wolcheft area report enemy's food situation critical but garrison ordered to fight to the last.
4. Russian Campaign. German advances on Leningrad and Smolensk Sectors appear slower. In Ukraine and Bessarabia advance claimed by Germans may be due to Russian withdrawal to avoid envelopment as a result of German thrusts towards Kiev and South East of S. between Dniester and Dnieper.
5. Royal Air Force. July 21st. In sweeps over France our bombers all returned, we lost 6 Spitfires. Nine German fighters certain, 1 probable, 8 damaged. Night of July 21st/22nd strong force of bombers despatched to attack Frankfurt and Mannerheim. There was heavy ground hazard but 70% of aircraft attacked primary targets.

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, July 23, 1941

SPECIAL BULLETIN
No. 34
G-2/2657-231

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

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

LIST OF TENTATIVE LESSONS BULLETINS
AND SPECIAL BULLETINS PUBLISHED TO
JULY 1, 1941

NOTE

As its title states, this bulletin contains simply a list of all Tentative Lessons Bulletins and Special Bulletins published prior to July 1, 1941. It should not be considered an index in any sense of the word; it is intended only as a handy reference to the general subject matter of those bulletins already on file. Additional copies of bulletins previously distributed are no longer available in the Military Intelligence Division.

RESTRICTED

RESTRICTEDLIST OF TENTATIVE LESSONS BULLETINS
AND SPECIAL BULLETINS PUBLISHED TO
JULY 1, 1941TENTATIVE LESSONS BULLETINS

- No. 1.-5. Miscellaneous
6. German Fifth Column Activities
 7. Improvised Antitank Defense in the Finnish Army
 8. German Air Infantry and Parachute Troops
 9. Extracts from a Preliminary Report on West Front Operations
 10. Recommendations of a British Officer Based upon Experience in the Belgian Campaign
 11. Miscellaneous
 12. Notes on German Antiaircraft
 13. Miscellaneous
 14. Preliminary Observations on German Operations in Scandinavia
 15. Miscellaneous
 16. Tactics of Antitank Units in the German Army
 17. Miscellaneous
 18. German Air Force Command and Signal Coordination
 19. Winter Warfare
 20. The German Artillery
 21. Miscellaneous
 22. Miscellaneous
 23. Characteristics of German Tanks and Armored Cars
 24. Miscellaneous
 25. Organization of the Medical Service of the German Army and its Employment in the Campaign against Poland
 26. Miscellaneous
 27. German Reconnaissance Units and Mobile Troops
 28. German Attacks upon Modern Permanent Fortifications
 29. Some Aspects of Training in the British Army
 30. Some Aspects of Training in the German Army
 31. Observations of a French Army Commander
 32. Types of Tanks Employed by the Italian Army
 33. British and French Defense against Tanks
 34. Miscellaneous
 35. Notes on German Armored Divisions
 36. German Principles of Employment of Armored Units
 37. Informal Notes on Organization and Training of the British Conscript Forces

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- No. 38. A German Reconnaissance Car Platoon in Action
 39. German Methods of Crossing Antitank Obstacles
 40. Further Notes on German Attacks upon Fortifications
 41. Further Notes on Basic Training in the British Army
 42. German Infantry Battalion in the Attack
 43. German Method of Organizing a Defensive Position
 44. The British Infantry Training Center
 45. Training at British Machine Gun Centers
 46. Infantry in the Blitzkrieg
 47. German Regulations on Antiaircraft Defense
 48. British Recommendations on Armored Vehicles
 49. German Antitank and Anti-Personnel Mine Fields
 50. German Instructions for Ground Defense against
 Air-Borne Troops
 51. British Comment on Divisional Artillery
 52. Notes on German Tactics and Training Methods
 53. Notes on River Crossing by German Armored and
 Motorized Units
 54. Training of a British Motorized Infantry Division
 55. Further Comments of General Requin on the Battle of France
 56. German Training in Marching and March Discipline
 57. Use of Aviation in the German Attack on the Maginot Line
 58. The German Flame Thrower
 59. Use of Smoke by British Armored Units
 60. British Comment on Defense against Tank Attacks
 61. Remarks on the Employment of a Pioneer Battalion in
 Forcing a River Crossing
 62. Additional Notes on German Antiaircraft Tactics
 63. Bicycle Troops in the German Army
 64. Morale Methods in the German Army
 65. Some Aspects of Defense in Great Britain
 66. Morale in the French Army
 67. Miscellaneous Technical Developments in Germany
 68. Miscellaneous Technical Developments in Great Britain
 69. Soviet Mechanized Materiel for Winter Warfare
 70. Observations on British Tanks in France
 71. Miscellaneous Observations on the German Army
 72. The German Field Artillery School
 73. The German 210-mm. Howitzer, Model 18, and its Prime
 Mover
 74. Demonstration of Conventional Types of German Field
 Artillery Fire
 75. Miscellaneous Observations at the German Field Artillery
 School
 76. Excerpts from the Official German Army Yearbook
 77. A new Arm of the German Service
 78. Soldan's Opinions on German Military Success
 79. German Antiaircraft Activities, October 21-
 November 7, 1940

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- No. 80. Miscellaneous Observations on the German Army
 81. Notes on German and Italian Bombs
 82. The German Pioneers in Total War
 83. Exploit of a German Reconnaissance Detachment in France
 84. Miscellaneous Observations on the German Army
 85. Comments of an American Unofficial Observer on the Fall of France
 86. New Types of German Armored Divisions
 87. Miscellaneous Observations on the German Army
 88. Possible German Tactics in an Attack on Great Britain
 89. General DeGaulle on Armored Units
 90. Miscellaneous Notes on the German Army
 91. German Administrative Services
 92. German Principles of Organization
 93. German Field Repair Service for Motorized Equipment
 94. Notes on German Amphibious Tanks
 95. Vulnerable Points of German Armored Vehicles
 96. Impressions of an American Unofficial Observer in France
 97. Physical Training for German Front Line Troops
 98. Additional Notes on German Morale
 99. British Notes on Unspiring
 100. The 1941 German Motorized Infantry Division
 101. Further Notes on Reconnaissance Units in the German Army
 102. Tactics of German Infantry and its Support by Other Arms
 103. Bomber Attacks upon French Personnel
 104. The Attack on Festieux and the March to the Aisne
 105. British Notes on Escape of Prisoners
 106. British Notes on Collection of Information in Battle
 107. Miscellaneous Notes on the German Army
 108. British Notes on Camouflage
 109. German Use of Pioneer Units in Tank Organizations
 110. Further Notes on German Training in Marching and March Discipline
 111. German Training by Combat Exercise
 112. Military Reading List for German Officers
 113. "Artillery Helps Itself"
 114. Miscellaneous Notes on the German Army
 115. German Infantry Battalion in the Attack in Belgium
 116. German Traffic and March Discipline
 117. Notes on the German Invasion of Greece
 118. German Resume of the Campaign in the West from May 10 to June 25, 1940
 119. British Notes on German Artillery and Armored Vehicles
 120. German Reconnaissance by Light Troops
 121. Miscellaneous Notes on the German Army

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- No. 122. Modern German Principles Compared with Those of Cannae and Austerlitz
123. British Survey of German Armored Formations in Action
124. The Lewis Light Machine Gun in Antiaircraft Defense
125. Aircraft for Observation Missions
126. Coordination of Command in German Armed Forces
127. At the Neuse 1940

SPECIAL BULLETINS

1. The German Campaign in Poland, September 1-17, 1939
2. Soviet-Finnish War, November 30, 1939-January 7, 1940
3. The German Campaign in Poland, September 1-October 5, 1939
4. Royal Air Force Empire Training Scheme
5. Soviet-Finnish War, January 8-31, 1940
6. Soviet-Finnish War, February 1-March 15, 1940
7. The Cuban Plan of the Communist Party
8. Construction of a German Field Army
9. The German Attempt to Capture the Hague
10. Major Military Operations in the German Invasion of Holland
11. British Tank Operations in the Vicinity of Arras, May 19-23, 1940
12. French Tanks and Armored Cars
13. German Chemical Warfare and Smoke
14. Captured German Regulations on Recognition and Communication Between Ground and Air
15. Rhine Crossing and Penetration of the Maginot Line; The German Colmar Operation of June 15-18, 1940
16. Forms of Fifth Column Activity
17. French Artillery, Antitank, and Antiaircraft Weapons
18. Miscellaneous French Equipment
19. Contents of Special and Tentative Lessons Bulletins, October 6, 1939-October 3, 1940
20. General Requin's "Lessons and Conclusions" From Operations of the French Fourth Army
21. Characteristics of Soviet Artillery Weapons
22. Rations in the German Army
23. Characteristics of Soviet Tanks and Armored Cars
24. Soviet Infantry Equipment
25. The Soviet Infantry Division
26. Attempt to Capture The Hague by the 23d German Division, Air Infantry
27. The German Armored Troop School and Army Motorization School

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- No. 28. Operations of the French Seventh Army, May 10-June 24, 1940
29. Characteristics of German Antiaircraft and Antitank Materiel
30. Characteristics of Machine Guns Used by Germany
31. The Break-Through Along the Meuse
32. Account of Operations Between May 10 and the Armistice at Compiègne
33. British Notes on German Police, Semi-Military Forces and Labor Services

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G-2/2657-220 No. 448 H.I.D., W.D.

12:00 L., July 23, 1941

SITUATION REPORT

I. EASTERN THEATER.

Ground: Finnish troops have crossed the Finnish-Russian frontier to the northeast of Lake Ladoga and are advancing towards Petrosavodsk on the west shore of Lake Onega. The capture by the Finns of this town would result in the cutting of the Leningrad-Murmansk railroad, and would also constitute a threat to Leningrad from the northeast.

The Germans have made no further advances on Leningrad from Narva and Luga.

The Germans have encircled a further Russian force of considerable size between Nevel and Vitebsk. The encircled Russians are seeking to break out of the trap by attacking towards Nevel. A further Russian force of apparently somewhat smaller size is encircled in the triangle: Mohilew-Roslavl-Smolensk. This Russian force is counterattacking towards Smolensk.

There is no reliable information from all that portion of the front lying to the south of the Pinsk Marshes. The German communique of June 23rd reports "continuous and relentless pursuit" in this area.

Air: German strategic bombing included Moscow and the rail communications centers at Leningrad and Novgorod.

II. WESTERN THEATER.

Air: German. Light scattered night raids over southern England.

British. No change in the conduct of the offensive. Mannheim and Frankfurt again bore the brunt of the night raids.

III. MEDITERRANEAN THEATER.

Ground: Nothing of importance.

Air: Normal harassing raids in Libya.

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Paraphrase of Code Cablegram
Received at the War Department
at 1410Z, July 22, 1941.

London, filed 1618Z, July 23, 1941.

1. British Air Activity over the Continent.

a. Night of July 20-21. Dropped upon Rotterdam were 18 tons of high explosive bombs and 1100 incendiaries. On Cologne were dropped 92 tons of high explosive bombs and 144 twenty-five pound incendiaries and 9700 four pound incendiaries.

b. Day of July 21. Three Stirlings and 6 Heinkelns were dispatched to attack shipping. No results were accomplished, nor were there any losses to these aircraft. No the battery works at Lille were dispatched 3 Stirlings. Bad weather prevented good results. A total of 733 fighters were dispatched as follows: 233 in the protection of shipping, 150 on interception patrols, 310 on offensive patrols, and 40 on special patrols. The offensive effort consisted mainly of escort and sweeps over the area near St. Omer.

c. Night of July 21-22. A total of 124 bombers were employed as follows: 6 to attack Oberbourg, 44 to attack the Mannheim industrial center, 71 to attack the industrial center at Frankfurt, 1 to drop leaflets over Paris and Orleans, and 3 on mining operations off the Pristan Islands. Seventy percent of these bombers were able to attack their primary targets, the weather being favorable.

2. German Air Activity over Britain.

a. Day of July 30. 330 fighters, 5 long range bombers and 15 reconnaissance aircraft were employed.

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b. Night of July 20-21. The strength consisted of 10 fighters and mine-layers and 15 long range bombers.

c. Night of July 21-22. Off the East Coast of Britain there was slight activity.

3. Aircraft Losses Reported.

a. British losses. During the night of July 21-22 one bomber was unreported and two crashed in England. On the day of July 21 six Spitfires and pilots were missing and one Spitfire was damaged and the pilot injured.

b. Axis losses. During the day of July 21 the losses were as follows: 4 Me-109's and 5 Me-109's shot down, 1 Me-109 probably destroyed, and 5 Me-109's damaged.

Members of the mission sent by the Air Ministry to Russia and now just returned from Murmansk report that in all respects the Russian Air Force is surprisingly efficient, that all airdrome facilities have been constructed underground, the only object above ground being the control tower, and that the Russian Air Force has gained air superiority in the area of Murmansk. They also report that the existing ground situation is a stalemate between two Russian divisions and two German divisions. From the point of view of the Russians this situation is satisfactory. The Germans are attempting to bring up additional troops.

LEE

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Paraphrase of Code Cables
Received at the War Department
at 14:37, July 23, 1941.

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London, filed 20:10, July 23, 1941.

1. British Air Activity over the Continent.

a. Night of July 21-22. Over England a collision occurred between a Wellington and a Ju-88 which resulted in the destruction of both aircraft. British bombers dropped 54 tons of high explosive bombs and 300 incendiaries on Frankfurt and 48 tons of high explosive bombs, including two 4000 pound bombs, and 3300 incendiaries on Mannheim.

b. Day of July 22. To attack the Scherkerst at Barch 11 Beauforts were dispatched. These bombers suffered no losses, nor were the results of the mission confirmed. The shipyards at Le Trait were attacked by 6 Heinkel. Shipping off Cherbourg was also attacked by 6 Heinkel. A total of 784 fighters were employed as follows: 121 on interception patrols, 330 on offensive patrols, 73 on special patrols, and 260 in the protection of shipping. The operations of the fighters consisted mainly of sweeps over the area of St. Omer and of furnishing escort to bombers of the Coastal Command.

c. Night of July 22-23. A total of 124 bombers were dispatched to the following targets, about one-half of which attacked their primary objectives: 29 to Mannheim industrial center, 63 to the industrial center of Frankfurt, 19 to Dunkirk, 8 on sea mining off Brest, and 5 to drop leaflets over Rouens, Paris and Lille.

2. German Air Activity over Britain.

a. Day of July 21. 400 defensive fighters, 5 long range bombers and 10 reconnaissance aircraft were employed.

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b. Night of July 21-22. Dispatched were 5 reconnaissance aircraft and 25 long range bombers.

c. Day of July 22. There was some sea reconnaissance activity. Fighter defense was also maintained over the Dieppe and Calais area.

d. Night of July 22-23. A few operations over the area of the East Coast of Britain occurred.

3. Aircraft Losses Reported.

a. British losses. 3 Spitfires and their pilots were lost during the day of July 23.

b. Axis losses. These were as follows for the day of July 23: 4 He-109's shot down and 1 He-109 probably shot down.

According to information in the possession of the Air Ministry the Scharnhorst is now at La Pallice, which is near La Rochelle. It also has evidence to the effect that three groups of long range bombers have been withdrawn from occupied France and are now taking part in the bombing of the Russian Capital.

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THE REVENUE BILL OF 1941

JULY 24, 1941.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. DOUGHTON, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 5417]

The Committee on Ways and Means, to whom was referred the bill (H. R. 5417) to provide revenue and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

NEED FOR THE LEGISLATION

The united effort on the part of the American people adequately to defend this Nation has placed a tremendous financial burden upon the Government.

Upon his appearance before your committee on April 24, 1941, the Secretary of the Treasury stated that as of that date the appropriations, authorizations, and recommendations for the national defense program totalled \$39,000,000,000, including the lease-lend appropriations. According to the estimate of the Bureau of the Budget as of June 1, 1941, this figure had then risen to \$43,000,000,000. It is now set at approximately \$50,000,000,000. Thus, since April, the scope of our defense program has been expanded by \$11,000,000,000.

Upon that occasion, the Secretary further stated that actual expenditures for all Federal purposes for the fiscal year 1942 were then expected to be \$19,000,000,000. It is now anticipated that the expenditures for the fiscal year 1942 will exceed \$22,000,000,000. The Budget message of January 1941 estimated that the deficit for the fiscal year 1942 would be \$9,200,000,000. The Bureau of the Budget, as of June 1, 1941, set this figure at \$12,800,000,000. These figures do not reflect any additional revenue from proposed tax legislation.

Your committee bill is designed to yield a net additional revenue in excess of \$3,500,000,000 for a year of full operation. For the fiscal year 1942, it is estimated to yield about \$1,900,000,000. Thus, the net deficit of \$12,800,000,000, predicted without regard to this bill, will be reduced to \$10,900,000,000.

The bill with the present law will meet about 60 percent of the anticipated expenditures, leaving 40 percent to be met by borrowing. During the World War only one-third of the expenditures were met by taxes and two-thirds by borrowing.

In recent years, your committee has recommended and the Congress has enacted legislation substantially increasing our tax revenues. These increases were designed to bring our receipts and expenditures into closer alignment. Except for the enormous expenditures made necessary by our defense program our goal would have been achieved. For example, for the fiscal year 1941 our total receipts aggregated \$7,607,000,000 and our total expenditures were \$12,710,000,000, leaving a deficit of \$5,103,000,000. Of the total expenditures of \$12,710,000,000, \$6,048,000,000 were for national defense. Thus, had defense expenditures been at normal levels, a small deficit or perhaps no deficit for 1941 would have occurred.

The bill is unprecedented in the amount of revenue it is designed to provide. It lays a substantially increased burden upon the American people. But there is convincing evidence that this burden will be borne cheerfully in the light of the overwhelming importance of national defense to the continued freedom and security of the United States. It is believed that the risk to life and property from an inadequate preparedness would make even a much heavier burden attractive by comparison.

In its deliberations on this measure, it has been your committee's aim and desire to distribute the additional tax burden as equitably as possible among the several classes of taxpayers. Due consideration has also been given to the economic and social effects of the increased levies. There was continually in mind the need for keeping to a minimum, consistent with our defense efforts, any disruption of our economy, and, at the same time, supplying a needed restraint upon inflationary tendencies.

Your committee's principal aim in this bill, however, as in all tax legislation, is the procurement of revenue.

ESTIMATES OF REVENUE

Of the more than \$3,500,000,000 to be raised by the bill, nearly \$2,475,000,000 is to be derived from corporate and individual income taxpayers; \$152,000,000 from estate and gift taxpayers; and about \$900,000,000 from excise taxes.

The following table sets out in detail the items contained in the bill and the expected revenue therefrom. These figures, supplied by the Treasury Department, contemplate a year of full operation.

Estimated increase or decrease (—) in revenue yield due to revenue bill of 1941

| Tax | Proposed change | Estimated increase or decrease (—) over present law ¹ |
|--|---|--|
| <i>Millions of dollars</i> | | |
| Income taxes: | | |
| Corporation | | |
| Normal tax | Allow excess profits tax as a deduction in computing normal tax net income; increase withholding rate and increase income tax rate on nonresident alien individuals and corporations. | —520.1 |
| Surtax | 8 percent on surplus net income not in excess of \$25,000; 6 percent on surplus net income in excess of \$25,000. | 644.7 |
| Excess-profits tax | Revise basis; increase rates 10 percentage points in each bracket. | 1,106.8 |
| Total | | 1,229.4 |
| Individual | | 1,152.0 |
| Total income taxes | | 2,474.9 |
| Miscellaneous internal revenue: | | |
| Capital stock tax | Increase rate from \$1.10 to \$1.25. | 22.3 |
| Estate tax | Increase rates. | 135.9 |
| Gift tax | do. | 16.0 |
| Total | | 174.2 |
| Manufacturers' and retailers' excise taxes: | | |
| Distilled spirits | Increase rates \$1 per gallon. | 1,122.3 |
| Wines | Increase rates. | 15.0 |
| Passenger automobiles, parts, and accessories | Double rates; revise base. | 74.9 |
| Automobile trucks, buses, and trailers | do. | 10.1 |
| Tires and tubes | Double rates. | 144.6 |
| Refrigerators, refrigerating apparatus, and air-conditioners | Increase rates from 5½ percent to 10 percent; revise base. | 21.0 |
| Machines | 2 cents per 1,000, except fancy wooden or colored wooden (unchanged). | 8.2 |
| Playing cards | Increase rate from 11 cents to 13 cents. | 1.0 |
| Radio receiving sets and parts | Increase rate from 5½ percent to 10 percent; revise base. | 0.4 |
| Photographs and phonograph records | 10 percent of manufacturers' sales price. | 4.5 |
| Musical instruments | do. | 3.6 |
| Sporting goods | do. | 8.5 |
| Luggage | do. | 4.5 |
| Electrical appliances | do. | 12.8 |
| Photographic apparatus | do. | 12.4 |
| Electric signs | do. | 2.7 |
| Business and mine machines | do. | 21.0 |
| Rubber articles | do. | 21.8 |
| Washing machines (commercial) | do. | 1.1 |
| Optical equipment | do. | 1.0 |
| Soft drinks | Various rates on bottled soft drinks, finished or fountain syrups and carbonic acid gas. | 22.0 |
| Jewelry, etc. | 10 percent of retailers' sales price. | 86.3 |
| Furs | do. | 24.7 |
| Toilet preparations | 10 percent of retailers' sales price. | 19.7 |
| Total manufacturers' and retailers' excise taxes | | 514.9 |
| Miscellaneous taxes: | | |
| Admissions | Reduce exemption to 9 cents and eliminate certain present law exemptions. Exempt service men in uniform when admitted free, or at reduced rates on reduced admission charge. | 60.0 |
| Casinos, roof gardens, etc. | 8 percent of total bill. | 2.0 |
| Club dues | Reduce exemption to \$10 and tax certain privilege fees. | 2.8 |

¹ Full year effect. Estimates for corporation and individual income taxes and the gift tax are based on income levels estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.

² Excluding nonrecurring floor stocks taxes collectible only in fiscal year 1942—distilled spirits, \$38.0 million; wines, \$1.0 million; tires and tubes, \$6.7 million.

Estimated increase or decrease (-) in revenue yield due to revenue bill of 1941—Con.

| Tax | Proposed change | Estimated increase or decrease (-) over present law |
|--|---|---|
| Miscellaneous internal revenue—Con. | | Millions of dollars |
| Miscellaneous taxes—Con. | | |
| Sale-deposit boxes | Increase rate from 11 percent to 20 percent | 1.7 |
| Telephones, telegraph, radio, and cable facilities, leased wires, etc. | On dispatches, messages, or conversations for which the charge is 25 cents or more, 5 cents for each 20 cents or fraction thereof; revise definition of leased wires. | 26.6 |
| Telephone bill | 8 percent of total bill excluding message subject to tax above. | 43.4 |
| Transportation of persons | 5 percent of amount paid; 25-cent exemption. | 36.9 |
| Use of motor vehicles and boats | \$5 per motor vehicle or boat per year with graduated rates on yachts. | 100.2 |
| Bowling alleys, and billiard and pool tables | \$15 per alley, billiard or pool table per year | 2.4 |
| Coin-operated amusement and gaming devices | \$25 per device per year | 8.9 |
| Radio broadcasting | Various rates based on amount of net time sales; stations with net time sales of less than \$100,000 per year exempt. | 12.4 |
| Outdoor advertising | Various rates determined by size of sign | 7.0 |
| Total miscellaneous taxes | | 305.2 |
| Total excise and miscellaneous taxes | | 890.1 |
| Total miscellaneous internal revenue | | 1,064.3 |
| Total | | 3,029.2 |

SUMMARY OF PRINCIPAL FEATURES

I. INDIVIDUAL INCOME TAX

1. TAXABLE YEARS

The changes made by the bill with respect to the individual income tax are effective with respect to taxable years beginning after December 31, 1940.

2. DEFENSE TAX MADE PERMANENT

The 10-percent defense tax, imposed for 5 years by section 15 of the Internal Revenue Code, is made permanent.

3. PERSONAL EXEMPTIONS AND CREDITS FOR DEPENDENTS

Under existing law a person though unmarried who supports in one household one or more other persons, actually dependent upon him for their chief support, is deemed to be the head of a family and is allowed an exemption of \$2,000, plus \$400 for each person dependent upon him who is less than 18 years of age or is incapable of self-support. It is felt that such person should not be allowed to obtain this double benefit on account of a dependent, namely \$1,200 (the difference between a single person's exemption of \$800 and that of \$2,000 for the head of a family), plus \$400, or \$1,600 in all.

Consequently, the bill provides that a dependent counted to constitute an individual as the head of a family cannot be counted again as a dependent for purposes of the \$400 credit.

The individual income-tax exemptions were reduced last year from \$1,000 to \$800 for a single person and from \$2,500 to \$2,000 for a married couple. A married person's exemption is now as low as it has ever been since the Federal income tax was adopted in 1913. During the period 1917-20 it was \$2,000. A single person's exemption is now lower than it has ever been. During the periods 1917-24 and 1932-39 it was \$1,000. The present exemptions on a weekly basis are \$15 for a single person and \$38 for a married person. Your committee feels that a further reduction in these exemptions is not warranted at this time, especially in view of the rising cost of living.

It should be remembered that because an individual is exempt from the individual income tax does not mean that he is free from taxation. The revenue system includes many taxes which directly and indirectly burden these lower income classes. In this connection it is important to consider, not the Federal taxes alone, but also the State and local taxes which on the whole are less progressive than the taxes imposed by the Federal Government. Furthermore, several of the excise taxes will in substantial part fall upon individuals not reached by the income tax. Moreover, the proposed use tax on automobiles will result in collecting at least \$5 from many individuals who are not subject to the income tax. Statistics indicate that over 50 percent of the passenger automobiles are owned by individuals with incomes of \$2,000 or less and over 18 percent are owned by individuals with incomes of \$1,000 or less.

All the income taxpayers have had their income taxes increased by increases in rates. A reduction in the exemptions would impose upon this same group still further income-tax burdens. The additional revenue resulting from reduced exemptions comes almost entirely, not from new taxpayers, but from individuals already subject to the income tax.

It should be noted that while the personal exemptions are not decreased by this bill, a large number of persons will pay income taxes under it who do not pay under present law. The amount of income exempt from taxation would, in effect, be lowered under the surtax rate schedule adopted by the committee since the surtax is applicable to the first dollar of income after personal exemption and credit for dependents. The first \$88 above exemptions of a single person without dependents and the first \$222 above exemptions of a married person without dependents, now free from the normal tax on account of the earned income credit, become subject to surtax.

4. TREATMENT OF INCOME FROM NON-INTEREST-BEARING SECURITIES SOLD AT A DISCOUNT

Under its program for financing the national-defense expenditures, the Treasury Department is offering several types of securities which are noninterest bearing but are issued at a discount. These securities are redeemable at a fixed amount, increasing at stated intervals. Taxpayers on the accrual basis report and pay tax on this income as it accrues. The bill extends to taxpayers on the cash basis the privilege of electing this same treatment. If they so elect, the income will be reported gradually as it accrues and will not all fall into the taxable year in which the security is redeemed, as would be the case under existing law.

S. INDIVIDUAL SURTAX

While no change is made in the individual normal-tax rate, the surtax rates are increased substantially. In addition, the surtax rates apply to the entire surtax net income, the first \$4,000 of which is free from surtax under the present law. In order clearly to demonstrate the effect of this change, an example showing the computation of the tax under the rates of the bill is given. It may also be of value to show the determination of net income, surtax net income, and normal-tax net income.

A married man with one dependent, having the indicated items of income and deductions, would compute his tax base and the tax thereon as follows:

| | | | |
|---|---------|----------|-------|
| Items of gross income | | | |
| Salary | \$7,000 | | |
| Dividends | 3,300 | | |
| Partially tax-exempt interest | 300 | | |
| Other interest (fully taxable) | 500 | | |
| Gross income | | \$11,000 | |
| Items of deductions: | | | |
| Taxes | \$600 | | |
| Interest | 100 | | |
| Losses (not capital losses) | 775 | | |
| Contributions | 125 | | |
| Total deductions | | 1,600 | |
| Net income | | 9,400 | |
| Credits against net income for surtax purposes: | | | |
| Personal exemption | \$2,000 | | |
| Credit for dependent | 400 | | |
| | | 2,400 | |
| Surtax net income | | 7,000 | |
| Surtax | | | \$630 |
| Net income | | \$9,400 | |
| Credits against net income for normal tax purposes: | | | |
| Personal exemption | \$2,000 | | |
| Credit for dependent | 400 | | |
| Earned income credit (10 percent of earned income or net income, whichever is less) | 700 | | |
| Partially tax-exempt interest | 300 | | |
| | | 3,400 | |
| Normal tax net income | | 6,000 | |
| Normal tax (4 percent of \$6,000) | | | 240 |
| Total normal and surtax | | | \$70 |
| 10 percent defense tax | | | 87 |
| Total normal, surtax and defense tax | | | \$57 |

It will be noted that the amount subject to surtax is greater than that subject to normal tax. This is true since the credits against net income for normal-tax purposes are greater than those allowed for surtax purposes. The bill makes no change in this respect, but it does apply the surtax to the entire surtax net income while under existing law the first \$4,000 is not taxed.

The following table shows a comparison of the proposed surtax rates and cumulative surtax with those under existing law:

| Surtax net income classes | Surtax rates | | Cumulative surtax on higher amount shown in bracket | |
|---------------------------|--------------|--------------|---|--------------|
| | Present law | Proposed law | Present law | Proposed law |
| | Percent | Percent | | |
| \$0.00 to \$2,000 | 4 | 5 | | \$100 |
| \$2,000 to \$4,000 | 8 | 8 | | 200 |
| \$4,000 to \$6,000 | 11 | 11 | 850 | 450 |
| \$6,000 to \$8,000 | 15 | 15 | 200 | 750 |
| \$8,000 to \$10,000 | 18 | 18 | 300 | 1,150 |
| \$10,000 to \$12,000 | 22 | 22 | 500 | 1,650 |
| \$12,000 to \$14,000 | 25 | 25 | 800 | 2,100 |
| \$14,000 to \$16,000 | 28 | 28 | 1,100 | 2,600 |
| \$16,000 to \$18,000 | 31 | 31 | 1,450 | 3,200 |
| \$18,000 to \$20,000 | 33 | 33 | 1,850 | 3,900 |
| \$20,000 to \$22,000 | 35 | 35 | 2,300 | 4,600 |
| \$22,000 to \$24,000 | 37 | 37 | 2,800 | 5,400 |
| \$24,000 to \$26,000 | 39 | 39 | 3,350 | 6,300 |
| \$26,000 to \$28,000 | 42 | 42 | 3,950 | 7,300 |
| \$28,000 to \$30,000 | 45 | 45 | 4,600 | 8,400 |
| \$30,000 to \$32,000 | 48 | 48 | 5,300 | 9,600 |
| \$32,000 to \$34,000 | 50 | 50 | 6,050 | 10,900 |
| \$34,000 to \$36,000 | 53 | 53 | 6,850 | 12,300 |
| \$36,000 to \$38,000 | 55 | 55 | 7,700 | 13,800 |
| \$38,000 to \$40,000 | 57 | 57 | 8,600 | 15,400 |
| \$40,000 to \$42,000 | 59 | 59 | 9,550 | 17,100 |
| \$42,000 to \$44,000 | 61 | 61 | 10,550 | 18,900 |
| \$44,000 to \$46,000 | 62 | 62 | 11,600 | 20,800 |
| \$46,000 to \$48,000 | 63 | 63 | 12,700 | 22,800 |
| \$48,000 to \$50,000 | 64 | 64 | 13,850 | 24,900 |
| \$50,000 to \$52,000 | 65 | 65 | 15,050 | 27,100 |
| \$52,000 to \$54,000 | 66 | 66 | 16,300 | 29,400 |
| \$54,000 to \$56,000 | 67 | 67 | 17,600 | 31,800 |
| \$56,000 to \$58,000 | 68 | 68 | 18,950 | 34,300 |
| \$58,000 to \$60,000 | 69 | 69 | 20,350 | 36,900 |
| \$60,000 to \$62,000 | 70 | 70 | 21,800 | 39,600 |
| \$62,000 to \$64,000 | 71 | 71 | 23,300 | 42,400 |
| \$64,000 to \$66,000 | 72 | 72 | 24,850 | 45,300 |
| \$66,000 to \$68,000 | 73 | 73 | 26,450 | 48,300 |
| \$68,000 to \$70,000 | 74 | 74 | 28,100 | 51,400 |
| \$70,000 to \$72,000 | 75 | 75 | 29,800 | 54,600 |
| \$72,000 to \$74,000 | 76 | 76 | 31,550 | 57,900 |
| \$74,000 to \$76,000 | 77 | 77 | 33,350 | 61,300 |
| \$76,000 to \$78,000 | 78 | 78 | 35,200 | 64,800 |
| \$78,000 to \$80,000 | 79 | 79 | 37,100 | 68,400 |
| \$80,000 to \$82,000 | 80 | 80 | 39,050 | 72,100 |
| \$82,000 to \$84,000 | 81 | 81 | 41,050 | 75,900 |
| \$84,000 to \$86,000 | 82 | 82 | 43,100 | 80,000 |
| \$86,000 to \$88,000 | 83 | 83 | 45,200 | 84,200 |
| \$88,000 to \$90,000 | 84 | 84 | 47,350 | 88,500 |
| \$90,000 to \$92,000 | 85 | 85 | 49,550 | 92,900 |
| \$92,000 to \$94,000 | 86 | 86 | 51,800 | 97,400 |
| \$94,000 to \$96,000 | 87 | 87 | 54,100 | 102,000 |
| \$96,000 to \$98,000 | 88 | 88 | 56,450 | 106,700 |
| \$98,000 to \$100,000 | 89 | 89 | 58,850 | 111,500 |
| Over \$100,000 | 90 | 90 | 61,300 | 116,400 |

The following tables compare the tax payable by individuals of designated status on specified net incomes, under existing law and under the bill; also the effective rates of tax, expressed as percentages of tax to net income:

7. JOINT RETURN OF HUSBAND AND WIFE LIVING TOGETHER

The Provision

The bill as reported by your committee requires husband and wife living together at any time during their joint taxable year to report their income in a single joint return and compute the tax on their aggregate income. A husband and wife are considered living together in any case where they have not separated with intent to abandon permanently the marital relationship, whether or not the husband makes his home at one place and the wife at another place. If one of the spouses has no income, deduction, or credit appearing on the return, such spouse is not required to sign or swear to such return. In the case of husband and wife making a joint return, the net income of each up to and including \$3,000 shall in every case be considered earned income and in the case of each the compensation for services actually rendered may be considered earned income to the extent of \$14,000. The earned net income of each is to be added together and 10 percent of such earned net income but not in excess of 10 percent of the aggregate net income is allowable as a credit for the purposes of the normal tax. Either spouse may elect to have the liability for the tax apportioned between them in a ratio which a tax computed upon their separate income bears to the sum of such taxes computed upon their separate incomes.

In computing the separate tax for the purpose of the allocation, each spouse is deemed to have a personal exemption of \$1,000 and the credit for dependents is to be computed as if husband and wife were single persons. The following example will show how the section operates:

| | |
|---|-------------------|
| Husband's gross income..... | \$11,000.00 |
| Wife's gross income..... | 114,000.00 |
| Total gross income..... | 125,000.00 |
| Total deductions..... | 15,000.00 |
| Combined net income..... | 110,000.00 |
| Credits: | |
| Earned income..... | \$2,400.00 |
| Personal exemption..... | 2,000.00 |
| Total credits..... | 4,400.00 |
| Net income in excess of credits for normal tax purpose..... | 105,600.00 |
| Normal tax at 4 percent..... | 4,224.00 |
| Surtax on \$108,000..... | 50,780.00 |
| Total normal and surtax..... | 55,004.00 |
| Plus defense tax, 10 percent of (\$54,996) difference between net income and total normal and surtax, or..... | 5,499.60 |
| Total tax under committee bill..... | 60,503.60 |
| Allocation of tax liability: | |
| Husband's tax computed separately: | |
| Gross income..... | 11,000.00 |
| Deductions..... | 1,000.00 |
| Net income..... | 10,000.00 |

Allocation of tax liability—Continued.
Husband's tax computed separately—Continued.

| | |
|--|-------------------|
| Credits: | |
| Earned income..... | \$1,000.00 |
| Personal exemption..... | 1,000.00 |
| Total credits..... | \$2,000.00 |
| Net income in excess of credits for normal tax purpose..... | 8,000.00 |
| Normal tax at 4 percent..... | 320.00 |
| Surtax on \$9,000..... | 970.00 |
| Total normal and surtax..... | 1,290.00 |
| Plus 10-percent defense tax..... | 129.00 |
| Total tax, husband computed separately..... | 1,419.00 |
| Wife's tax computed separately: | |
| Gross income..... | 114,000.00 |
| Deductions..... | 14,000.00 |
| Net income..... | 100,000.00 |
| Credits: | |
| Earned income..... | \$1,400.00 |
| Personal exemption..... | 1,000.00 |
| Total credits..... | 2,400.00 |
| Net income in excess of credits for normal tax purpose..... | 97,600.00 |
| Normal tax at 4 percent..... | 3,904.00 |
| Surtax on \$99,000..... | 45,210.00 |
| Total normal and surtax..... | 49,114.00 |
| Plus 10 percent defense tax..... | 4,911.40 |
| Total tax, wife computed separately..... | 54,025.40 |
| Combined tax of husband and wife computed separately..... | 55,444.40 |
| Percent of combined tax (separate returns): | |
| Husband, 2.559 percent. | |
| Wife, 97.441 percent. | |
| Husband's and wife's tax liability under joint return: | |
| Husband, 2.559 percent of \$60,403.60..... | 1,548.29 |
| Wife, 97.441 percent of \$60,403.60..... | 58,955.31 |
| Total tax under joint return..... | 60,503.60 |

The joint taxable year does not include the taxable year in which the marriage took place. For example, if the spouses filed income tax returns on a calendar-year basis and married in 1941, a joint return would not be required until the calendar year 1942. The joint taxable year is automatically terminated upon divorce or legal separation. In the case of death, the surviving spouse and the decedent's personal representative are required to file a joint return for the full taxable year in which the death occurred.

Inequities of the present law

(1) *Entire income earned by one spouse.*—Under the present law, if the entire income is earned by the husband, the family is required to pay a greater tax than if the wife had contributed to the family income. For example, if the husband and wife had an income of \$10,000

per year but it was all earned by the husband, the tax under the present law with the proposed rates in the bill will amount to \$1,166. On the other hand, if \$5,000 of the income was contributed by the wife, the total tax to be paid by the family under the present law with the proposed rates will be \$880, or \$440 by each spouse. These two families have exactly the same income, yet one will pay \$286 more than the other. Since in most cases, the family income is contributed by the husband, the present law operates unjustly against the great majority of families in the country. The man whose wife has a separate income is in a better position than the man whose wife has no separate income. In the former case, he does not have to set aside as much of his earnings to provide for his wife as in the latter case, yet the existing law actually favors the more fortunate family.

(2) *Families living in different sections of the country.*—The present law permits a family living in one section of the country to pay a lesser tax than a family living in another section of the country. For example, if the husband is a resident of California and earns a salary of \$10,000 a year, this salary is divided equally between husband and wife for income-tax purposes. On the other hand, if the husband was living in New York or some other non-community-property State, he is required to report his entire salary as his own for Federal-income tax purposes. The husband in the non-community-property State has no means of mitigating this burden, for the reason that the Supreme Court has held (*Lucas v. Earl*, 281 U. S. 111) that an assignment of income for personal services is not recognized for Federal income-tax purposes. In commenting upon this inequity, Mark Graves, Commissioner of Taxation and Finance, State of New York, stated in a letter to Congressman Reed, of New York, inserted in the joint hearings on tax evasion and avoidance, 1937, page 37:

A family living in a non-community-property State, having an income of a certain size, should, in all fairness, contribute as much to the support of the Federal Government as does a like family with the same income in any other State.

(3) *Family receiving entire income from earnings.*—The present law also discriminates against a family living in a non-community-property State receiving all or the greater part of the income from earnings as contrasted with a family receiving all or the greater part of the income from investments. Husbands and wives frequently transfer property between each other, thus splitting up their income for tax purposes. As previously pointed out, an assignment of earned income is not recognized for Federal income-tax purposes.

(4) *Option to file separate returns.*—The present law by permitting husbands and wives to file separate returns or joint returns at their own option always operates to the disadvantage of the Government and in favor of the taxpayers. If each has income of any considerable size, each will ordinarily make a separate return, in order to reduce his income tax. If the husband and wife can so arrange their affairs that the wife is in receipt of a portion of the income, income taxes can be considerably reduced, especially in the case of the larger taxpayers. The lawbooks are filled with cases where the husband and wife have split up their incomes for the purpose of avoiding the progressive income-tax schedule.

(5) *Family partnerships, gifts and trusts.*—Certain husbands and wives not only split their income through the creation of trusts, or gifts, but also through the use of family partnerships. There have been cases in which such partnerships have been recognized, even though the wife did not contribute either capital or services to the partnership. The purpose of many of these partnerships is to split the family income into two parts. The large amount of gifts made, even after the gift tax went into effect in 1932, also indicates the effort on the part of many wealthy spouses to reduce their income taxes through family transfers. The following, taken from the statistics of income for 1938 and 1939, shows the large number of gifts transferred after the gift tax enacted in 1932 went into effect:

| Year: | Total gifts |
|-----------|---------------|
| 1932..... | \$31,382,000 |
| 1933..... | 241,008,000 |
| 1934..... | 888,752,000 |
| 1935..... | 2,130,514,000 |
| 1936..... | 482,783,000 |
| 1937..... | 568,109,000 |
| 1938..... | 396,773,000 |
| | 4,792,329,000 |

It will be noted that during this 7-year period, the total gifts made amounted to \$4,792,329,000. While there is no break-down of the number of these gifts, it seems clear that a large part of them were family transfers. There were undoubtedly also a great many gifts made during the period from the enactment of the first income tax in 1913 to June 2, 1932, the date of the present gift tax act. During this period, the only gift tax in effect was one with very slight rates applicable to the year 1924.

Advantages of the committee proposal

It is the opinion of your committee that division of income between husband and wife as a tax-saving device has no equitable basis. It results in an unequal distribution of the tax burden as between families similarly situated. The joint return proposal will overcome the inequities referred to and will result in a more equitable distribution of the tax burden. It appears proper to treat husbands and wives as taxable units for purposes of the Federal income tax. The proposal has the following virtues:

(1) It prevents the income-tax law from operating unfairly with respect to a family where all the income is received by one spouse as compared with a family where the income is received by both.

(2) It removes the discrimination under the present law against earned income in favor of investment income.

(3) It treats a family living in one part of the United States in the same manner as a family living in another part of the United States, thus removing the discrimination at present existing in favor of those residing in community-property States.

(4) It does not invade the rights of a married woman. It treats her exactly in the same manner as her husband for Federal tax purposes. It merely regards the marital community as the taxable unit instead of the individuals who make it up.

This table compares the tax under the rates in the bill on the income of a family filing a joint return, all of the income of which is earned by the husband, with the tax under the rates in the bill on the income of a family filing separate returns, where some of the income is contributed by the wife.

The following table shows the number of married couples (husbands and wives living together) filing income tax returns for 1938, the number filing joint returns, the number filing separate returns, and the percentage of those filing separate returns to the total. It should be pointed out that this action was voluntary; married people being permitted to file either joint or separate returns, as they chose.

TABLE II

| State | Number of married couples | | | Percentage of separate returns to total |
|----------------------|---------------------------|--------------------------------------|----------------------|---|
| | Filing joint returns | Filing separate returns ¹ | Total filing returns | |
| Alabama | 21,078 | 768 | 21,846 | 3.52 |
| Arizona | 9,849 | 1,261 | 11,110 | 11.35 |
| Arkansas | 12,368 | 383 | 12,751 | 3.00 |
| California | 213,069 | 28,580 | 241,649 | 11.82 |
| Colorado | 21,059 | 199 | 21,258 | 0.92 |
| Connecticut | 44,873 | 3,532 | 48,405 | 7.29 |
| Delaware | 7,482 | 664 | 8,146 | 8.15 |
| District of Columbia | 41,170 | 2,402 | 43,572 | 5.53 |
| Florida | 20,833 | 2,133 | 22,966 | 9.29 |
| Georgia | 21,947 | 1,374 | 23,321 | 5.89 |
| Idaho | 8,783 | 506 | 9,289 | 5.45 |
| Illinois | 5,887 | 836 | 6,723 | 12.29 |
| Indiana | 228,240 | 10,273 | 238,513 | 4.31 |
| Iowa | 56,835 | 1,083 | 57,918 | 1.87 |
| Kansas | 89,730 | 1,225 | 90,955 | 1.35 |
| Kentucky | 25,450 | 1,062 | 26,512 | 3.99 |
| Louisiana | 24,529 | 1,347 | 25,876 | 5.21 |
| Maine | 28,054 | 6,196 | 34,250 | 17.79 |
| Maryland | 12,051 | 652 | 12,703 | 5.13 |
| Massachusetts | 64,307 | 3,173 | 67,480 | 4.70 |
| Michigan | 112,838 | 8,599 | 121,437 | 7.08 |
| Minnesota | 132,080 | 4,021 | 136,101 | 2.95 |
| Mississippi | 50,283 | 2,032 | 52,315 | 3.89 |
| Missouri | 11,494 | 462 | 11,956 | 3.86 |
| Montana | 69,004 | 3,033 | 72,037 | 4.21 |
| Nebraska | 13,035 | 273 | 13,308 | 2.05 |
| Nevada | 21,627 | 695 | 22,322 | 3.10 |
| New Hampshire | 3,878 | 459 | 4,337 | 10.56 |
| New Jersey | 3,982 | 540 | 4,522 | 11.94 |
| New Mexico | 130,331 | 5,740 | 136,071 | 4.21 |
| New York | 6,823 | 930 | 7,753 | 12.12 |
| North Carolina | 485,084 | 26,977 | 512,061 | 5.27 |
| North Dakota | 25,727 | 1,498 | 27,225 | 5.50 |
| Ohio | 6,573 | 106 | 6,679 | 1.59 |
| Oklahoma | 160,061 | 6,292 | 166,353 | 3.78 |
| Oregon | 32,542 | 1,680 | 34,222 | 4.91 |
| Pennsylvania | 24,931 | 804 | 25,735 | 3.12 |
| Rhode Island | 261,722 | 9,518 | 271,240 | 3.51 |
| South Carolina | 16,418 | 873 | 17,291 | 5.04 |
| South Dakota | 12,860 | 539 | 13,399 | 4.01 |
| Tennessee | 6,462 | 149 | 6,611 | 2.27 |
| Texas | 26,734 | 1,097 | 27,831 | 3.94 |
| Utah | 96,248 | 17,267 | 113,515 | 14.92 |
| Vermont | 10,702 | 361 | 11,063 | 3.26 |
| Virginia | 5,643 | 231 | 5,874 | 3.93 |
| Washington | 30,731 | 1,377 | 32,108 | 4.29 |
| West Virginia | 43,426 | 5,043 | 48,469 | 10.41 |
| Wisconsin | 25,657 | 880 | 26,537 | 3.32 |
| Wyoming | 66,121 | 3,023 | 69,144 | 4.37 |
| Total | 2,000,029 | 173,598 | 2,173,627 | 8.00 |

¹ Estimated on basis of number of separate returns filed by husbands and wives living together, as shown by Statistics of Income, 1939.

² Includes Alaska.

Thus, of 3,041,624 married couples filing income-tax returns, 2,866,026, or more than 94 percent, chose voluntarily to file joint returns, and only 175,598, or 5.77 percent, elected to file separate returns.

The following table demonstrates the tax burden the 94 percent would be obliged to assume in order to make up the revenue lost by allowing the other 6 percent to file separate returns:

TABLE III.—Married man—no dependents

| Net income | Tax under plan A | Tax under the committee surtax rates (without the application of the mandatory joint return provision) if the— | |
|------------|------------------|--|--|
| | | Income is all the husband's | Income is divided 50-50 between husband and wife |
| | (A) | (B) | (C) |
| \$2,000 | \$71.00 | \$38.00 | \$38.00 |
| 3,000 | 131.90 | 63.90 | 63.90 |
| 4,000 | 212.40 | 120.40 | 120.40 |
| 5,000 | 306.00 | 158.00 | 158.00 |
| 6,000 | 402.00 | 202.00 | 202.00 |
| 7,000 | 501.00 | 251.00 | 251.00 |
| 8,000 | 602.00 | 302.00 | 302.00 |
| 9,000 | 705.00 | 355.00 | 355.00 |
| 10,000 | 810.00 | 410.00 | 410.00 |
| 11,000 | 917.00 | 467.00 | 467.00 |
| 12,000 | 1,026.00 | 526.00 | 526.00 |
| 13,000 | 1,137.00 | 587.00 | 587.00 |
| 14,000 | 1,250.00 | 650.00 | 650.00 |
| 15,000 | 1,365.00 | 715.00 | 715.00 |
| 16,000 | 1,482.00 | 782.00 | 782.00 |
| 17,000 | 1,601.00 | 851.00 | 851.00 |
| 18,000 | 1,722.00 | 922.00 | 922.00 |
| 19,000 | 1,845.00 | 995.00 | 995.00 |
| 20,000 | 1,970.00 | 1,070.00 | 1,070.00 |
| 21,000 | 2,097.00 | 1,147.00 | 1,147.00 |
| 22,000 | 2,226.00 | 1,226.00 | 1,226.00 |
| 23,000 | 2,357.00 | 1,307.00 | 1,307.00 |
| 24,000 | 2,490.00 | 1,390.00 | 1,390.00 |
| 25,000 | 2,625.00 | 1,475.00 | 1,475.00 |
| 26,000 | 2,762.00 | 1,562.00 | 1,562.00 |
| 27,000 | 2,901.00 | 1,651.00 | 1,651.00 |
| 28,000 | 3,042.00 | 1,742.00 | 1,742.00 |
| 29,000 | 3,185.00 | 1,835.00 | 1,835.00 |
| 30,000 | 3,330.00 | 1,930.00 | 1,930.00 |
| 31,000 | 3,477.00 | 2,027.00 | 2,027.00 |
| 32,000 | 3,626.00 | 2,126.00 | 2,126.00 |
| 33,000 | 3,777.00 | 2,227.00 | 2,227.00 |
| 34,000 | 3,930.00 | 2,330.00 | 2,330.00 |
| 35,000 | 4,085.00 | 2,435.00 | 2,435.00 |
| 36,000 | 4,242.00 | 2,542.00 | 2,542.00 |
| 37,000 | 4,401.00 | 2,651.00 | 2,651.00 |
| 38,000 | 4,562.00 | 2,762.00 | 2,762.00 |
| 39,000 | 4,725.00 | 2,875.00 | 2,875.00 |
| 40,000 | 4,890.00 | 2,990.00 | 2,990.00 |
| 41,000 | 5,057.00 | 3,107.00 | 3,107.00 |
| 42,000 | 5,226.00 | 3,226.00 | 3,226.00 |
| 43,000 | 5,397.00 | 3,347.00 | 3,347.00 |
| 44,000 | 5,570.00 | 3,470.00 | 3,470.00 |
| 45,000 | 5,745.00 | 3,595.00 | 3,595.00 |
| 46,000 | 5,922.00 | 3,722.00 | 3,722.00 |
| 47,000 | 6,101.00 | 3,851.00 | 3,851.00 |
| 48,000 | 6,282.00 | 3,982.00 | 3,982.00 |
| 49,000 | 6,465.00 | 4,115.00 | 4,115.00 |
| 50,000 | 6,650.00 | 4,250.00 | 4,250.00 |
| 51,000 | 6,837.00 | 4,387.00 | 4,387.00 |
| 52,000 | 7,026.00 | 4,526.00 | 4,526.00 |
| 53,000 | 7,217.00 | 4,667.00 | 4,667.00 |
| 54,000 | 7,410.00 | 4,810.00 | 4,810.00 |
| 55,000 | 7,605.00 | 4,955.00 | 4,955.00 |
| 56,000 | 7,802.00 | 5,102.00 | 5,102.00 |
| 57,000 | 8,001.00 | 5,251.00 | 5,251.00 |
| 58,000 | 8,202.00 | 5,402.00 | 5,402.00 |
| 59,000 | 8,405.00 | 5,555.00 | 5,555.00 |
| 60,000 | 8,610.00 | 5,710.00 | 5,710.00 |
| 61,000 | 8,817.00 | 5,867.00 | 5,867.00 |
| 62,000 | 9,026.00 | 6,026.00 | 6,026.00 |
| 63,000 | 9,237.00 | 6,187.00 | 6,187.00 |
| 64,000 | 9,450.00 | 6,350.00 | 6,350.00 |
| 65,000 | 9,665.00 | 6,515.00 | 6,515.00 |
| 66,000 | 9,882.00 | 6,682.00 | 6,682.00 |
| 67,000 | 10,101.00 | 6,851.00 | 6,851.00 |
| 68,000 | 10,322.00 | 7,022.00 | 7,022.00 |
| 69,000 | 10,545.00 | 7,195.00 | 7,195.00 |
| 70,000 | 10,770.00 | 7,370.00 | 7,370.00 |
| 71,000 | 11,000.00 | 7,550.00 | 7,550.00 |
| 72,000 | 11,230.00 | 7,730.00 | 7,730.00 |
| 73,000 | 11,465.00 | 7,915.00 | 7,915.00 |
| 74,000 | 11,705.00 | 8,105.00 | 8,105.00 |
| 75,000 | 11,950.00 | 8,300.00 | 8,300.00 |
| 76,000 | 12,200.00 | 8,500.00 | 8,500.00 |
| 77,000 | 12,455.00 | 8,705.00 | 8,705.00 |
| 78,000 | 12,715.00 | 8,915.00 | 8,915.00 |
| 79,000 | 12,980.00 | 9,130.00 | 9,130.00 |
| 80,000 | 13,250.00 | 9,350.00 | 9,350.00 |
| 81,000 | 13,525.00 | 9,575.00 | 9,575.00 |
| 82,000 | 13,805.00 | 9,805.00 | 9,805.00 |
| 83,000 | 14,090.00 | 10,040.00 | 10,040.00 |
| 84,000 | 14,380.00 | 10,280.00 | 10,280.00 |
| 85,000 | 14,675.00 | 10,525.00 | 10,525.00 |
| 86,000 | 14,975.00 | 10,775.00 | 10,775.00 |
| 87,000 | 15,280.00 | 11,030.00 | 11,030.00 |
| 88,000 | 15,590.00 | 11,290.00 | 11,290.00 |
| 89,000 | 15,905.00 | 11,555.00 | 11,555.00 |
| 90,000 | 16,225.00 | 11,825.00 | 11,825.00 |
| 91,000 | 16,550.00 | 12,100.00 | 12,100.00 |
| 92,000 | 16,880.00 | 12,380.00 | 12,380.00 |
| 93,000 | 17,215.00 | 12,665.00 | 12,665.00 |
| 94,000 | 17,555.00 | 12,955.00 | 12,955.00 |
| 95,000 | 17,900.00 | 13,250.00 | 13,250.00 |
| 96,000 | 18,250.00 | 13,550.00 | 13,550.00 |
| 97,000 | 18,605.00 | 13,855.00 | 13,855.00 |
| 98,000 | 18,965.00 | 14,165.00 | 14,165.00 |
| 99,000 | 19,330.00 | 14,480.00 | 14,480.00 |
| 100,000 | 19,700.00 | 14,800.00 | 14,800.00 |

In column (c), Mr. and Mrs. Jones each receive one-half of the income shown. In column (b) Mr. Smith receives the entire income, Mrs. Smith having no income of her own. It would be necessary to increase the tax on Mr. Smith from the amount of tax shown in column (b) to the amount shown in column (a) to secure the same revenue that would be produced by treating Mr. and Mrs. Jones like Mr. and Mrs. Smith.

Constitutionality of proposal.

It seems clear that Congress has the constitutional power to enact this proposed amendment. Generically an income tax is classed as an excise (*Brushaber v. Union Pac. R. Co.*, 240 U. S. 1). The only express constitutional limitation upon such taxes is that they be geographically uniform. The only other possible limitations upon this kind of exercise of the taxing power are those imposed by the broad outlines of the due process clause of the fifth amendment. Obviously the proposed amendment does not run counter to the constitutional mandate of uniformity. With respect to the possible application of the due process clause, the problem revolves essentially around the power of Congress to classify income for purposes of taxation. May Congress place married persons who live together in a

separate class and, by reason of the fact that each one of those persons has a separate income, require each of them to pay a higher tax upon his or her income than he or she would have been required to pay had they lived separately?

The Supreme Court has indicated the scope of the power of Congress in this regard in the following language:

In levying excise taxes the most ample authority has been recognized from the beginning to select some and omit other possible subjects of taxation, to select one class and omit another, to tax one class of property and to forbear to tax another (*Flint v. Stone Tracy Co.*, 220 U. S. 107, 158).

Applying this principle specifically to income taxes, it has always been recognized that Congress has plenary authority to classify income for purposes of taxation, and in fact Congress has frequently exercised this authority. For example, in *Flint v. Stone Tracy Co.*, *supra*, the Court sustained the power of Congress to levy a tax on income derived from doing business in corporate form although persons who derived income from exactly the same kind of business were not subject to tax if they did not carry on that business in the corporate form. Under the Revenue Act of 1913, a single person was allowed an exemption of \$3,000 but married persons living together were entitled to an exemption of only \$4,000. If the husband and wife were separated and living apart from each other, each was entitled to an exemption of \$3,000. It will be noted that under this provision, a husband and wife living together were entitled to an aggregate exemption of only \$4,000, regardless of whether they filed joint or separate returns. On the other hand, a husband and wife not living together were entitled to the exemption allowed two single persons, or \$6,000 in the aggregate. It was contended in the *Brushaber case*, *supra*, that "want of due process" arises from the provisions of the act allowing a deduction for the purpose of ascertaining the taxable income of stated amounts on the ground that the provisions discriminate between married and single people and discriminates between husbands and wives who are living together and those who are not. In denying this contention, the Court said:

* * * So far as the due process clause of the fifth amendment is relied upon, it suffices to say that there is no basis for such reliance since it is equally well settled that such clause is not a limitation upon the taxing power conferred upon Congress by the Constitution; in other words, that the Constitution does not conflict with itself by conferring upon the one hand a taxing power and taking the same power away on the other by the limitations of the due process clause (*Treat v. White*, 181 U. S. 264; *Palton v. Brady*, 184 U. S. 608; *McCray v. United States*, 195 U. S. 27, 61; *Flint v. Stone Tracy Co.*, *supra*; *Billings v. United States*, 232 U. S. 261, 282). And no change in the situation here would arise even if it be conceded, as we think it must be, that this doctrine would have no application in a case where although there was a seeming exercise of the taxing power, the act complained of was so arbitrary as to constrain to the conclusion that it was not the exertion of taxation but a confiscation of property, that is, a taking of the same in violation of the fifth amendment, or, what is equivalent thereto, was so wanting in basis for classification as to produce such a gross and patent inequality as to inevitably lead to the same conclusion. We say this because none of the propositions relied upon in the remotest degree present such questions. * * * In fact, comprehensively surveying all the contentions relied upon, aside from the erroneous construction of the amendment which we have previously disposed of, we cannot escape the conclusion that they all rest upon the mistaken theory that although there be differences between the subjects taxed, to differently tax them transcends the limit of taxation and amounts to a want of due process, and that where a tax levied is believed by one who resists its enforcement to be wanting in wisdom and to operate unjustly, from that fact in the nature of things there arises

a want of due process of law and a resulting authority in the judiciary to exceed its powers and correct what is assumed to be mistaken or unwieldy exertions by the legislative authority of its lawful powers, even although there be no semblance of warrant in the Constitution for so doing.

More recently the Court has sustained the power of Congress to classify income for the purposes of taxation in *United States v. Hudson* (299 U. S. 498), and in *Helvering v. Northwest Steel Mills* (311 U. S. 46). In the *Hudson case* the Court sustained a special income tax of 50 percent on the profits derived from the transfer of interests in silver bullion. In the *Northwest Steel Mills case* the Court sustained the surtax imposed upon undistributed corporate earnings by the Revenue Act of 1936. A still more striking example is the recent tax on unjust enrichment, imposed by the Revenue Act of 1936, which levies a tax of 80 percent upon special kinds of income. These illustrations amply demonstrate the power of Congress to classify income for taxation purposes.

Coming down to the classification made by the proposed amendments, it should be noted that the proposed levy does not change the fundamental liabilities of the parties. Each spouse is required to pay a tax only upon his or her separate income. There is no imposition of a liability upon one person for the taxes payable by another; there is only an increase of tax upon the individual income of each spouse. Primarily a tax is a forced contribution from the members of a society to provide the necessary funds for the functioning of that society as an integrated unit. In levying a graduated income tax, Congress has given recognition to the principle that these forced exactions should be levied upon various individuals with reference to their ability to pay. In pursuance of this principle, Congress has from the beginning recognized the family status as sufficiently distinct to permit of special treatment. Thus the provision of the present law which allows a man to take a deduction from his gross income for dependents is merely a recognition that this man's ability to pay is not as great as that of the man who has no dependents and therefore the tax liability of the former is reduced.

From 1913 on Congress has provided such special treatment for the head of a family. Conversely, if Congress in the exercise of its judgment concludes that a man's ability to pay a higher tax is materially affected by the fact that other people in his economic unit—the family—have incomes of their own, then it may take that factor into consideration in fixing the tax such a man should pay. Thus Congress has declared that deductions may not be taken for losses resulting from sales of property between members of the same family. See section 24 (a) (6) of the Revenue Acts of 1934 and 1936 and section 24 (b) (1) (A) of the Revenue Act of 1938. Clearly Congress is not limited in classification for the imposition of higher taxes to a consideration of the amount of income only. It has been demonstrated that it may consider as a factor in classification the particular kind of source of the income. It has also been shown that Congress has always considered as a factor in classification the ability of the taxpayer to pay as affected by his family obligations. A man whose wife enjoys an independent income may as a practical matter be thereby relieved from sufficient familial burdens to materially increase his ability to support the Government. For example a man in such a position is not under the same practical burden to provide insurance

for his wife in case of his death as the man whose wife has no independent income; or he may be relieved from the burden of providing her with numerous small luxuries from his own income if she is able to purchase those things for herself. It has often been said by the Supreme Court that taxation is essentially a practical matter. Congress may therefore take into consideration the practicalities of the situation and classify accordingly.

The only authority against the constitutionality of the proposed legislation is *Hooper v. Tax Commission* (284 U. S. 206). There the State of Wisconsin had provided for treatment of spouses who enjoyed independent incomes similar to that provided for in the proposed amendments. There was, however, one essential difference. Under the Wisconsin law each person whose income was included within the tax computation was liable for the entire tax. The Supreme Court held that this legislation was unconstitutional on the ground that each person was liable for the total tax and therefore A was required to pay a tax on B's income. But this conclusion was reached over the vigorous dissent of Mr. Justice Holmes, Mr. Justice Brandeis, and Mr. Justice Stone, and the views of the dissenters in the *Hooper case* have recently been measurably strengthened by the Supreme Court in a series of significant decisions. *Burnet v. Wells* (289 U. S. 670), *Helvering v. Clifford* (309 U. S. 331), see also *Helvering v. Horst* (311 U. S. 112), *Helvering v. Eubank* (311 U. S. 122), *Hornel v. Helvering* (85 L. Ed. 651), *Harrison v. Schaffner* (85 L. Ed. 694).

These cases conclusively demonstrate that the convenient phrase, "A may not be taxed on B's" income, is by no means an all-pervasive formula which will assist in the solution of tax problems. On the contrary A may be taxed on B's income if there are sufficient justificatory facts. The inquiry does not cease with a determination that A is being taxed on income which he did not receive, but must be further pursued with a view to discovering whether there are sufficient facts to so justify taxing A. The *Wells*, *Clifford*, *Horst*, *Eubank*, *Hornel*, and *Schaffner cases* are examples of situations in which the Supreme Court has concluded that A could be so taxed.

Thus in the *Wells case* the taxpayer had created certain irrevocable trusts the income from which was used to pay premiums on policies of insurance on his life. The Court held that the provision of the Revenue Act of 1924 which directed that such income be taxed to the grantor was constitutional, saying, through Mr. Justice Cardozo (pp. 677-679):

The controversy is one as to the boundaries of legislative power. It must be dealt with in a large way, as questions of due process always are, not narrowly or pedantically, in slavery to forms or phrases. "Taxation is not so much concerned with the refinements of title as it is with the actual command over the property taxed—the actual benefit for which the tax is paid" (*Corliss v. Bowers*, *supra*, p. 378; cf. *Burnet v. Guggenheim*, *supra*, p. 283). Refinements of title have at times supplied the rule when the question has been one of construction and nothing more; a question as to the meaning of a taxing act to be read in favor of the taxpayer. Refinements of title are without controlling force when a statute, unmistakable in meaning, is assailed by a taxpayer as overpassing the bounds of reason, an exercise by the lawmakers of arbitrary power. In such circumstances the question is no longer whether the concept of ownership reflected in the statute is to be squared with the concept embodied, more or less vaguely, in common-law traditions. The question is whether it is one that an enlightened legislator might act upon without affront to justice. Even administrative convenience, the practical necessities of an efficient system of taxation, will have heed and recognition

within reasonable limits (*Milliken v. United States*, 283 U. S. 15, 24, 25; *Reinecke v. Smith*, *supra*). Liability does not have to rest upon the enjoyment by the taxpayer of all the privileges and benefits enjoyed by the most favored owner at a given time or place (*Corliss v. Bowers*, *supra*; *Reinecke v. Smith*, *supra*). Government in exacting about for proper subjects of taxation is not confined by the traditional classification of interests or estates. It may tax not only ownership but also a right or privilege that is a constituent of ownership (*Nashville, C. & St. L. Ry. Co. v. Waldoe*, 288 U. S. 249, 268; *Bromley v. McCaugha*, 280 U. S. 124, 130). Liability may rest upon the enjoyment by the taxpayer of privileges and benefits so substantial and important as to make it reasonable and just to deal with him as if he were the owner, and to tax him on that basis. A margin must be allowed for the play of legislative judgment. To overcome this statute the taxpayer must show that in attributing to him the ownership of the income of the trusts, or something fairly to be dealt with as equivalent to ownership, the lawmakers have done a wholly arbitrary thing, have found equivalence where there was none nor anything approaching it, and laid a burden unrelated to privilege or benefit.

In *Helvering v. Clifford*, *supra*, the Court pointed out that the familial relationship has sufficient individuality to have a substantial effect upon tax consequences. In that case a husband had created a trust of certain securities for the term of 5 years, the income from which was to be paid to his wife. In holding the husband taxable upon the income of that trust,¹ the Court said (pp. 335-336):

We have at best a temporary reallocation of income within an intimate family group. Since the income remains in the family and since the husband retains control over the investment, he has rather complete assurance that the trust will not effect any substantial change in his economic position. It is hard to imagine that respondent felt himself the poorer after this trust had been executed or, if he did, that it had any rational foundation in fact, for as a result of the terms of the trust and the intimacy of the familial relationship respondent retained the substance of full enjoyment of all the rights which previously he had in the property. That might not be true if only strictly legal rights were considered, but when the benefits flowing to him indirectly through the wife are added to the legal rights he retained, the aggregate may be said to be a fair equivalent of what he previously had. To exclude from the aggregate those indirect benefits would be to deprive section 22 (a) of considerable vitality and to treat as immaterial what may be highly relevant considerations in the creation of such family trusts, for where the head of the household has income in excess of normal needs, it may well make but little difference to him (except income-tax-wise) where portions of that income are routed—so long as it stays in the family group.

Not only does the *Hooper case* have no authority in the field of Federal income taxation, but its vitality as an effective limitation upon the taxing power of the States has also been dissipated by more recent decisions of the Supreme Court which have seriously undermined its foundations by holding that a State is not forbidden by the fourteenth amendment to make such classifications as the legislature regards to be necessary to protect its revenues. In *Madden v. Kentucky* (309 U. S. 83), the Supreme Court upheld a Kentucky statute which taxed deposits in banks outside of the State at 50 cents per \$100, although deposits in banks within the State were taxed at only 10 cents per \$100. The Court there said (pp. 87-88):

The broad discretion as to classification possessed by a legislature in the field of taxation has long been recognized. * * * Traditionally classification has been a device for fitting tax programs to local needs and usages in order to achieve an equitable distribution of the tax burden. It has, because of this, been pointed out that in taxation, even more than in other fields, legislatures possess the greatest freedom in classification. Since the members of a legislature necessarily enjoy a familiarity with local conditions which this Court cannot have, the presumption of constitutionality can be overcome only by the most explicit demonstration

¹ Though the taxpayer argued on the basis of the *Hooper case* that it was unconstitutional to tax A on B's income the Court did not even deem it necessary to discuss the point.

that a classification is a hostile and oppressive discrimination against particular persons and classes. The burden is on the one attacking the legislative arrangement to negative every conceivable basis which might support it.

It may fairly be predicted that if the Supreme Court were presented today with the question presented in the *Hooper case* that that case would not be followed. But even if the *Hooper case* be taken at its face value, the provisions of the bill do not come within its scope. The motivating factor for the decision in that case was the provision that each person whose income was included within the tax computation was liable for the entire tax. It has been pointed out that the legislation here under consideration does not make the spouses jointly and severally liable for the entire tax unless they so elect. Each person is required to pay a tax only upon his own income and not upon the income of any other person. The net effect is merely that the amount of the tax which he is required to pay is conditioned by the fact that he lives in an economic unit which has other income accruing to it.

For these reasons it is concluded that it is within the power of Congress to make the suggested changes in the Internal Revenue Code.

II. CORPORATION INCOME AND EXCESS-PROFITS TAXES

1. TAXABLE YEARS

The amendments made with respect to corporation income and excess-profits taxes are applicable with respect to taxable years beginning after December 31, 1940.

2. CORPORATION NORMAL TAX

The bill makes the defense tax permanent but does not change the corporation normal tax rate. A change is made, however, in the normal tax base, the excess-profits tax being allowed as a deduction from gross income in arriving at net income subject to normal tax.

3. CORPORATION SURTAX

The bill imposes upon corporations a surtax of 5 percent of the first \$25,000 of surtax net income and 6 percent of the balance. The surtax is employed as the only means of reaching income from the large volume of partially tax-exempt Federal securities held by corporations.

Of the total amount outstanding of partially tax-exempt securities held by private investors in the amount of \$30,000,000,000, \$15,817,000,000 are held by banks, \$6,123,000,000 by insurance companies, and the balance are held by other persons. Thus banks hold 51.1 percent of the total, insurance companies 19.8 of the total, and other persons 29.1 of the total.

4. FOREIGN CORPORATIONS

The rate of tax on foreign corporations not engaged in trade or business within the United States and not having an office or place of business therein is increased from 16½ percent (15 percent plus 1½ percent defense tax) to 27½ percent (25 percent plus 2½ percent defense

tax). The rates for withholding this tax at the source are increased accordingly.

Treatment similar to that accorded nonresident alien individuals who are residents of the Western Hemisphere is accorded foreign corporations organized under the laws of any country in North, Central, or South America, the West Indies, or Newfoundland.

3. EXCESS-PROFITS TAX

Your committee has retained the excess-profits tax structure which was established in the Second Revenue Act of 1940. The allowance of the alternative methods of computing the excess-profits credit—that is, either the invested-capital method or the average-earnings method—has been justified by experience. The soundness of the policy of allowing the computation of the credit on the basis of average earnings appears to your committee to have been adequately demonstrated.

A method for computing excess profits based upon invested capital alone will penalize many corporations and favor their competitors. For example, a corporation organized in a period of low values would be discriminated against in favor of a corporation organized in a period of high values. Compare, for example, a corporation organized in 1929 with a corporation organized in 1931. The identical assets may have been turned in to each corporation. Yet such assets may be reflected in invested capital of one corporation at many times the value it would have in computing the invested capital of the other corporation. In the summary of the testimony before the War Policy Commission, House Document No. 271, it is stated in reference to invested capital that, "In some cases mere accidents of incorporation in one year, instead of one year later, meant savings in taxes of millions of dollars." A corporation reorganized shortly before the World War would have a higher basis than if there had been no such reorganization. The invested-capital method alone would also favor a corporation which has distributed in the past little or no dividends as compared with a corporation which has pursued a liberal dividend policy. This is because the accumulated earnings and profits of a corporation enter into the computation of its invested capital. It would also penalize the stockholders of a corporation who paid for their stock on the basis of the present worth of the corporation. It is well recognized that there has been a large turn-over in the stock of many corporations. The present owners in many instances acquired such stock on the basis of the earning record of the corporation at the time of purchase. To conclude that they have realized excess profits on the basis of what the original owners paid for the stock seems contrary to equity and justice.

The invested-capital method will also give no recognition to the fact that many businesses have been conservatively capitalized or built up, especially the smaller ones, not mainly from capital but from good management, skill, development of goodwill, favorable locations, trade advantages, and other important factors of personal efficiency. As well stated by the late Professor Seligman of Columbia University: "Almost all large businesses have grown from humble beginnings and

it is precisely in these humble beginnings that the percentage of the profits to the capital invested is apt to be the greatest." However, your committee felt that there was ample justification for continuing the use of the invested-capital method as an optional base. It is necessary to provide a yardstick for those corporations which had no base-period income or those which were operating on a subnormal basis in the base period. But, it is not believed that the treatment should be such as to give corporations too large an exemption of profits attributable to the defense program.

Upon this structure, your committee has made the following changes:

(a) *Increased rates.*—The existing rates have been increased by 10 percentage points in each bracket, as follows:

| Adjusted excess-profits net income | Rates under— | |
|------------------------------------|------------------------|------------------------|
| | Existing law (percent) | Proposed law (percent) |
| \$0 to \$20,000 | 25 | 35 |
| \$20,000 to \$50,000 | 30 | 40 |
| \$50,000 to \$100,000 | 35 | 45 |
| \$100,000 to \$250,000 | 40 | 50 |
| \$250,000 to \$500,000 | 45 | 55 |
| Over \$500,000 | 50 | 60 |

(b) *Reduction in invested capital credit.*—The invested capital credit, which under existing law is 8 percent of the invested capital, is left 8 percent on the first \$5,000,000 of invested capital but is reduced to 7 percent on the balance.

(c) *Reversal of the deduction for income and excess-profits taxes.*—Under existing law, the income tax is allowed as a deduction in the computation of the excess-profits tax. It seems unfair to allow that part of the income tax which is computed on income which is not subject to the excess-profits tax to reduce the excess-profits net income. Canada allows only that part of the income tax which is computed upon income subject to the excess-profits tax. Under the World War Act, the excess-profits tax was allowed as a deduction in computing the normal tax but the normal tax was not allowed as a deduction in computing the excess-profits tax. This is also the rule which is now applied by the British. The tax result in Canada is practically the same as the British rule and our 1918 rule. However, it is believed that the World War rule is much simpler in its application. Your committee has, therefore, deemed it advisable to return to the 1918 rule, and has disallowed the deduction of income taxes, both in the base period and in the taxable year, in computing the excess-profits tax. The deduction is allowed in computing both the normal tax and the surtax. The effect of the reversal of the deduction is that the 8 percent credit on invested capital provided in the bill is equivalent to a credit on invested capital of 5.6 percent after deduction of the normal tax and surtax, and the 7-percent credit on invested capital is equivalent to a credit on invested capital of 4.9 percent after deduction of the normal tax and surtax. The following example will show how the plan will operate:

CORPORATION INCOME TAX DEDUCTIBLE IN COMPUTING EXCESS-PROFITS NET INCOME

| Corporation "A" (invested capital): | | Corporation "B" (average earnings): | |
|---|-------------|--|-----------|
| Invested capital | \$1,250,000 | Average base period earnings | \$100,000 |
| Credit of 8 percent | 100,000 | Base period tax at 17 percent | 17,000 |
| Net income, taxable year | 130,000 | Excess-profits base period net income | 83,000 |
| Normal and surtax | 38,750 | Net income, taxable year | 130,000 |
| Excess-profits net income | 91,250 | Normal and surtax | 38,750 |
| Less credit of 8 percent plus specific exemption of \$5,000 | 105,000 | Excess-profits net income | 91,250 |
| Adjusted excess-profits net income (deficit) | 13,750 | Less credit, 95 percent of \$83,000 plus specific exemption of \$5,000 | 83,850 |
| Excess-profits tax | | Adjusted excess-profits net income | 7,400 |
| Total tax | 38,750 | Excess-profits tax | 1,850 |
| | | Total tax | 40,600 |

EXCESS-PROFITS TAX DEDUCTIBLE IN COMPUTING CORPORATION NET INCOME FOR NORMAL AND SURTAX

| | | | |
|---|-------------|--|-----------|
| Invested capital | \$1,250,000 | Average base period earnings | \$100,000 |
| Credit of 8 percent | 100,000 | Net income, taxable year | 130,000 |
| Net income, taxable year | 130,000 | Less credit—95 percent of \$100,000 plus specific exemption of \$5,000 | 100,000 |
| Less credit of 8 percent plus specific exemption of \$5,000 | 105,000 | Adjusted excess-profits net income | 30,000 |
| Adjusted excess-profits net income | 25,000 | Excess-profits tax | 11,000 |
| Excess-profits tax | 9,000 | | |
| <i>Normal and surtax</i> | | <i>Normal and surtax</i> | |
| Net income, taxable year | 130,000 | Net income, taxable year | 130,000 |
| Less excess-profits tax | 9,000 | Less excess-profits tax | 11,000 |
| Adjusted net income | 121,000 | Adjusted net income | 119,000 |
| Normal and surtax | 36,050 | Normal and surtax | 35,450 |
| Total tax | 45,050 | Total tax | 46,450 |

(d) *Ten percent tax on additional profits not subjected to excess-profits tax under existing law.*—The existing law does not subject to the excess-profits tax earnings which are not in excess of the greater of the average earnings for the base period and the invested capital credit. Thus, many corporations which are making added profits directly or indirectly attributable to Government expenditures for the national defense are paying no additional taxes upon such profits. It is felt that such corporations, benefiting so substantially from the defense expenditures, should make a larger contribution from their increased income even though their income for the taxable year is still less than the invested capital credit.

For these reasons, your committee recommends that corporations using the invested capital credit pay a tax of 10 percent upon their increased earnings which are not subjected to excess-profits tax under existing law.

(c) *New capital.*—In order to encourage the investment of new capital in corporate enterprise, your committee is impressed with the desirability of offering a special inducement in the form of a more liberal credit where new capital is present. To achieve this result, new capital is counted at 125 percent. Thus for every \$100 of new capital paid in to a corporation, the invested capital of such corporation is increased by \$125. This method is the equivalent of allowing an invested capital credit on new capital of 10 percent, where 8 percent is allowed on old capital, and 8½ percent where 7 percent is allowed on old capital.

New capital is limited to money or property paid in for stock during taxable years beginning after December 31, 1940, and taxable stock dividends made during the same period. Borrowed capital does not constitute new capital nor can transactions in certain tax-free exchanges or between corporations which are members of an affiliated group in which more than 50 percent control is present, create new capital. Earnings and profits retained in the business are not considered new capital.

To prevent corporations from turning old capital into new by paying it out to shareholders and then having it reinvested, and to prevent borrowed capital from being transformed into new equity capital, a net capital increase concept is used. For the purposes of measuring such net increases in capital, reference is had to the capital as of the beginning of the first taxable year beginning in 1941. Furthermore, capital that would otherwise receive new capital treatment, is denied such treatment to the extent that there is a net increase in inadmissible assets.

6. INCOME FROM MINING STRATEGIC METALS

The existing law exempts from the excess-profits tax that portion of the adjusted excess-profits tax net income of a domestic corporation which is attributable to mining within the United States of tungsten, quicksilver, manganese, platinum, antimony, chromite, or tin.

Your committee has removed this exemption as it is believed that these corporations which make money out of the defense program should bear their share of the tax burden.

III. CAPITAL-STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

1. CAPITAL-STOCK TAX

The bill increases the capital-stock-tax rate from \$1.10 (\$1 plus 10 cents defense tax) per \$1,000 of adjusted declared value to \$1.25 effective for the fiscal year ending June 30, 1941. The Commissioner has extended the time for filing returns and paying the tax for the year ended June 30, 1941, until September 29 of this year. For the period of this extension, no interest will be required.

2. DECLARED VALUE EXCESS-PROFITS TAX

Under existing law, the same deductions (with the exception of the declared value excess profits tax itself) are allowed in computing net income for income tax purposes as for the purposes of the declared value excess profits tax.

While the bill adds the excess-profits tax to the existing deductions allowed in computing net income for income-tax purposes, it makes no such provision for the computation of net income for the purposes of the declared value excess-profits tax. While the effect of this disallowance would be ordinarily to justify a higher declared value for capital stock, and, therefore, a greater capital-stock tax, it is believed that this disadvantage to the taxpayer will be largely offset by the larger deduction on that account for income and excess profits tax purposes and by the fact that the allowance of the deduction in question would introduce a factor of considerable uncertainty in the determination of a declared value that would produce the smallest combined capital stock and declared value excess profits tax.

IV. ESTATE AND GIFT TAXES

1. ESTATE TAX

The bill provides a new schedule of increased rates for the estate tax, applicable only to the estates of decedents dying after the enactment of this bill. In addition, the 10-percent defense tax is made permanent. No other change is made with respect to the estate tax. The following table sets out a comparison of the rates and the cumulative tax under existing law and under the bill. It should be noted that the tax computed under these rates is subject to reduction by the credit allowed for State death taxes paid and does not include the 10-percent defense tax.

| Net estate after specific exemption | Existing law | | Proposed law | |
|-------------------------------------|------------------------|---------------------------------|------------------------|---------------------------------|
| | Bracket rate (percent) | Cumulative tax on higher amount | Bracket rate (percent) | Cumulative tax on higher amount |
| \$ to \$1,000 | 3 | \$100 | 3 | \$130 |
| \$1,000 to \$10,000 | 2 | 500 | 7 | 500 |
| \$10,000 to \$50,000 | 4 | 500 | 10 | 1,500 |
| \$50,000 to \$100,000 | 6 | 1,300 | 13 | 2,800 |
| \$100,000 to \$150,000 | 8 | 2,000 | 16 | 4,400 |
| \$150,000 to \$200,000 | 10 | 3,000 | 20 | 6,400 |
| \$200,000 to \$250,000 | 12 | 4,200 | 23 | 8,700 |
| \$250,000 to \$300,000 | 12-14 | 6,000 | 25 | 11,700 |
| \$300,000 to \$350,000 | 17-20 | 35,000 | 27 | 50,500 |
| \$350,000 to \$500,000 | 20-23 | 80,000 | 29 | 131,700 |
| \$500,000 to \$750,000 | 25-26 | 181,000 | 33 | 311,700 |
| \$750,000 to \$1,000,000 | 26-29 | 222,000 | 34 | 395,700 |
| \$1,000,000 to \$1,250,000 | 32 | 222,000 | 35 | 395,700 |
| \$1,250,000 to \$1,500,000 | 32 | 302,000 | 35 | 481,700 |
| \$1,500,000 to \$2,000,000 | 35 | 507,000 | 41 | 695,700 |
| \$2,000,000 to \$2,500,000 | 38 | 747,000 | 45 | 911,700 |
| \$2,500,000 to \$3,000,000 | 41 | 982,000 | 48 | 1,151,700 |
| \$3,000,000 to \$3,500,000 | 44 | 1,172,000 | 51 | 1,406,700 |
| \$3,500,000 to \$4,000,000 | 47 | 1,407,000 | 54 | 1,676,700 |
| \$4,000,000 to \$5,000,000 | 50-53 | 1,822,000 | 56 | 2,206,700 |
| \$5,000,000 to \$6,000,000 | 58 | 2,482,000 | 61 | 2,956,700 |
| \$6,000,000 to \$7,000,000 | 59 | 3,072,000 | 64 | 3,506,700 |
| \$7,000,000 to \$8,000,000 | 61 | 3,662,000 | 66 | 4,156,700 |
| \$8,000,000 to \$9,000,000 | 63 | 4,312,000 | 69 | 4,806,700 |
| \$9,000,000 to \$10,000,000 | 65 | 4,962,000 | 70 | 5,456,700 |
| \$10,000,000 to \$20,000,000 | 67 | 11,062,000 | 70 | 12,546,700 |
| \$20,000,000 to \$50,000,000 | 69 | 22,362,000 | 70 | 24,646,700 |
| Over \$50,000,000 | 70 | | 70 | |

The following table shows a comparison of the Federal estate tax burden (before allowance of credit for State death taxes) under existing law and under the bill upon net estates (before exemption) of selected sizes.

| Net estate before exemption | Amount of tax ¹ | | Effective rates | | Increase in tax | |
|-----------------------------|----------------------------|--------------|-----------------|--------------|-----------------|---------|
| | Existing law | Proposed law | Existing law | Proposed law | Amount | Percent |
| \$20,000..... | \$220 | \$550 | 0.4 | 1.1 | \$330 | 150.0 |
| 50,000..... | 680 | 1,000 | 1.1 | 2.0 | 320 | 150.0 |
| 100,000..... | 2,300 | 4,640 | 2.3 | 6.1 | 2,340 | 102.0 |
| 200,000..... | 4,820 | 9,870 | 4.8 | 9.0 | 4,950 | 107.1 |
| 300,000..... | 21,580 | 38,270 | 10.8 | 19.1 | 16,690 | 78.7 |
| 400,000..... | 55,790 | 89,830 | 18.9 | 24.9 | 34,040 | 66.1 |
| 500,000..... | 112,340 | 194,500 | 18.7 | 27.4 | 82,160 | 66.5 |
| 600,000..... | 167,340 | 234,330 | 20.9 | 29.3 | 66,990 | 40.0 |
| 800,000..... | 228,780 | 308,090 | 22.9 | 30.9 | 79,310 | 34.7 |
| 1,000,000..... | 388,000 | 727,370 | 29.4 | 38.3 | 339,370 | 10.4 |
| 1,400,000..... | 1,409,040 | 1,792,070 | 37.3 | 44.8 | 383,030 | 15.8 |
| 1,600,000..... | 2,035,140 | 3,073,450 | 44.3 | 51.3 | 1,038,310 | 12.0 |
| 2,000,000..... | 3,323,500 | 5,964,250 | 53.2 | 59.0 | 2,640,750 | 7.7 |
| 2,500,000..... | 5,532,790 | 13,303,890 | 62.7 | 67.5 | 7,771,100 | 4.4 |
| 3,000,000..... | 27,391,830 | 38,383,890 | 68.5 | 71.4 | 1,192,060 | 3.1 |
| 4,000,000..... | 42,361,380 | 43,863,890 | 70.8 | 72.8 | 1,502,510 | 1.8 |
| 100,000,000..... | 72,521,380 | 73,823,890 | 72.5 | 73.6 | 1,302,510 | 1.8 |

¹ Includes 10-percent defense tax.

2. GIFT TAX

The bill provides a new schedule of increased gift-tax rates applicable for computing the tax for the calendar year 1942 and subsequent calendar years. In addition, the 10 percent defense tax is made permanent. As under existing law, the new gift-tax rates are in each case three-fourths of the corresponding estate-tax rate. No other change is made with respect to the gift tax.

V. EXCISE TAXES

In connection with the increase in the rates of many excise taxes and the imposition of several new levies, it should be noted that the Federal Statutes impose a severe penalty upon persons making false statements to purchasers of articles regarding Federal taxes thereon. Section 3325 of the Internal Revenue Code provides as follows:

Whoever in connection with the sale or lease, or offer for sale or lease, of any article, or for the purpose of making such sale or lease, makes any statement, written or oral, (1) intended or calculated to lead any person to believe that any part of the price at which such article is sold or leased, or offered for sale or lease, consists of a tax imposed under the authority of the United States, or (2) ascribing a particular part of such price to a tax imposed under the authority of the United States, knowing that such statement is false or that the tax is not so great as the portion of such price ascribed to such tax, shall be guilty of a misdemeanor and upon conviction thereof shall be punished by a fine of not more than \$1,000 or by imprisonment not exceeding one year, or both.

At the outset, it should be pointed out that many excise taxes under existing law will expire in 1945. Other such taxes will then become effective at reduced rates. In addition, the temporary defense taxes imposed by the first Revenue Act of 1940 will terminate in 1945. As a result of these varying rules, both as to the termination of taxes and as to the changes in rates, considerable confusion has arisen.

Your committee deems it desirable to remove these expiration dates and future rate changes from the law. This action has been taken without prejudice to the temporary nature of these levies and rate increases, for the desirability of their repeal or downward revision as soon as our revenue needs will allow is fully recognized.

1. EXCISE TAXES MADE PERMANENT

A.—Temporary subjects of tax made permanent

| Subject of tax | Internal Revenue Code section | Expiration date under existing law |
|--|-------------------------------|------------------------------------|
| MANUFACTURERS' EXCISE TAXES | | |
| Tires and inner tubes..... | 3400 | July 31, 1945 |
| Toilet preparations..... | 3401 | June 30, 1945 |
| Automobiles..... | 3402 | July 31, 1945 |
| Radio receiving sets..... | 3404 | June 30, 1945 |
| Mechanical refrigerators..... | 3405 | Do. |
| Mixers..... | 3406 | Do. |
| Electrical energy..... | 3411 | Do. |
| Gasoline..... | 3412 | Do. |
| Lubricating oils..... | 3413 | Do. |
| IMPORT TAXES | | |
| Petroleum and derivatives..... | 3422 | Do. |
| Coin..... | 3423 | Do. |
| Lumber..... | 3434 | Do. |
| Copper..... | 3425 | Do. |
| TRANSPORTATION AND COMMUNICATION TAXES | | |
| Transportation of oil by pipe line..... | 3403 | June 30, 1944 |
| Telegraph, telephone, radio, and cable facilities..... | 3405 | Do. |
| DOCUMENTARY STAMP TAXES | | |
| Corporate securities (transfer)..... | 3401 | Do. |
| Conveyances..... | 3402 | Do. |

B.—Taxes with respect to which temporary increases in rate are made permanent

| Subject of tax | Internal Revenue Code section | Expiration date of increase in rate under existing law |
|-----------------------------------|-------------------------------|--|
| Corporate securities (issue)..... | 1801 | June 30, 1945 |
| Capital stock (issue)..... | 1802 (a) | Do. |
| Capital stock (transfer)..... | 1802 (b) | Do. |

2. DEFENSE TAX RATES MADE PERMANENT

In the first Revenue Act of 1940, the rate of almost every excise tax was increased by the defense tax. In most cases, these increases amounted to 10 percent of the then existing tax rate. These defense tax rate increases would expire under existing law in 1945. Because of the confusion which might result from these complexities, the bill makes these rate increases permanent.

The amendments made by the bill to the existing law in this respect are clerical in nature and do not change the rates or the scope of the

taxes involved. For convenience, the following table sets out the taxes to which these technical changes apply:

| Subject of tax | Internal Revenue Code section | Permanent rate |
|---|-------------------------------|-----------------------------|
| (1) Box seats | 1700 (b) (1) | 11 percent. |
| (2) Sales outside box offices | 1700 (c) (1) | Do. |
| (3) Corporate securities (issue) | 1601 | 11 cents. |
| (4) Capital stock (issue) | 1602 (a) | 11 and 3 cents. |
| (5) Capital stock (transfer) | 1603 (b) | 5 and 6 cents. |
| (6) Insurance policies | 1604 | 4 cents. |
| (7) Passage tickets | 1605 | \$1.10, \$1.30, and \$5.70. |
| (8) Cigarettes | 3000 (c) (2) | \$1.25 and \$7.50. |
| (9) Pistols and revolvers | 3700 (a) | 11 percent. |
| (10) Fermented malt liquors | 3150 (a) | Do. |
| (11) Wholesalers of liquors | 3250 (a) (1) | \$110. |
| (12) Retailers of liquors | 3250 (b) | \$37.50. |
| (13) Brewers | 3250 (c) | \$110 and \$55. |
| (14) Wholesalers of malt liquors | 3250 (c) (1) | \$55. |
| (15) Retailers of malt liquors | 3250 (c) (2) | \$27. |
| Do. | 3250 (c) (3) | \$3.20. |
| (16) Stillies | 3250 (d) (1) | \$220 and \$110. |
| (17) Stills | 3250 (d) (2) | \$65 and \$22. |
| (18) Firearms, etc. | 3407 | 11 percent. |
| (19) Electrical energy | 3411 | 3 1/2 percent. |
| (20) Gasoline | 3412 (a) | 1 1/2 cents. |
| (21) Lubricating oils | 3413 | 4 1/2 cents. |
| (22) Transportation of oil by pipe line | 3460 (a) | 4 1/2 percent. |
| (23) Corporate securities (transfer) | 3461 (a) | 5 cents. |
| (24) Conveyances | 3462 | 50 cents. |

The above rates include the basic rates imposed by the indicated sections of the Internal Revenue Code and the defense tax imposed by section 1650 (a).

I. INCREASES IN RATES OF EXISTING EXCISE TAXES

The bill increases the rates of certain excise taxes but makes no change in their bases. Other existing excise tax rates are increased but there are also changes made in their bases. Such changed rates and bases will be discussed in the next part of this report.

Those excise taxes with respect to which the bill makes rate increases only are listed in the following table, along with the pertinent sections of the Internal Revenue Code, the rate under existing law and the rate under the bill:

| Subject of tax | Internal Revenue Code section | Rate of tax— | |
|-----------------------------|-------------------------------|--|--------------|
| | | Existing law, including defense tax rate | Proposed law |
| Playing cards | 1407 (a) | 11 cents. | 13 cents. |
| Submerged taxes | 1650 (a), 1650 (a) | 11 percent. | 20 percent. |
| Distilled spirits | 3000 (a) (1), (2) | 43 | 44. |
| Brandy | 3000 (a) (1), (2) | \$2.75 | \$1.75. |
| Imported perfume | 3000 (a) (3), (4) | \$9. | \$4. |
| Bull whips | 3030 (b) (1), (A), (100) | 6 cents. | 8 cents. |
| | | 16 cents. | 24 cents. |
| | | 30 cents. | 50 cents. |
| Sparkling wine (natural) | 3030 (b) (2), 3100 | 3 cents. | 4 cents. |
| Sparkling wine (artificial) | 3030 (b) (2), 3100 | 1 1/2 cents. | 2 1/2 cents. |
| Liquors, punches, etc. | 3030 (b) (2), 3100 | 3 1/2 cents. | 2 1/2 cents. |
| Tees | 3400 (1), 3650 (a) | 2 1/2 cents. | 5 cents. |
| Talies | 3400 (2), 3650 (a) | 4 1/2 cents. | 7 cents. |

A floor-stocks tax of \$1 per proof-gallon is imposed with respect to distilled spirits which on the effective date of this bill are held for sale or for use in the further manufacture or production of any article intended for sale.

A like floor-stocks tax is imposed upon wines at rates equal to the increases in tax shown in the above table.

Floor-stocks taxes are imposed upon tires and tubes held for sale by anyone, other than the manufacturer, on the effective date of this bill. The floor-stocks tax rate on tires is 2 1/2 cents per pound and on tubes 4 1/2 cents per pound. These rates are equal to the increase in taxes on these articles shown in the above table.

A. CHANGES IN BASIS OF COMPUTING TAX (RATES INCREASED IN CERTAIN CASES)

In addition to the increases made by the bill in the rates of the existing excise taxes described under the preceding heading, certain other excise taxes undergo a change of base and, in some instances, an increase in rate as well, under the bill. Those existing excises with respect of which a change of base only is made are—

Admission tax.—The existing law imposes a tax on admission charges of 21 cents or more. The bill taxes admission charges of 10 cents or more. Your committee felt it desirable to provide that where members of the military or naval forces, or the Civilian Conservation Corps, are admitted free or at reduced rates, the tax shall apply only to the amount actually paid for admission.

Certain admission charges exempted from tax under existing law, however, are denied exemption under the bill. The principal category of such admission charges comprises those of which the proceeds go to religious, educational, or charitable institutions or organizations. Your committee regards these exemptions as of little or no benefit to such institutions or organizations and, at the same time, as a source of serious administrative difficulties and loss of revenue. This tax is imposed upon the person admitted and not the organization.

In addition, the bill would repeal a provision of the Department of the Interior Appropriation Act (Public, No. 136, 77th Cong., 1st sess.) which exempts from the admission tax fees for admission to national parks and monuments.

Cabarets, roof gardens, etc.—Under the existing law, an attempt is made to segregate from the total charge made at cabarets, roof gardens, and similar places of entertainment, the portion attributable to a charge for admission, where such charge is wholly or in part included in the patron's bill. This method of taxation has entailed serious administrative difficulties.

To obviate these difficulties, the bill makes the total charge the basis of the tax and applies to that base a rate of 5 percent, in lieu of the existing rate of approximately 20 percent of the portion of the bill attributable to an admission charge. Under existing law the tax is upon the patron but the owner of the establishment is charged with its collection and payment into the Treasury. The bill places the tax directly on the owner.

Club dues.—The existing law taxes club dues which exceed \$25 a year. The bill taxes such dues if they exceed \$10 a year.

Furthermore, the bill redefines "club dues" so that they include any charge for social, athletic, or sporting privileges or facilities.

The inclusion of such charges will prevent the tax avoidance possible under existing law by the practice of making separate charges for the various privileges and facilities. The exemption allowed fraternal organizations remains unchanged.

Those existing excise taxes, with respect to which both a change in base and an increase in rate are effected by the bill, are:

Automobiles, trucks, busses, and parts.—The rate on passenger automobiles and motorcycles is increased from 3½ to 7 percent. In addition, trailers suitable for use with passenger automobiles and motorcycles, which are not taxed under existing law, are also taxed in this category.

The rate on trucks is increased from 2½ to 5 percent. Busses are made taxable under this category rather than as passenger automobiles. In addition, truck and bus trailers, which are not taxed under existing law, are made taxable at the 5-percent rate.

The tax on parts or accessories is increased from 2½ to 5 percent. Radios are excluded from the list of automobile accessories since they are separately taxed at a higher rate.

Radios, phonographs, phonograph records, and musical instruments.—Under existing law the tax applies only to parts and accessories for radio receiving sets and combination radio and phonograph sets. This category has been expanded to include completed radio sets, phonographs, phonograph records, automobile radios, and musical instruments.

The rate of tax is increased from 5½ to 10 percent.

Refrigerators, refrigerating apparatus, and air-conditioners.—Under existing law the tax on mechanical refrigerators applies only to those of the household type and components and parts thereof. Under the bill this tax will apply to all mechanical refrigerators and refrigerating units whether of household or other type. In addition, self-contained air-conditioning units and their components are added to this category.

The tax rate is increased from 5½ to 10 percent.

Matches.—The existing law taxes only fancy wooden matches at a rate of 5½ cents per thousand. The bill continues this tax at the same rate and also taxes all other matches at a rate of 2 cents per thousand.

Telephone, telegraph, etc.—Under existing law telephone-toll charges, telegraph messages, and radio messages are taxed separately and at different rates. Telephone-toll charges are now taxed at 5, 15, and 20 cents on charges of from 50 cents to \$1, \$1 to \$2, and over \$2, respectively. Telegraph messages are now taxed at 5 percent of the amount charged and radio messages at 10 cents each.

The bill places these three types of services in the same category and taxes them on an ad valorem basis. Where the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge is imposed.

The 5-percent tax on leased wires and talking circuits is retained and the base is expanded to include wire services such as teletypewriter service, burglar alarm service, news ticker service, stock quotation and information services, and the like. The exemption provided by existing law for the services of this type utilized by a common carrier, telephone or telegraph company, or a radio broadcasting company or

net work in the conduct of its business as such, is continued by the bill.

A new tax of 5 percent is imposed upon the amount paid for local telephone service, excluding amounts paid for installation and upkeep.

5. NEW EXCISE TAXES

In addition to the present excise taxes your committee recommends the adoption of the following new levies:

Soft drinks.—A tax on bottled soft drinks, sold by the bottler or importer, at one-sixth of a cent per bottle for bottles selling at retail for not more than 10 cents per bottle; one-third of a cent for a bottle selling for from 11 to 20 cents; and one-half of a cent for a bottle selling for more than 20 cents. These rates apply to bottles containing a quart or less. If the bottle contains more than a quart, the tax is 6 percent of the price for which sold by the bottler or importer.

As a corollary to the tax on bottled beverages, a manufacturers' excise tax of 6 cents per gallon is imposed upon finished or fountain syrups sold to any person other than a bottler, and a tax of 4 cents per pound is imposed upon carbonic acid gas sold to soda fountains.

Manufacturers' excise taxes.—Taxes are imposed upon the following items at the rate of 10 percent of the price for which sold by the manufacturer, producer, or importer:

| Subject of tax: | Subject of tax—Continued. |
|------------------------------|---|
| Sporting goods. | Rubber products. |
| Luggage. | Commercial washing machines. |
| Electrical appliances. | Optical equipment (not including eyeglasses). |
| Photographic apparatus. | |
| Business and store machines. | |

Retailers' excise taxes.—The bill imposes a tax of 10 percent upon the retail sale of jewelry, furs, and toilet preparations. The tax is placed upon the retail sale rather than the manufacturer's or importer's sale because of administrative and equitable considerations. Manufacturers' excise taxes upon these articles have been imposed by the Federal Government in the past. Such a tax upon toilet preparations is, in fact, imposed by existing law. Experience has proven, however, that under such taxes evasion is substantial and inequitable competitive situations are created.

In view of these considerations your committee is convinced of the desirability of placing these taxes upon the retail sale. The manufacturers' tax on toilet preparations is repealed.

Transportation of persons.—A tax of 5 percent is imposed upon the amount paid within the United States for the transportation of persons by rail, motor vehicle, water, or air. Transportation by motor vehicles seating less than 10 persons is exempt. Likewise, the bill exempts amounts paid for transportation which do not exceed 35 cents, amounts paid for commutation tickets for single trips of less than 30 miles, and amounts paid for commutation tickets for 1 month or less.

Coin operated amusement and gaming devices.—A special tax of \$25 per year is imposed for each slot machine, pinball machine, or similar amusement or gaming device maintained on any place or premises. The tax does not apply with respect to bona fide vending machines.

Bowling alleys, billiard and pool tables.—A special tax of \$15 per year is imposed for every billiard or pool table and every bowling alley except those in private homes.

Outdoor advertising.—A special tax is imposed on advertising on billboards or other structures upon real property, the rate of which is regulated according to the amount of advertising-space area. For each billboard having an advertising space of not over 300 square feet the tax is \$5 per annum; for such space amounting to more than 300 square feet and not more than 600 square feet, the tax is \$8 per annum; and for such space amounting to more than 600 square feet, the tax is \$11 per annum. The tax is to be paid by the lessor of billboards, with respect to each billboard maintained or controlled by him. However, if such lessor discontinues the control or maintenance of a billboard within the taxable year on which he has paid tax, and later employs another billboard of the same tax classification as the one on which tax was paid and control or maintenance of which was discontinued, then with respect to such additional billboard no tax shall be payable.

Use of motor vehicles.—An annual tax of \$5 is imposed upon the use of all motor vehicles of the kind chiefly used for highway transportation. Consideration was given by the committee to the graduation of the tax upon some such basis as weight or horsepower. The tax is conceived of, however, as essentially a privilege tax and not one to which the principle of ability to pay has any necessary application. It is also designed to reach a large number of individuals who by reason of the personal exemptions have no income-tax liability. In a measure, too, it accomplishes the objectives of the advocates of the imposition of an income tax return filing fee. Graduation, moreover, would entail administrative difficulties and expense out of proportion to the revenue and the equitable considerations involved.

Use of boats.—An annual tax is also imposed on the use of boats. The tax is graduated on the basis of the over-all length of the boat, as follows: 16 or over but not over 28 feet, \$5; over 28 but not over 50 feet, \$10; over 50 but not over 100 feet, \$40; over 100 but not over 150 feet, \$100; over 150 but not over 200 feet, \$150; over 200 feet, \$200.

VI. RADIO BROADCASTING STATIONS AND NETWORKS

Your committee have imposed a tax for calendar years beginning after December 31, 1941, upon every person who during the year operates a radio broadcasting station or engages in network broadcasting.

The desirability of a special tax on radio broadcasting (distinct from a tax on advertising, one medium for which is radio) is indicated by several considerations.

1. Radio broadcasters are the possessors of a valuable privilege awarded to them free of charge, on the condition that they operate in the public interest. Because of the technical limitations of the broadcasting band, the number of commercial broadcasters at any one time is for all practical purposes limited. In consequence, the right to operate a broadcasting station in particular areas carries with it a measure of monopolistic privilege and the opportunity for an extremely profitable investment. Through the exercise of that privilege and the exploitation of that opportunity, many broadcasters

make substantial profits and virtually all broadcasters derive less tangible benefits in the form of publicity and goodwill.

2. The principal operators in commercial broadcasting earn high rates of return on relatively small investments. They possess unusual taxpaying ability which, in view of the Government's present revenue requirements, can properly be subjected to special taxation.

3. Radio broadcasting requires public regulation. Such regulation is provided at public expense, with great benefit to the industry but without any special costs to that industry.

The tax imposed is to be equal to a given percentage of net time sales made during the year. A net time sale is in effect defined as the gross amount received or accrued from the sale of radio time, not including the amount of any commission (not to exceed 15 percent of the gross amount) paid to or deducted by an advertising agency, and minus any amount paid by the taxpayer, pursuant to the sale by him, for broadcasting time to other persons operating radio stations or engaged in network broadcasting.

Taxpayers are divided into three classes, with rates prescribed as follows:

- (1) If the net time sales are in excess of \$100,000, but not in excess of \$500,000, 5 percent.
- (2) If the net time sales are in excess of \$500,000, but not in excess of \$1,000,000, 10 percent.
- (3) If the net time sales are in excess of \$1,000,000, 15 percent.

The rate prescribed with respect to each class of taxpayer is applicable to the entire amount of the net time sales for the taxable year. The act provides, however, that the liability of a taxpayer in one classification cannot exceed the maximum liability under the next lower classification, plus the amount of the taxpayer's net time sales in excess of the maximum net time sales taxable under the lower classification.

For example, the tax in the case of a taxpayer with net time sales of \$500,000 would be at the rate of 5 percent of the net time sales, or \$25,000. Except for the above notch provision, if the net time sales were \$500,001, the rate would be 10 percent of the net time sales, or \$50,001.10. By reason of the notch provision, the tax in the latter case would be \$25,000 plus the net time sales in excess of \$500,000, or \$1, making the tax in the latter case \$25,001.

If the net time sales do not exceed \$100,000 no tax is imposed.

DETAILED DISCUSSION OF THE PROVISIONS OF THE BILL

TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

SECTION 101. SURTAX ON INDIVIDUALS

The surtaxes apply upon the entire surtax net income and hence the exemption from surtax of the first \$4,000 of surtax net income found in existing law is abolished. The lowest surtax bracket rate is 5 percent as compared with 4 percent under existing law. The surtaxes are increased in all brackets up to \$750,000 and from that point the rates of existing law are retained. While the rates attributable to surtax net income in excess of \$750,000 are not increased, surtaxes payable by taxpayers in these upper brackets are increased by reason of the higher rates in the lower brackets.

SECTION 102. SURTAX ON CORPORATIONS

This section, adding section 16 to the Internal Revenue Code, imposes upon all corporations (including insurance companies), except nonresident foreign corporations and mutual investment companies (the latter being later dealt with in the section), a surtax of 5 percent upon the first \$25,000 of corporation surtax net income and 6 percent upon the excess of such income over \$25,000. Complementary amendments are made to sections 104 (b), 231 (b), 251 (e) (1), and 261 (a). Corporation surtax net income is defined as net income minus the credit for dividends received provided in section 26 (b) and thus includes United States interest in the tax base.

This section also imposes upon mutual investment companies a surtax upon Supplement Q surtax net income of such companies at rates corresponding to those imposed upon corporations generally.

SECTION 103. INCOME DEFENSE TAX MADE PERMANENT

This section makes permanent the defense tax imposed by section 15 of the Internal Revenue Code as added by section 201 of the Revenue Act of 1940.

SECTION 104. TAX ON NONRESIDENT ALIEN INDIVIDUALS

Under existing law a nonresident alien individual not engaged in business within the United States, and not having an office or place of business therein, is taxed only upon dividends, interest, and other fixed or determinable annual or periodical income from sources within the United States and at the rate of 16½ percent. This rate may be reduced under existing law to 5 percent in the case of a resident of a contiguous country if so provided by treaty with such country. Section 104, amending section 211 (a) (1) of the Code, increases such rate to 25 percent (in effect increased to 27½ percent through the defense tax imposed by section 15), which corresponds to the proportionate increase in burden imposed upon American citizens and residents by the increase in income taxes under the bill.

Under existing law, if such a nonresident alien individual has a gross income of more than \$24,000, which is the level at which the average effective rate equals 16½ percent, he is subject to the full normal tax and surtax on his fixed or determinable annual or periodical income. The bill adjusts this figure of \$24,000 to \$23,800, at which under the bill there is reached approximately an effective rate of 27½ percent. Nonresident aliens engaged in business in the United States, or having an office or place of business therein, are subject to the same rates as apply to American citizens, but only with respect to income from sources within the United States. They will therefore be subject to the increase in tax applicable to American citizens.

The rates thus imposed in the case of nonresident alien individuals do not apply in any case where their application would be contrary to any treaty obligation of the United States (sec. 106). Under the provisions of section 107 these rates may be reduced in the case of residents of any country, including foreign colonies and possessions, in North, Central, or South America, or in the West Indies or of Newfoundland to 5 percent if so provided by treaty with such country. For the purposes of the section the Bermuda Islands are considered as included in the West Indies.

SECTION 105. TAX ON FOREIGN CORPORATIONS

This section amends section 231 of the Code to increase tax imposed upon foreign corporations not engaged in trade or business in the United States and not having an office or place of business therein from 15 to 25 percent (27½ percent with the addition of the 10 percent defense tax). The increase is commensurate with the increase in the tax burden imposed upon domestic corporations.

SECTION 106. WITHHOLDING OF TAX AT SOURCE

This section provides for withholding of the tax at the source (by means of which the tax in the case of nonresident aliens is very largely collected) at the rate of 27½ percent instead of 16½ percent under existing law. The rate of 27½ percent represents the combined effective rate of tax imposed by section 211 (a) (1) (A) after its amendment by section 104 of this bill and by section 15 of the Code (defense tax). The increased rates of withholding will not go into effect until the 10th day after the enactment of the act in order to afford a reasonable period within which withholding agents will be informed of the higher rates applicable to payments made to nonresident aliens or nonresident foreign corporations.

SECTION 107 (TREATY OBLIGATIONS) AND SECTION 108 (REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NONRESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES)

The effect of these sections and their general relation to the taxation of nonresident alien individuals have already been treated under section 104. Section 108 also authorizes reduction by treaty in the rate of taxation and of withholding with respect to dividends derived from sources within the United States by nonresident foreign corporations organized under the laws of any country in North, Central, or South America, or in the West Indies, or of Newfoundland.

SECTION 109. DEFENSE TAX ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX MADE PERMANENT

This section makes permanent the defense tax imposed upon personal holding companies by section 203 of the Revenue Act of 1940 and upon transfers to avoid income tax by section 208 of the Revenue Act of 1940.

SECTION 110. CREDIT FOR DEPENDENTS

Section 110 of the bill amends section 25 (b) (2) of the Internal Revenue Code relative to the credit for dependents.

In the case of the head of a family or a married person living with husband or wife, the existing law provides as a credit against net income a personal exemption of \$2,000 plus \$400 for each dependent other than husband or wife. Under these provisions, a married person living with husband or wife and having no dependents receives as a maximum credit the personal exemption of \$2,000. On the other hand, an unmarried person maintaining a home for a person who also

qualifies as a dependent may receive a personal exemption of \$2,000 plus the credit of \$400 for such dependent, or a total credit of \$2,400. The proposed legislation disallows the credit for one dependent in cases where the taxpayer's status as head of a family is occasioned solely by the existence of one or more of such dependents. The amendment will not affect any case except one in which the taxpayer occupies the status as head of a family solely by reason of the existence of a person for whom he is also entitled to the credit for a dependent. For instance, it will not operate to reduce the credit in the case where a widower is maintaining a home for two children, only one of whom qualifies as a dependent. In such case, the status as head of a family is not occasioned solely by existence of the child in respect of whom the credit of \$400 is allowed and consequently the taxpayer may be entitled to the personal exemption of \$2,000 plus the \$400 credit, or a total of \$2,400, the same as under existing law.

SECTION 111. JOINT RETURNS OF HUSBAND AND WIFE

Section 111 of the bill amends sections 25 (a) (4), 25 (b) (3), 47 (c), 47 (e), 51, and 142 (a) of the Internal Revenue Code, and adds new sections 278 and 300 to the code.

The section provides that a husband and wife living together at any time during their "joint taxable year" shall report their income in a single return made by them jointly, and that the tax shall be computed on their aggregate income.

An individual is only required to participate in a joint return if he is "living with husband or wife" at some time during a joint taxable year. This term is intended to have a broad application. It does not require that a husband and wife live under the same roof. They are considered to be living together in any case where they have not separated with intent to abandon permanently the marital relationship, whether or not the husband makes his home at one place and the wife at another place.

It is provided that no joint return shall be made if one spouse is a nonresident alien individual taxable under section 211 (a).

If one spouse has no item of gross income, deduction, or credit appearing on the joint return, such spouse is not required to sign or swear to such return. A return signed by only one spouse is nevertheless a joint return. In order to obtain a foreign-tax credit, in the case of a joint return, both husband and wife must make the required election in the manner prescribed by law.

Either spouse may elect, under rules and regulations prescribed by the Commissioner with the approval of the Secretary, to have the liability for the tax on aggregate income apportioned between the spouses rather than to have such liability joint and several. In such case, the tax upon the aggregate income is apportioned between husband and wife in the ratio which a tax computed upon the separate income of each bears to the sum of such taxes computed upon their separate incomes. If a spouse has elected on the joint return to have the benefits of any deduction or credit, such spouse must compute his separate tax, for purposes of the allocation, in conformity with such election. Appropriate provision has been made to insure that the credits for foreign taxes and for taxes withheld at the source allowable against the tax on aggregate income shall be applicable in

reduction of the tax liability of the spouse to whom they are attributable.

A husband and wife are required jointly to make a return of income on the basis of a "joint taxable year." In general, any taxable year in which a husband and wife live together constitutes such a joint taxable year, but the term does not embrace a taxable year in which the marriage occurs, a taxable year during the whole of which the spouses did not live together, or, if no joint taxable year has previously been established, the taxable year during which a husband and wife previously separated are reconciled. Appropriate provision has been made to deal with the situation which arises in the few cases where one of the spouses makes a return on a fiscal-year basis.

The joint taxable year of a husband and wife is automatically terminated upon the date of their divorce or legal separation or upon the date of the annulment of their marriage; and for the purposes of this section a marriage terminated by annulment is deemed to be a valid marriage from the date of such marriage to the date of the decree of annulment. The termination of the joint taxable year in such case does not, however, alter the annual accounting period of such husband or wife previously established under this section. Separate returns are required for the period from the date of termination of the joint taxable year to the close of such accounting period. A joint taxable year is not terminated automatically by the death of one of the spouses. In such a case the surviving spouse and the decedent's personal representative are required to file a joint return for the full taxable year in which the death occurred. In such a return there is to be included the income of the decedent and the surviving spouse for the entire joint taxable year, and the personal exemption of a husband and wife for an entire taxable year is allowed.

Section 25 (a) (4) (C), relating to the definition of earned net income, is amended to provide that, in the case of a husband and wife making a joint return, the net income of each up to and including \$3,000 shall in every case be considered earned income, and that in the case of each the compensation for services actually rendered may be considered as earned income to the extent of \$14,000. The earned net income of the husband and the earned net income of the wife are to be added together and 10 percent of such earned net income, but not in excess of 10 percent of the aggregate net income, is allowable as a credit for the purposes of the normal tax.

Section 25 (b) (3) is amended to provide that in every case where a husband and wife are required to make a joint return for any taxable year, they shall be entitled to a personal exemption of \$2,000 for such taxable year.

In the case of any short period for which a return is required under the provisions of section 51, section 47 (c) is amended to provide that the income shall be placed on an annual basis, and a complementary amendment is made to section 47 (e) to prevent the reduction of credits in such cases. It is provided that the net income may be placed on an annual basis by a method other than that described in section 47 (c), where the Commissioner determines that such other method would more clearly reflect the income.

Section 142 (a), dealing with the requirements for filing fiduciary returns, is amended to conform to the changes made in section 51 (a) in connection with individual returns.

Section 111 (h) of the bill adds to the Internal Revenue Code a new section designated section 278 and applicable only to cases in which the tax on aggregate income is apportioned under the provisions of section 51 (b). If the Commissioner determines a deficiency or an overpayment in respect of the tax liability of one spouse, the section provides at least 1 year for the adjustment of the tax liability of the other spouse with respect to any overpayment or deficiency which results solely from the reapportionment occasioned by the Commissioner's determination. The 1-year period begins to run from the date of the Commissioner's determination which, in the case of an overpayment, is the date of signing of the schedule of overassessments by the Commissioner and, in the case of a deficiency, is the date of mailing of the statutory notice of deficiency or, if no such notice is mailed, the date upon which the Commissioner signs the schedule of assessments.

The Internal Revenue Code is amended by adding a new section 300, which provides that if there is an addition to the tax on aggregate income for wilful neglect in failing to make a return, or for negligence or fraud in connection with a deficiency, in the case of a husband and wife required to make a joint return, and but one spouse is responsible for such neglect, negligence, or fraud, such spouse only shall be liable for the payment of such addition to the tax. If both spouses are responsible in any degree, the liability for such additions to the tax will be joint and several, unless the tax on the aggregate income is apportioned under section 51 (b) (2), in which case the additions will be allocated in accordance with the method of apportionment set forth in that subsection.

The penalty for failure to file a return is a percentage of the entire amount of the tax on aggregate income (computed after the allowance of the foreign tax credit and credit for taxes withheld at source) and the penalty for negligence or fraud is a percentage of the entire amount of the increase in the tax on aggregate income.

The same section also provides that a spouse who has no gross income shall not in any case be liable for an addition to the tax on aggregate income based upon a failure to make a return, since, in such a case, a return will be required solely because of income attributable to the other spouse.

SECTION 112. NON-INTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT

This section provides that any taxpayer who owns any non-interest-bearing obligations issued at a discount and redeemable for fixed amounts increasing at stated intervals and who, under the method of accounting used by him in computing his net income, is not permitted to report the increment in value of such obligations as it accrues, may, at his election, treat such increment in value as constituting income to him in the year in which it accrues rather than in the year in which the obligations are disposed of, redeemed, or paid at maturity. Under existing law a taxpayer on the accrual basis who owns, for example, non-interest-bearing United States defense bonds is required to report the increment as it accrues, whereas a taxpayer on the cash basis who owns such defense bonds is required to treat the entire increment in value as being income received in the year of redemption or

maturity. Therefore, with respect to such non-interest-bearing United States defense bonds, the effect of this section is to extend, at the election of the taxpayer, the accrual method to a taxpayer on the cash basis, but only for the limited purpose of reporting the increment in value of such bonds as it accrues.

The election provided for in this section must be made in the taxpayer's return, and may be made for any taxable year beginning after December 31, 1940. When so made with respect to any obligation, the election shall apply also to all obligations of the type described in this section owned by the taxpayer or thereafter acquired by him. The election applies to the taxable year for which such return is filed and is binding for all subsequent taxable years unless the Commissioner permits the taxpayer, subject to such conditions as the Commissioner deems necessary, to change to a different method of reporting income from such bonds. Although the election, once made, is binding upon the taxpayer, it would not apply to a transferee of such taxpayer. For example, A, on the cash basis, buys non-interest-bearing United States defense bonds in 1942 and elects in his return for 1942 to treat the increment in value as being income to him as it accrues. In 1943 A dies and bequeaths such bonds to B, who is also on the cash basis. B is not bound by A's election, but he may, if he so desires, make an election under this section with respect to the increment in value accruing after the acquisition of such bonds by him. If B had previously made an election under this section, such election would apply to the bonds acquired from A.

In any case in which an election is made under this section, the amount considered to accrue in any taxable year to which the election applies is measured by the actual increases in the redemption price occurring in that year. Such amount shall not be considered to accrue ratably between the dates on which the redemption price changes. Thus, if two dates on which the redemption price increases fall within the taxable year and if the redemption price increases in the amount of 50 cents on each such date, the amount deemed to accrue in that year would be \$1. The preceding sentence, however, is subject to an exception in the case of the first taxable year to which the election applies. If at the beginning of the first taxable year to which the election applies the taxpayer owns non-interest-bearing bonds of the prescribed character acquired prior thereto, he is required to report in such year, in addition to the increases in the redemption price actually falling within that year, the total of the increases in such price occurring between the date of acquisition and the beginning of such year. Accordingly, if a taxpayer on the calendar year basis makes an election under this section for 1944 and if the taxpayer had purchased his bonds in 1940, he would be required to include in his gross income for the taxable year 1944 the total of the increases in the redemption price of such bonds occurring between the acquisition in 1940 and December 31, 1944.

SECTION 113. INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS

As a consequence of the elimination of tax exemption with respect to Federal obligations brought about by the Public Debt Act of 1941, section 113 of the bill repeals, prospectively, section 147 (d) of the

Internal Revenue Code, which made inapplicable to interest on obligations of the United States those provisions of law relating to securing information at the source. Section 113 also makes a complementary amendment to section 147 (b). Such amendments will enable the Commissioner to prescribe regulations requiring such information with respect to interest on United States obligations as he may deem necessary in the interest of good administration of the income tax laws. Section 113 is to take effect on the day following the enactment of the bill.

SECTION 114. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE

The amendments relative to individual and corporation income taxes made by this title, except the amendments made by section 106 (withholding of tax at source) and section 113 (information returns with respect to Federal obligations), are applicable only with respect to taxable years beginning after December 31, 1940.

TITLE II—EXCESS PROFITS TAX

SECTION 201. EXCESS PROFITS TAX RATES AND CREDITS

Section 201 (a) increases the existing excess-profits rates and adds a special rule for the imposition of tax in certain cases where the invested capital credit is used. Section 201 (b) of the bill also amends section 714 of the present law by reducing the credit with respect to corporations using the invested capital method in cases where the invested capital exceeds \$5,000,000. In such cases, the invested capital credit is reduced from 8 to 7 percent of the excess of the invested capital over \$5,000,000. The technical features of the amendment made by section 201 (a) of the bill are discussed below.

RATES IN GENERAL

Section 710 (a) of the present law, relating to the imposition of the excess-profits tax, is amended by section 201 (a) of the bill to provide for the increased rates of tax, which are set forth in the table in section 710 (a) (1), and for the addition of two new paragraphs constituting section 710 (a) (2) and (3), which set forth the special rule, and limitations thereon, for the imposition of the tax in certain cases where the invested capital credit is used. Section 710 (a) (4), relating to the application of the rates of tax in case of certain exchanges, is the same as section 710 (a) (2) of the present law except for the renumbering of the paragraph to (4).

Section 710 (a) (1) states the general rule for the imposition of the excess-profits tax and the rates under which corporations using the income credit will determine the tax. These rates begin at 35 percent upon adjusted excess profits net income of not more than \$20,000 and increase upon a graduated scale to 60 percent upon the amount of adjusted excess profits net income in excess of \$500,000. The rates of tax set forth in section 710 (a) (1) represent an increase of 10 percentage points in each rate bracket as compared with the rates under the present law which run from 25 percent to 50 percent.

SPECIAL RULE IN CERTAIN CASES WHERE INVESTED CAPITAL CREDIT IS USED

Section 710 (a) (2) provides a special rule for the measure of the excess-profits tax in the case of corporations which are entitled to use either the invested capital credit or the income credit in computing the tax under section 710 (a) (1) and for which the use of the invested capital credit would be more advantageous. Section 710 (a) (3) limits the application of section 710 (a) (2) to only those cases where the amount of tax computed under the special rule will not be more than the amount of the tax computed under the general rule of section 710 (a) (1) with the use of the income credit.

Section 710 (a) (2) subjects to tax that portion of excess-profits net income (determined under the income credit method) which would be taxed if such corporation used the income credit but which escapes the present excess-profits tax when computed with the use of the invested capital credit. The excess-profits tax imposed upon such corporations by section 710 (a) (2) is therefore composed of the following two parts, of which it is the sum:

- (1) An amount determined under section 710 (a) (1) with the use of the credit provided in section 714, plus
- (2) Ten percent of the amount, if any, by which—

(a) the adjusted excess-profits net income computed with the use of the credit under section 713 and with the excess-profits credit carry-over which would be available for the taxable year if the excess-profits credit applicable to each of the preceding taxable years for which tax is imposed by subchapter E had been the excess-profits credit computed under section 713, exceeds

(b) the adjusted excess-profits net income computed with the use of the credit under section 714.

The tax computed under section 710 (a) (2) is imposed only upon the corporations specified therein, subject to the further limitation of section 710 (a) (3) that if the tax determined under section 710 (a) (1) is less than the tax determined under section 710 (a) (2), section 710 (a) (2) shall not be applicable. Except where this limitation operates or where the taxpayer disclaims the use of the invested capital credit, every corporation which is qualified to compute its excess-profits credit under either section 713 (income credit) or section 714 (invested capital credit) and which has an adjusted excess-profits net income computed with the use of the income credit but has a lower adjusted excess-profits net income, or none at all, when the invested capital credit is used, is required to compute the excess-profits tax under section 710 (a) (2). Where the use of a credit is referred to in section 710 (a) (2), the reference is to the use of such credit with the excess-profits net income computed in accordance with that credit; for example, the use of the credit under section 714 with the excess-profits net income computed with the adjustments provided in section 711 (a) (2).

An example of the computation of the tax under section 710 (a) (2) is as follows: Suppose a domestic corporation in existence since December 31, 1935, and reporting on a calendar year basis has, for 1941, an excess-profits net income of \$355,000 computed under either the income or the invested capital methods, an excess-profits credit

computed under section 713 of \$100,000 and an excess-profits credit computed under section 714 of \$300,000, with no excess-profits credit carry-over. The adjusted excess-profits net income of the corporation would be determined as follows:

| | | |
|---|---------|-----------|
| 1. Income method: | | |
| Excess-profits net income..... | | \$355,000 |
| Less: | | |
| Specific exemption..... | \$5,000 | |
| Excess-profits credit under sec. 713..... | 100,000 | |
| | | 105,000 |
| Adjusted excess-profits net income computed on the income method..... | | 250,000 |
| 2. Invested capital method: | | |
| Excess-profits net income..... | | 355,000 |
| Less: | | |
| Specific exemption..... | \$5,000 | |
| Excess-profits credit under sec. 714..... | 300,000 | |
| | | 305,000 |
| Adjusted excess-profits net income computed on the invested capital method..... | | 50,000 |

Since the use of the invested capital credit produces the lower adjusted excess-profits net income, the corporation is subject to the tax computed under section 710 (a) (2). Its excess-profits tax will therefore be \$39,000, computed as the sum of the following two amounts:

| | |
|--|----------|
| 1. Amount determined under the rates of sec. 710 (a) (1) upon adjusted excess-profits net income computed with the use of the invested capital credit..... | \$19,000 |
| 2. 10 percent of the excess of adjusted excess-profits net income computed with the use of the income credit over adjusted excess-profits net income computed with the use of the invested capital credit (10 percent of \$200,000, i. e., \$250,000 less \$50,000)..... | 20,000 |

In computing the amount under section 710 (a) (2) (B), if there is no adjusted excess-profits net income computed with the use of the invested capital credit, that is, if the invested capital credit, plus the \$5,000 exemption plus the carry-over, equals or exceeds the excess-profits net income under section 711 (a) (2), the 10 percent is computed on the excess of the adjusted excess-profits net income under the income method over zero. For example, if in the illustration above, the excess-profits net income were \$255,000 instead of \$355,000, the excess-profits-tax for 1941 would be 10 percent of \$150,000, the excess of the adjusted excess profits net income under the income method (\$255,000 less \$5,000 less \$100,000) over zero. (Since there is no adjusted excess-profits net income computed with the use of the credit under section 714, there is no amount determined under sec. 710 (a) (2) (A) which will constitute a part of the tax.) If, however, there is no adjusted excess-profits net income computed with the use of the income credit, that is, if the income credit, plus the \$5,000 exemption plus the carry-over, equals or exceeds the excess-profits net income under section 711 (a) (1), section 710 (a) (2) is not applicable at all.

In computing the adjusted excess-profits net income for the purposes of section 710 (a) (2) (B) (i), the adjusted excess-profits net income is computed with the use of the credit under section 713 and with the

excess-profits credit carry-over which would be available for the taxable year if the excess-profits credit applicable to each of the preceding excess-profits tax taxable years had been the excess-profits credit computed under section 713. The determination of the carry-over for the purposes of this provision may be illustrated by the following example: Assume that in the case of a corporation qualified to use either the credit computed under section 713 or the credit computed under section 714 and reporting its income on the calendar-year basis, the following facts exist:

| | 1940 | 1941 | 1942 | 1943 |
|---|----------|----------|----------|----------|
| Income credit..... | \$50,000 | \$50,000 | \$50,000 | \$50,000 |
| Excess-profits net income under sec. 711 (a) (1)..... | 50,000 | 45,000 | 120,000 | 225,000 |
| Invested capital credit..... | 80,000 | 150,000 | 100,000 | 200,000 |
| Excess-profits net income under sec. 711 (a) (2)..... | 0,000 | 100,000 | 200,000 | 20,000 |

In computing the corporation's excess-profits tax for 1943, the actual excess-profits credit carry-over computed under section 710 (c) (2) is \$40,000.

Under the facts in this illustration, the excess-profits credit which would be available for 1943 if the excess-profits credit applicable to 1940, 1941, and 1942 had been the credit computed under section 713 is \$15,000, computed as follows:

| | |
|--|-----------|
| Unused excess profits credit for 1942..... | None |
| Unused excess profits credit for 1941..... | \$35,000 |
| Less: | |
| Excess of excess-profits net income for 1942..... | \$130,000 |
| Over sum of excess-profits credit for 1942 (\$80,000) plus unused excess-profits credit for 1940 (\$30,000)..... | 110,000 |
| | 20,000 |
| Excess-profits credit carry-over for purposes of sec. 710 (a) (2) (B) (i)..... | 15,000 |

The corporation's excess-profits tax for 1943 determined under section 710 (a) (2) is \$17,000, computed as follows:

| | |
|---|-----------|
| 1. Excess-profits net income for 1943 under sec. 711 (a) (2)..... | \$265,000 |
| Less: | |
| Specific exemption..... | \$5,000 |
| Invested capital credit..... | 200,000 |
| Excess-profits credit carry-over..... | 40,000 |
| | 245,000 |
| Adjusted excess-profits net income under invested capital method..... | 20,000 |
| Amount determined at rates in sec. 710 (a) (1) (85 percent of \$20,000)..... | 7,000 |
| 2. Excess-profits net income under sec. 711 (a) (1)..... | 220,000 |
| Less: | |
| Specific exemption..... | \$5,000 |
| Income credit..... | 80,000 |
| Excess-profits credit carry-over..... | 15,000 |
| | 100,000 |
| Adjusted excess-profits net income..... | 120,000 |
| Excess of adjusted excess-profits net income under the income method over adjusted excess-profits net income under the invested capital method (\$120,000 less \$20,000)..... | 100,000 |
| 10 percent of such excess (10 percent of \$100,000)..... | 10,000 |
| Total excess-profits tax for 1943, computed under sec. 710 (a) (2) (\$7,000 plus \$10,000)..... | 17,000 |

SECTION 202. DISCLAIMER OF CREDIT

Section 712 (c), section 729 (b) (1), and section 741 (b) of the present law are amended to allow a disclaimer of the use of only the credit computed under section 714 (invested-capital credit). The present law allows a disclaimer of either the invested-capital credit or of the income credit in the return of a corporation entitled to use either credit; if the use of a credit is disclaimed, such credit is not applicable for the computation of the excess-profits tax for the taxable year, and the computation and information based on such credit may be omitted from the return. The amendments made by section 202 of the bill are necessitated by the enactment of the special rule of section 710 (a) (2) under which computations of both the adjusted excess-profits net income with the use of the income credit and the adjusted excess-profits net income with the use of the invested-capital credit are required for the determination of the excess-profits tax computed under that section.

SECTION 203. CASES IN WHICH NO RETURN REQUIRED

This section provides a technical amendment to section 729 (b) (2) of the present law in order to require the filing of a return in all cases where the tax is determined under the special rule provided in section 710 (a) (2). The amendment affects only corporations entitled to use either the income credit or the invested-capital credit, which corporations under the present law are not required to file a return if their excess-profits net income computed under the invested-capital method and placed on an annual basis is not greater than \$5,000. Under section 729 (b) (2), as amended, such corporations are not required to file a return if their excess-profits net income computed under the income method and placed on an annual basis is not greater than \$5,000.

SECTION 204. DEDUCTION OF EXCESS-PROFITS TAX

This section provides that the income tax imposed by chapter 1 of the Internal Revenue Code and by corresponding provisions of prior revenue acts shall not constitute an adjustment in determining excess-profits net income for current and base period taxable years. Section 23 (c) (2) is amended to provide for the deduction of the excess-profits tax in determining income subject to chapter 1 tax. Furthermore, the taxpayer, if using the average-earnings method, has its excess-profits credit increased by the corresponding nondeduction of income taxes in determining its average base period net income.

It is provided that the deduction shall be allowed only in computing the income tax imposed for the taxable year for which the excess-profits tax is levied. By providing that any excess-profits tax paid after the taxable year shall be deemed to have been paid within the taxable year, the same treatment is accorded to taxpayers on the cash basis as is accorded to taxpayers on the accrual basis. It is also provided that the excess-profits tax shall be computed, for the purposes of this deduction, without reduction by the foreign tax credit, and without regard to the adjustments provided for in section 734.

Since the excess-profits net income for a taxable year is primarily the normal-tax net income with certain adjustments, it is necessary to amend section 711 (a) to require an adjustment to normal-tax net income in the form of a disallowance of the deduction of the excess-profits tax. A further adjustment is added to this section in the form of a provision stating that, for the purpose of computing any deduction or credit which is limited to a certain percentage of the taxpayer's net income—e. g., the deduction for charitable contributions or for percentage depletion—such net income (or, in the case of percentage depletion, such net income from the property) shall be computed without regard to the deduction on account of the excess-profits tax. It is also provided under section 718 (c) (3) with reference to taxpayers on the invested-capital basis, that in determining whether distributions were out of earnings and profits of any excess-profits-tax taxable year, the income tax shall be disregarded in the computation. Finally, in determining the presence and extent of the taxpayer's right to the benefits of section 722, dealing with abnormalities, it is provided that the excess-profits tax shall be disregarded.

Section 602 of the Internal Revenue Code, dealing with the computation of net income for the purposes of the declared value excess-profits tax, is amended to provide that the net income shall be determined without regard to the deduction on account of the excess-profits tax imposed by chapter 2E. Section 1202 of the Internal Revenue Code is amended in similar fashion.

It is also provided that, in computing the excess-profits credit carry-over, the excess-profits credit and excess-profits net income for taxable years beginning in 1940 shall be computed as if the amendments made by this bill were applicable.

SECTION 205. NEW CAPITAL

This section amends section 718 (a) of the Internal Revenue Code, defining equity invested capital, by adding a new paragraph designated as (6). The effect of the amendment is to increase by 25 percent the amount includible in equity invested capital on account of new capital. The term "new capital" is defined to mean the aggregate of the amount of money and property paid in for stock or as paid-in surplus, or as a contribution to capital, and the amount of taxable stock dividends made, during a taxable year beginning after December 31, 1940, subject to certain limitations. These limitations are intended, in general, to prevent a taxpayer from treating as new capital amounts resulting from mere adjustments in the existing capital, including borrowed capital, of the taxpayer, or of a controlled group of corporations.

The limitations provided by subparagraphs (A), (B), and (C) bar from the concept of new capital the amount of any equity invested capital acquired in an exchange occurring during a taxable year beginning after December 31, 1940, to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable, or would be applicable if the term "control" had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent

of the total value of all classes of stock. These limitations also bar from the concept of new capital any equity invested capital acquired in a transaction between members of a controlled group of corporations as that term is defined in subparagraph (B).

The limitations provided by subparagraph (D) have the effect of reducing the amount of new capital as of any day by the excess of the amount of inadmissible assets held on that day over the amount of such assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. This treatment is comparable to the treatment of excluded assets in the computation of daily capital additions under section 713 (g) of the existing law.

The limitations under subparagraph (E) prevent new capital as of any day from exceeding the amount by which the total equity invested capital and borrowed capital as of such day, computed without including the 25-percent increase, exceeds the sum of the equity invested capital and borrowed capital as of the first day of the taxpayer's first taxable year beginning after December 31, 1940. Any increase in new capital is thus prevented where the amount of borrowed capital is reduced by the same amount as that by which the equity invested capital is increased, and no increase in new capital will result from a distribution by a stock dividend of earnings and profits accumulated prior to the first day of a taxable year beginning after December 31, 1940. Subparagraph (E), however, is so worded that there is no reduction to the extent that the sum of the equity invested capital and borrowed capital as of any day is less than the sum of the equity invested capital and borrowed capital as of the first day of a taxable year beginning after December 31, 1940, due to an operating deficit occurring in any taxable year during the intervening period.

The limitations contained in subparagraphs (A) to (E) may be illustrated by the following examples:

EXAMPLE (1), SUBPARAGRAPH (A)

Corporation A issues stock during a taxable year beginning after December 31, 1940, to corporation B in exchange for the transfer of certain property by corporation B. Immediately after the transfer the stock acquired by corporation B has a value of \$10,000, the total value of all classes of stock of corporation A then outstanding amounting to \$18,000. Corporation A obtains no new capital since the property for which the new stock was issued was obtained in an exchange to which section 112 (b) (5) would be applicable if the term "control" had been defined in section 112 (h) so as to include either the ownership of stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of all classes of stock outstanding.

EXAMPLE (2), SUBPARAGRAPH (B)

Corporation A owns stock in corporation B, and corporation B owns stock in corporation C. Corporation A transfers property to corporation C in exchange for stock of corporation C. Immediately after the transfer the stock owned by corporation A in corporation B possesses more than 50 percent of the total combined voting power of all classes of stock entitled to vote. Also immediately after such transfer the

stock owned by corporation B in corporation C has a value equal to more than 50 percent of the total value of all classes of stock of corporation C.

Corporation C obtains no new capital through the acquisition of the property from corporation A in exchange for its stock, since immediately after the transfer corporation A, the transferor, and corporation C, the transferee, are members of the same controlled group.

EXAMPLE (3), SUBPARAGRAPH (C)

Corporation A makes a distribution in taxable stock dividends to corporations B and C during a taxable year beginning after December 31, 1940. Immediately after the distribution corporations B and C own stock in corporation A which has a voting power of more than 50 percent of the combined voting power of all classes of stock entitled to vote. Also immediately after the transfer corporation B owns stock in corporation C which has a value of more than 50 percent of the total value of all classes of stock of corporation A. The distribution made by corporation A in the taxable stock dividend does not constitute new capital to corporation A.

EXAMPLE (4), SUBPARAGRAPH (D)

Corporation X makes its excess-profits tax return on the calendar year basis. On July 1, 1941, cash in the amount of \$100,000 is paid in for stock. There are no other changes made in either the amount of equity invested capital or borrowed capital at any time during the year 1941. The adjusted basis of inadmissible assets as of January 1, 1941, amounts to \$5,000. The adjusted basis of such assets as of July 2, 1941, is increased to \$15,000. The new capital of \$100,000 is reduced to \$90,000 as of July 2, 1941, by subparagraph (D), as shown by the following computation:

\$100,000, new capital, minus (\$15,000, amount of inadmissibles as of July 2, 1941, minus \$5,000, amount of inadmissibles as of July 1, 1941) = \$90,000.

EXAMPLE (5), SUBPARAGRAPH (E)

Corporation Y makes its return on the calendar year basis. Its equity invested capital as of January 1, 1941, amounts to \$30,000, consisting of money paid in for stock, \$20,000, and accumulated earnings and profits, \$10,000. Its borrowed capital as of January 1, 1941, consists of bonds outstanding amounting to \$15,000, making the total of its equity invested capital and borrowed capital as of January 1, 1941, \$45,000. The corporation has no inadmissible assets at any time during the year 1941. On January 2, 1941, the corporation makes a distribution in taxable stock dividends amounting to \$5,000. On July 1, 1941, money is paid in for stock amounting to \$15,000, and on July 2, 1941, bonds are retired in the amount of \$10,000.

The new capital of \$20,000 acquired during the year 1941 represented by a distribution in a taxable stock dividend amounting to \$5,000 and by money paid in for stock amounting to \$15,000 is reduced to \$5,000 on July 3, 1941, due to the retirement of \$10,000 of bonds on July 2, 1941, and the fact that the stock dividend is paid out of earnings accumulated before January 1, 1941, under the application of subparagraph (E), shown as follows:

The sum of the equity invested capital and borrowed capital on July 3, 1941 (computed without regard to the 25-percent increase for new capital), amounts to \$50,000. This sum exceeds the total equity invested capital and borrowed capital on January 1, 1941, amounting to \$45,000, by \$5,000. Under subparagraph (E) the new capital shall not be more than such excess. The new capital is thus reduced from \$20,000 to \$5,000.

If the accumulated earnings and profits of corporation Y as of January 1, 1942, are reduced to zero due to the stock dividend distribution of \$5,000 made on January 2, 1941, and an operating deficit of \$5,000 during the taxable year 1941, the new capital includible in equity invested capital as of January 1, 1942, would be \$10,000 instead of \$5,000 under the application of subparagraph (E), as shown by the following computation:

New capital as of January 1, 1942, before application of subparagraph (E), \$20,000, shall not be more than the excess of \$50,000 (total capital on January 1, 1942, before adding 25 percent under section 718 (a) (6)) over \$45,000 (total capital on January 1, 1941) less \$5,000 (amount by which the accumulated earnings and profits as of January 1, 1941, exceed the accumulated earnings and profits (computed without regard to distributions as of January 1, 1942), or the new capital cannot exceed \$50,000 minus (\$45,000 minus \$5,000), or \$10,000.

SECTION 206. CORPORATIONS ENGAGED IN MINING STRATEGIC METALS

Under section 731 of the present law in the case of corporations engaged in mining certain metals, only that portion of adjusted excess-profits net income not attributable to such mining is subject to the excess-profits tax. Section 206 of the bill makes this provision inapplicable to taxable years beginning after December 31, 1940.

SECTION 207. TAXABLE YEARS TO WHICH AMENDMENTS ARE APPLICABLE

The amendments relative to the excess-profits tax made by this title are applicable only with respect to taxable years beginning after December 31, 1940.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SECTION 301. CAPITAL STOCK TAX

The defense tax of section 1200 (c) of the Internal Revenue Code, which increased the capital stock tax from \$1 to \$1.10 for each \$1,000 of the adjusted declared value of the capital stock of corporations, is repealed, and in lieu thereof the capital stock tax is increased from \$1 to \$1.25. This provision is applicable only with respect to years ending June 30, 1941, and subsequent years.

SECTION 302. DECLARED VALUE EXCESS-PROFITS TAX—DEFENSE TAX MADE PERMANENT

The defense tax with respect to the declared value excess-profits tax is made permanent.

TITLE IV—ESTATE AND GIFT TAXES

SECTION 401. ESTATE TAX RATES

This section increases the rates applicable to the additional estate tax with respect to decedents dying after the date of enactment of this act.

Subsection (c) of this section makes permanent the defense tax on net estates imposed by section 951.

SECTION 402. GIFT TAX RATES

This section increases the rates for computing the gift tax for the calendar year 1942 and each calendar year thereafter. These increases are not to apply to the calendar year 1941. These gift tax rates are 75 percent of the aggregate of the present estate tax rates and the proposed additional estate tax rates provided in section 401 of this act, thus preserving the ratio now existing between the gift tax rates and the aggregate of the estate tax and additional estate tax rates.

Subsection (c) of this section makes permanent the defense tax imposed for 5 years by section 1001 (d) of the Internal Revenue Code.

SECTION 501. 1932 EXCISE TAXES MADE PERMANENT

This section repeals section 3452 of the Internal Revenue Code which now provides that the manufacturers' excise taxes imposed by chapter 29 shall terminate as of July 1, 1945. It thus makes permanent law the provisions imposing such taxes.

SECTION 502. PIPE-LINE TAX

This section strikes out the termination date (July 1, 1945) applicable to the tax on the transportation of oil by pipe line.

SECTION 503. TECHNICAL AMENDMENT

This section revises the title language of subtitle C of the Internal Revenue Code to make it more descriptive of the taxes included within subtitle C.

SECTION 504. BOND TAX

SECTION 505. CONVEYANCE TAX

The two sections strike out the termination date (July 1, 1945) applicable to the bond transfer and conveyance taxes.

SECTION 521. DEFENSE EXCISE TAX RATES MADE PERMANENT

With respect to the taxes listed hereinafter section 521 incorporates, without change, in the applicable provisions of the Internal Revenue Code the defense tax rates imposed by the First Revenue Act of 1940 and makes such rates permanent. These tax rates were originally pre-

scribed by the First Revenue Act of 1940 to be effective for the period prior to July 1, 1945. The particular taxes are those with respect to—

| | |
|---------------------------|-------------------------------------|
| Box seats. | Brewers. |
| Sales outside box office. | Wholesalers of malt liquors. |
| Corporate securities. | Retailers of malt liquors. |
| Capital-stock issues. | Rectifiers. |
| Capital-stock transfers. | Stills. |
| Insurance policies. | Firearms, etc. |
| Passage tickets. | Electrical energy. |
| Cigarettes. | Gasoline. |
| Pistols and revolvers. | Lubricating oils. |
| Fermented malt liquors. | Transportation of oil by pipe line. |
| Wholesalers of liquors. | Transfer of bonds. |
| Retailers of liquor. | Conveyances. |

SECTION 531. PLAYING CARDS

This section increases the rate of tax on the manufacture of playing cards from 11 cents per pack to 13 cents per pack.

SECTION 532. SAFE-DEPOSIT BOXES

This section increases the rate of tax on the rental of safe-deposit boxes from 11 percent of the amount paid to 20 percent.

SECTIONS 533, 534, LIQUOR

Section 533 amends section 2800 (a) (1) of the Internal Revenue Code, which imposes an excise tax upon distilled spirits and imported perfumes containing distilled spirits at the rate of \$4 (and on brandy at the rate of \$3.75).

The existing rate of tax upon distilled spirits other than brandy, and upon imported perfumes containing distilled spirits, is \$3 per proof gallon; and upon brandy \$2.75 per proof gallon. These are the defense-tax rates imposed by section 213 of the Revenue Act of 1940, effective July 1, 1940. The rates proposed by the bill, therefore, represent an increase of \$1 per proof gallon over the defense-tax rates. The defense-tax rates are 75 cents per proof gallon over and above the rates in effect prior to July 1, 1940.

Subsection (c) of section 533 makes a complementary amendment to section 2887 of the Internal Revenue Code, which provides for the allowance of drawback of internal-revenue tax upon the exportation of distilled spirits in distillers' original packages.

Subsection (d) will amend section 2800 of the Internal Revenue Code by adding a new subsection "(i)" to provide a floor-stocks tax of \$1 per proof gallon on all distilled spirits upon which the tax has been paid and which on the effective date of the new rates are held and intended for sale or for use in the manufacture or production of any article intended for sale. This subsection will have the effect of placing all distilled spirits tax-paid at the old rates and held for the purposes specified on an equal tax basis with other distilled spirits withdrawn and tax-paid at the new rates. It will preclude loss of revenue through the withdrawal and tax payment of large stocks before the new rates become effective. As in prior floor-stocks tax statutes, provision is made for the filing of returns and for deferring payment of the tax upon the submission of satisfactory surety bonds.

This subsection also provides that for the purposes thereof the term "distilled spirits" shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g) of the Internal Revenue Code. The object of this provision is to subject to the floor-stocks tax liqueurs, cordials, and similar compounds in the manufacture of which distilled spirits are a constituent.

The existing rates on still wines are as follows: Not more than 14 percent of absolute alcohol, 6 cents per wine gallon; more than 14 percent and not exceeding 21 percent of absolute alcohol, 18 cents per wine gallon; and more than 21 percent and not exceeding 24 percent of absolute alcohol, 30 cents per wine gallon. Section 534 (a) of the bill imposes rates of 8, 24, and 50 cents respectively. The proposed rates represent an increase of 2 cents, 6 cents, and 20 cents per gallon over existing rates.

The existing tax rates on other wines are as follows: Sparkling wines, 3 cents on each one-half pint or fraction thereof; artificially carbonated wines, 1½ cents on each one-half pint or fraction thereof; liqueurs, cordials, and similar compounds, 1½ cents on each one-half pint or fraction thereof. Section 534 (b) of the bill imposes rates of 4 and 2½ cents respectively. The proposed rates represent an increase of 1 cent on sparkling wines and three-fourths of 1 cent on artificially carbonated wines, and liqueurs, cordials, and similar compounds, over the tax rates on such products.

Subsection (e) of section 534 will amend subchapter F of chapter 26 of the Internal Revenue Code by inserting at the end thereof a new section imposing a floor-stocks tax on all wines on which the tax has been paid and which are held and intended for sale or for use in the manufacture or production of any article intended for sale on the effective date of the new rates. This subsection, like subsection (d) of section 533 in the case of distilled spirits, will have the effect of placing all wines tax-paid at the old rates and held for the purposes specified on a basis of equality, insofar as taxation is concerned, with other wines withdrawn and tax-paid at the new rates.

SECTION 535. TIRES AND TUBES

This section increases the rate of the manufacturers' excise tax (defense tax rates) on tires from 2½ cents per pound to 5 cents per pound and the rate of tax on inner tubes from 4½ cents per pound to 9 cents. It imposes a floor stocks tax on tires and inner tubes held for sale by any person other than the manufacturer, producer, or importer on the date the increased manufacturers' excise tax rates take effect. The floor stocks tax rates are in an amount equal to the increase in the rates of the manufacturers' tax. The floor stocks tax is restricted in its scope to tires and inner tubes for automobiles, trucks, trailers, motorcycles, etc., and will not be applicable to such miscellaneous items as bicycle tires, baby buggy tires, etc. The tax is specifically made applicable to tires and tubes held by automobile manufacturers as, or for, equipment on new automobiles. It is not made applicable to tires and tubes actually on automobiles held by new and second-hand car dealers but is applicable to the stocks of unmounted tires and tubes held by such dealers and by any person, including retailers, for sale. The floor stocks tax does not apply

to any tires and tubes held by a person who must pay the increased manufacturers' excise tax rate on such articles when he sells them.

SECTION 536. EFFECTIVE DATE OF PART III

This section applies to sections 531 to 535, inclusive, and provides, in brief, that the increased tax rates and new taxes imposed by such sections shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of the bill.

SECTION 541. ADMISSIONS TAX

This section subjects to the admissions tax admissions of 10 cents or more at the rate of 1 cent for each 10 cents or fraction thereof. Under existing law the admissions tax applies only to admissions of 21 cents or more. Under this section admissions under 10 cents will be exempt from the tax.

The special treatment under the admissions tax with respect to so-called free or reduced rate admissions now applicable to employees, municipal officers, and children under 12 years of age, is extended to include members of the military or naval forces of the United States and of the Civilian Conservation Corps when in uniform. For example: If the established price is 50 cents and a soldier in uniform is charged only 20 cents, the tax would be 2 cents and not 5 cents. If he is admitted free no tax is payable.

Section 541 repeals section 1701 of the Internal Revenue Code, which allows exemption from the admissions tax to certain organizations.

This section also repeals the exemption provision applicable to "spoken plays" and certain exemption provisions applicable to national parks.

SECTION 542. CABARET, ROOF GARDEN, ETC., TAX

This section revises the base of the present "cabaret" tax. It imposes a tax of 5 percent on amounts paid for admission, refreshment, service, and merchandise at any roof garden, cabaret, or other similar place furnishing a public performance for profit. Liability for the tax is imposed on the proprietor. The tax applies to all amounts paid. Under present law the tax is imposed on the patron under a rather complicated rate of 2 cents (including the defense tax) for each 10 cents of 20 percent of the amount paid if 20 percent of the amount paid exceeds 50 cents.

This section also makes certain amendments to administrative provisions of the code applicable to the "cabaret" tax and other admission taxes.

SECTION 543. CLUB DUES

This section reduces the amount used as a test for determining liability to the tax on club dues from \$25 annual dues of an active resident annual member to \$10, and redefines the term "dues" to include certain privilege fees and assessments not now subject to the tax.

This section also makes the defense tax rates applicable to dues and initiation fees, as imposed by the first Revenue Act of 1940.

SECTION 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX

This section increases the rates of tax on automobile truck chassis, truck bodies, etc., from 2½ percent to 5 percent and brings trailers and semitrailers for trucks within the scope of the tax. Passenger busses which under present law are subject to the higher rate of tax applicable to passenger automobiles have been included within the "truck" classification, and will be subject to the new 5-percent rate.

The rate of tax on passenger automobile chassis and bodies, motorcycles, etc., is increased from 3½ percent to 7 percent. Trailers and semitrailers for such vehicles are made subject to the tax. Subsection (b) of section 544 increases the rate of tax on automobile parts and accessories from 2½ percent to 5 percent. It excludes automobile radios which have heretofore been subject to tax as automobile "parts or accessories." Automobile radios are by section 545 made subject to the manufacturers' tax on radio sets and parts at the rate of 10 percent.

Subsection (c) of section 544 increases the rates of credit allowable under this section to automobile manufacturers with respect to the tires and inner tubes on such vehicles from 2½ to 5 percent in the case of trucks, busses, etc., and 3½ to 7 percent in the case of other automobiles and motorcycles.

Subsection (d) repeals section 3403 (f) of the Internal Revenue Code which would allow a tax adjustment with respect to floor stocks of passenger automobiles, trucks, etc., held by dealers as of the termination date of the present tax on such vehicles. This is done because the termination date of such tax has been deleted and the tax made of a permanent nature. Section 3403 (f), therefore, becomes unnecessary.

SECTION 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS

Section 3404 of the Internal Revenue Code now imposes a tax on sales by the manufacturer of certain radio components at the rate of 5½ percent of the sale price. Section 545 amends section 3404 of the code so as to impose a tax at the rate of 10 percent on—

| | |
|--|---|
| Radio receiving sets. | Certain principal components of these articles. |
| Automobile radio receiving sets. | Phonograph records. |
| Combination radio and phonograph sets. | Musical instruments. |
| Phonographs. | |

The articles listed have been included within the same section of the code because largely related.

SECTION 546. REFRIGERATORS, AIR CONDITIONERS

Section 3405 of the Internal Revenue Code imposes a tax on sales by the manufacturer of household type mechanical refrigerators and certain principal components of such articles at the rate of 5½ percent of the sales price. Section 546 amends section 3405 of the code to increase the tax rate to 10 percent and to make the tax applicable to the principal commercial types of refrigerators, including such articles as ice-cream cabinets, food and beverage display cases, water coolers, milk-cooler cabinets, and similar articles. In addition, there are

brought within the scope of the tax components of refrigerating apparatus such as compressors, condensers, evaporators, expansion units, absorbers, and controls. However, the tax with respect to such components is not limited to components for the household, commercial, and industrial type of refrigerator units referred to above. Refrigerating components will be subject to tax regardless of their intended use. For example, components for refrigerator ships and refrigerator cars, and for the refrigerating plants of breweries and cold-storage warehouses will be subject to the tax.

Section 546 also imposes a tax at the rate of 10 percent on the sale by the manufacturer of self-contained air-conditioning units and certain principal components of such articles.

SECTION 547. MATCHES

Section 3409 of the Internal Revenue Code now imposes a tax at the rate of 5½ cents per thousand on certain fancy wooden matches. Section 547 amends section 3409 of the code to also impose a tax at 2 cents per thousand on other types of matches. The types of matches subject to the new tax at 2 cents per thousand include the well-known types of wooden and paper matches now in every day use.

SECTION 548. TELEPHONE, TELEGRAPH, ETC.

Section 548 imposes on telephone conversations, telegraph, cable, and radio dispatches, messages and conversations, for which the charge is more than 24 cents, a tax at the rate of 5 cents for each 50 cents or fraction thereof of the amount paid. Under existing law, the tax on telephone toll service does not apply to charges of less than 50 cents. Telegraph dispatches and messages are now subject to tax at the rate of 5 percent of the amount charged, and cable and radio dispatches and messages at the rate of 10 cents per message.

This section also amends section 3465 (b), which imposes a tax with respect to leased wires and talking circuit special service, to more clearly specify the types of service subject to tax, to impose the tax where the service is rendered within a local exchange area and to also tax like service furnished by companies other than telegraph and telephone companies. The present tax is restricted to service furnished by a telegraph or telephone company.

This section also imposes a tax on amounts paid by subscribers for local telephone service and all other telephone service not otherwise within the tax with respect to telephone toll charges and the tax with respect to leased wires. For example, in addition to local subscribers' service, this tax also applies to telephone toll service where the charge is 24 cents or less. As the tax is imposed only on telephone "service," special provision is made to insure that charges for installation of instruments, poles, switchboards, apparatus, and equipment are not subject to the tax. Although service through coin-operated telephones is not subject to the tax on local subscribers' service it is subject to tax in the case of toll charges of more than 24 cents. Coin-operated telephone service cannot be subject to the tax because of the impracticability of charging the patron 5 percent of 5 cents, and collecting the 5-percent tax through the instrument. As the tax on telephone toll service is collected in multiples of 5 cents, it can be collected through coin-operated telephones.

SECTION 549. INSTALLMENT, ETC., PAYMENTS

Section 549 makes certain changes in section 3441 (c) of the Internal Revenue Code which relates to articles leased or sold under installment or conditional sales contracts. Under section 3441 (c) the taxpayer is permitted to pay the tax as payments are made under the lease or conditional or installment sales contract. The provisions of section 1650 (b) of the Internal Revenue Code is revised and included within section 3441 (c), thus incorporating in the section a provision that where the lease or installment or conditional sales contract was entered into before July 1, 1940 (and delivery made before such date), the rate of tax is to be that in force on June 30, 1940. With respect to the period after June 30, 1940, and before July 1, 1941, the rate of tax applicable is to be that in effect during such period.

Provision is made in this section to take care of leases and conditional sales of articles the sale of which is newly subject to an excise tax by this bill or to an increased rate of tax. Under this section, payments under leases and installment contracts entered into on and after July 1, 1941, will be subject to the increased rate of tax or, if the tax is imposed for the first time by the bill to the tax.

SECTION 550. EFFECTIVE DATE OF PART IV

Section 550 contains provisions respecting the effective date of new taxes, or increases in existing rates of tax, or changes in tax base, effected by sections 541 to 548. With certain exceptions, the provisions are the same as those described in the discussion of section 536, i. e., the first day of the first month which begins more than 10 days after the date of the enactment of the bill. The changes with respect to the "cabaret" tax become effective at 10 a. m. on the effective date for considerations peculiar to that tax. Special provision is made for the effective date of the tax imposed by section 548, with respect to local subscribers' telephone service, in order to give telephone companies (who will collect the tax for the Government) an opportunity to adjust their billing practices to the tax. It was also desired to restrict the application of the tax, as far as is reasonably practicable, to service rendered after the date of the enactment of the act. It is recognized, however, that some local service rendered prior to the date the act is enacted (but billed after such date) will be subject to the tax. It is intended to tax such service.

SECTION 551. SOFT DRINKS

This section imposes a tax on sales by the manufacturer of bottled soft drinks, finished or fountain sirups, and carbonic acid gas.

The tax rate on bottled soft drinks is one-sixth cent per bottle if made to retail at not more than 10 cents; one-third cent per bottle if made to retail at more than 10 cents and not more than 20 cents; one-half cent if made to retail at more than 20 cents. Bottles containing more than 33 fluid ounces are subject to tax at the rate of 6 percent of the manufacturer's sale price.

The rate of tax with respect to finished or fountain sirups is 6 cents per gallon. The rate of tax with respect to carbonic acid gas is 4

cents per pound. These particular rates of tax are as closely equivalent, as may be practically ascertained, to the rates of tax applicable to bottled soft drinks. That is to say, a soft drink sold at a soda fountain, made with sirup and carbonic acid gas, will bear, in most instances, relatively the same tax burden as a competitive bottled soft drink.

In the case of sirups, no tax is imposed on sirups sold for use by the vendee in the preparation of bottled soft drinks or for consumption by a vendee (not engaged in the preparation of soft drinks) in some use other than the preparation of soft drinks. Similarly, no tax is imposed on the use of sirups by the manufacturer in the preparation of bottled soft drinks, or the consumption of sirups by a manufacturer (who is not engaged in the preparation of soft drinks) in some use other than the preparation of soft drinks. Under these provisions, for example, a baker (providing he does not also use sirups at a soda fountain) can buy sirups "tax-free" from the manufacturer for use in baking. On the other hand, a grocer may not buy finished or fountain sirups "tax-free" for resale to his trade. No provision is made for refund of the tax in the case of sirups resold by any person for consumption other than in the preparation of soft drinks.

In the case of carbonic acid gas, the tax is restricted to carbonic acid gas in gaseous, liquid, or solid form, suitable for use in the preparation of soft drinks. As there are relatively few manufacturers of and dealers in this product, provision is made that sales by dealers will be subject to the tax, but the dealer may purchase such gas tax-free. That is to say, the sale of carbonic acid gas to a dealer in such gas for resale is not subject to the tax. The resale by the dealer is, of course, subject to the tax.

SECTION 552. NEW MANUFACTURERS' EXCISE TAXES

This section imposes taxes on sales by the manufacturer, producer or importer, of the articles listed hereinafter at the rates given:

| | Percent |
|----------------------------------|---------|
| Sporting-goods..... | 10 |
| Luggage..... | 10 |
| Electrical appliances..... | 10 |
| Photographic apparatus..... | 10 |
| Electric signs..... | 10 |
| Business and store machines..... | 10 |
| Rubber products..... | 10 |
| Washing machines..... | 10 |
| Optical equipment..... | 10 |

In the case of sporting goods, luggage, electrical appliances, photographic apparatus, business and store machines, and optical equipment, the particular articles the sale of which is subject to tax are named. Uniforms and sport clothing are not within the scope of the tax on sporting goods.

In the case of electric signs, the tax applies to articles falling within the general classifications of neon-tube signs, electric signs, and electric advertising devices.

It is recognized that a number of articles falling within the scope of the excise taxes listed herein may also fall within the scope of the jewelry retail sales tax imposed by section 553. Provision is accordingly made that such articles will be subject to the jewelry retail sales tax and not to the manufacturers' excise taxes imposed by this section.

SECTION 553. NEW RETAILERS' EXCISE TAXES

This section adds a new chapter 10 imposing new taxes on retail sales of jewelry, furs, and toilet preparations each at the rate of 10 percent of the price for which the article is sold. The articles falling within the jewelry tax (including clocks, watches, cases, and movements) are articles which have in former jewelry excise taxes been classified as jewelry. There are added flat ware and hollow ware made of gold or silver, or plated. The tax will not apply to religious articles, surgical instruments, or frames or mountings for eyeglasses.

The fur tax is to be imposed on the sale of articles made of fur on the hide or pelt and articles of which such fur is the component material of chief value. This is a classification which has been used in earlier manufacturers' excise taxes with respect to furs.

A tax on the sale at retail of toilet preparations is imposed in place of the existing tax on sales by the manufacturer (imposed by sec. 3401 of the Internal Revenue Code). Provision is made that beauty parlors and barber shops shall make monthly returns of toilet preparations used in the treatment of patrons and the quantity used during the month shall be considered to have been sold at retail by such establishments.

Section 553 contains, or makes applicable, the administrative provisions necessary to the administration of these retail-sales taxes.

This section also provides that the present tax on sales of toilet preparations by the manufacturer (imposed by sec. 3401 of the Internal Revenue Code) shall not apply to articles sold after the effective date of the retail-sales tax. Manufacturer's tax previously paid with respect to articles which will also be subject to the retail-sales tax will not be refunded.

SECTION 554. TRANSPORTATION OF PERSONS, ETC.

This section imposes a tax on the amount paid within the United States for the transportation of persons by rail, motor vehicle, water, or air, within or without the United States. The rate is 5 percent of the amount paid and tax liability is imposed on the person making the payment. Where the amount paid is less than 35 cents the tax does not apply. In the case of commutation or season tickets the tax does not apply if the particular trips the holder of the commutation or season ticket is entitled to make under the ticket are less than 30 miles. For example, a commutation ticket entitling a person to transportation for a certain number of trips between two points is not subject to tax if the distance between the two points is less than 30 miles. These provisions will exempt local street car, bus, and taxi service. Amounts paid for commutation tickets for one month or less are also exempt from tax.

This section also imposes a tax on amounts paid for seating or sleeping accommodations in connection with taxable transportation.

Provision is made that the time for filing returns may be extended for as much as 90 days in order that carriers may have the necessary time to assemble, from widely scattered points, necessary data for making returns. Provision is also made that the tax shall not apply to transportation facilities furnished the United States, to any State or Territory or political subdivision thereof, or the District of Columbia.

Section 554 (d) provides that the stamp tax on steamship passage tickets imposed by section 3469 of the Internal Revenue Code shall not apply to any tickets the purchase of which is subject to tax under the new transportation tax.

SECTION 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES

This section imposes an occupational tax of \$25 per annum per machine on each person who maintains for use, or permits the use of, on premises occupied by him, a coin-operated amusement or gaming device. "Coin-operated amusement or gaming devices" are, briefly, machines which fall within the general classification colloquially referred to as "pin ball" machines and "slot machines." A separate liability is incurred with respect to each machine, but if one such machine is replaced by another, such other machine will not be considered an additional machine.

SECTION 556. BOWLING ALLEYS, ETC.

This section imposes an occupational tax on persons operating bowling alleys, billiardrooms or poolrooms. The rate of tax is \$15 per annum for each bowling alley, billiard table, or pool table. All types of establishments maintaining such equipment, including clubs or social organizations, etc., are subject to the tax. Maintaining such equipment in a private home is not subject to tax.

As in the case of other occupational taxes, the tax year begins July 1 of each year.

However, if after payment of tax and prior to the end of the tax year, additional bowling alleys, or billiard or pool tables, are placed in operation, a supplemental return must be filed and tax paid with respect to the additional equipment for the period beginning with the day of the month in which operation of the additional equipment commenced.

SECTION 557. TAX ON OUTDOOR ADVERTISING

Section 557 imposes an annual special tax on persons engaged in the business of furnishing to others the use of billboards for outdoor advertising. The special tax is based on the number of billboards maintained or controlled by the taxpayer during the tax year, and the rate is graduated according to the number of such billboards in each size classification. There are three classifications taxable, respectively, at \$5, \$8, and \$11, per billboard.

SECTION 558. TAX ON USE OF MOTOR VEHICLES AND BOATS

This section imposes a tax on the use of motor vehicles and boats. In the case of motor vehicles the tax is \$5 per annum. In the case of boats the rate of tax ranges from \$5 per annum on boats having an over-all length of 16 feet or over but not over 28 feet, to \$200 per annum on boats over 200 feet in over-all length. In the case of motor vehicles the tax is to be paid by the person in whose name the motor vehicle is, or is required to be, registered. In the case of boats, the tax is to be paid by the owner of the boat. The effective date of the tax is February 1, 1942. That is, the use of motor vehicles and boats before that date is not subject to tax.

The tax year begins, however, July 1. Persons using motor vehicles after February 1, 1942, would, therefore, pay a proportionate part of the \$5 annual tax from the first day of the month in which the use began after February 1, 1942, to July 1, 1942. That is, a person beginning the use of a motor vehicle in the month of February 1942 would pay five-twelfths of the \$5 tax. A person beginning the use of a motor vehicle during the month of July 1942 would pay the full \$5 tax for the period from July 1, 1942, to June 30, 1943.

The term "motor vehicle" is defined to mean motor vehicles of the kind "chiefly used for highway transportation." Accordingly, no tax is imposed with respect to trailers for motor vehicles.

The term "boat" is defined to mean all boats propelled or equipped for propulsion by machinery, sail, or motor measuring 16 feet or more in over-all length, owned by a citizen or resident of the United States. Hence, for example, a citizen and resident of Canada bringing his boat into territorial waters of the United States would not be liable for the tax. Boats used for trade or commercial fishing and certain boats used for the relief of seamen are not subject to the tax. Liability in the case of a boat does not depend on use for actual transportation. Any form of use is taxable. A boat maintained and available for transportation is in use.

If the tax is paid with respect to any motor vehicle or boat for any year, no further tax for that year is imposed with respect to such vehicle or boat. For example, if a person using an automobile pays a tax with respect to such use and thereafter sells the automobile, the purchaser is not liable for the tax on the use of such automobile for the balance of the particular tax year. However, the tag or other evidence of payment is not transferable from one vehicle or boat to another, so that one who sells or "trades in" a vehicle or boat with respect to which a tax has been paid and procures another must pay a second tax.

In the administrative provisions made applicable to the tax, wide latitude is given to the Commissioner of Internal Revenue with respect to the method of collecting the tax, and for prescribing a form of stamp, sticker, or tag to be affixed to the motor vehicle or boat as evidence that the tax has been paid. Provision is made for allowing the cooperation of the Post Office Department or of private persons to assist in the collection of the tax.

Persons liable for the tax who use or permit the use of a motor vehicle or boat before the tax has been paid shall be guilty of a misdemeanor and be punished by a fine of \$25 or 30 days' imprisonment or both. A similar penalty is imposed on a person who uses or operates a motor vehicle or boat which does not bear a stamp, sticker, or tag affixed in the manner provided in the Commissioner's regulations. The use of motor vehicles or boats by the United States, a State, Territory, or political subdivision thereof or the District of Columbia is not subject to tax.

SECTION 559. EFFECTIVE DATE OF PART V

This section provides that the new taxes imposed by sections 551 to 558 will take effect on the first day of the first month which begins more than 10 days after the date of the enactment of the act.

TITLE VI—RADIO BROADCASTING STATIONS AND NETWORKS

SECTION 601. RADIO BROADCASTING STATIONS AND NETWORKS

This section imposes an excise tax for the calendar year 1942 and each succeeding calendar year upon every person who during the year operates a radio broadcasting station or engages in network broadcasting at any time during such calendar year. The tax is equal to a given percentage of net time sales during the year. A net time sale is the gross amount received or accrued from a sale of radio time, not including the amount of any commission to an advertising agency (up to 15 percent of the gross amount), and minus any amounts paid or incurred by the taxpayer, pursuant to the sale of radio time by him, for broadcasting time to other persons operating radio stations or engaged in network broadcasting. Such other persons are in turn liable with respect to the amounts so paid to them. If the taxpayer is on a cash basis of accounting, net time sales are computed with reference to amounts received and amounts paid. In the case of a taxpayer on an accrual basis of accounting, net time sales are computed with reference to amounts accrued and liabilities incurred.

The rates of tax are 5 percent where the net time sales during the year exceed \$100,000 and do not exceed \$500,000, 10 percent where the net sales exceed \$500,000 and do not exceed \$1,000,000, and 15 percent where the net sales exceed \$1,000,000. The tax is measured in each case by the entire amount of the net time sales but the liability of a taxpayer in one classification cannot exceed the maximum liability under the next lower classification plus the amount of the taxpayer's net time sales in excess of the maximum net time sales taxable under the lower classification. If the net sales do not exceed \$100,000 no tax is imposed.

A return for the calendar year must be made prior to March 1 of the succeeding year.

APPENDIX

MANDATORY JOINT RETURNS

PRIOR ADVOCACY

When the Hill subcommittee met in 1933 to consider "income-tax loopholes," one of the issues raised was that of community property. At that time the staff of the Joint Committee on Internal Revenue Taxation offered a proposal to tax the income to the spouse having management and control of the property. This proposal was defeated in the subcommittee by a very close vote. The subcommittee in its report said:

The income-tax situation existing in eight States of the Union having community-property laws has been carefully considered. No recommendation in regard thereto is made by your subcommittee in view of the legal difficulties involved.

The full committee held public hearings on the subcommittee report. At that time Dr. Magill appeared, representing the Treasury Department. In this connection, he stated:

Under the present law, a husband and wife living together may, at their own option, make separate returns or may make a single joint return. If each has an

income of any considerable size, each will ordinarily make a separate return, in order to reduce the normal tax, and, more particularly, the surtaxes which would otherwise be payable. The family income is in fact frequently expended and otherwise treated as a unit; nevertheless, if the husband and wife can so arrange their affairs that the wife is in receipt of a portion of the family income, income taxes can be considerably reduced. In other words, the present privilege of filing separate returns operates to that extent to defeat the progressive rate schedule, particularly in the case of the larger taxpayers.

The Treasury Department therefore recommends that the committee consider whether a husband and wife living together should not be required to file a single joint return, each to pay the tax attributable to his share of the income. Such a provision has long been in force in other countries.

Reference may be made in this connection to the *Hosper case* (284 U. S. 206), in which the Supreme Court held that a somewhat similar provision in the Wisconsin income-tax statute was invalid. The case is not, however, conclusive for two reasons. In the first place, the Wisconsin law was evidently interpreted by the Court as requiring that the husband should pay the tax on his wife's income. This objection can be eliminated by proper draftsmanship specifying otherwise. In the second place, the Federal Government is not under the same constitutional restrictions as the States in this respect.

In the 1934 hearings (p. 118), Dr. Magill stated in answer to a question by Mr. Cooper as to the status of the law:

My own view is that a provision of this kind is so fair that the likelihood is that the court will uphold it, and I don't see anything in these decisions which would prevent them from so holding.

On June 1, 1937, the President of the United States transmitted to the Congress a letter from the Secretary of the Treasury, dated May 29, 1937, discussing the devices being employed by taxpayers of large incomes to avoid income taxes. Among these devices were the following:

THE DEVICE OF THE CREATION OF MULTIPLE TRUSTS FOR RELATIVES AND DEPENDENTS

Splitting income two ways, between husband and wife, reduces income taxes and leaves the family income intact. Splitting the family income many ways by means of many trusts, all for the same beneficiaries, may effect a much greater saving, while leaving the money actually in the same hands. For the creator of the trust often constitutes himself or his wife as trustee, and thus retains full control over the investment and disposition of the fund itself and of its income.

One thrifty taxpayer has formed 64 trusts for the benefit of four members of his immediate family, and thereby claims to have saved them over \$485,000 in 1 year in taxes.

Another thrifty pair have constituted 40 trusts for their relatives, and a prominent lawyer and his wife utilize 16 trusts for the same purpose. The first pair maintains numbered brokerage accounts, and only at the end of the year are the beneficial owners identified. In this way innumerable transactions are carried on, often between accounts, which do not actually affect the beneficial interests of their owners, but which are designed solely to reduce tax liability.

THE DEVICE OF HUSBAND AND WIFE OR FATHER AND CHILDREN PARTNERSHIPS

The purpose of these partnerships, like the multiple trusts, is to split the family income artificially into two parts; or, if the children are taken in, into still smaller fractions.

There are many instances of this kind; but to illustrate the point, it is sufficient to cite the case of a New York brokerage firm which late in 1935 admitted into partnership the four minor children, two boys and two girls, of one of the partners. The tax saving he sought thereby in 1936 amounted to over \$50,000.

THE DIVISION OF INCOME BETWEEN HUSBAND AND WIFE IN THE EIGHT COMMUNITY-PROPERTY STATES

This is another major cause of revenue loss, which is unjustifiable because obtained at the expense of taxpayers in the 40 States which do not have community-property laws. A New York resident with a salary of \$100,000 pays about

\$32,525 Federal income tax; a Californian with the same salary may cause one-half to be reported by his wife and the Federal income taxes payable by the two will be only \$18,626. The total loss of revenue due to this unjustifiable discrimination against the residents of 40 States runs into the millions.

Dr. Magill, as the representative of the Treasury, in his testimony before the Tax Evasion and Avoidance Committee in 1937, said:

In his statement to the Committee on Ways and Means the Acting Secretary also pointed out that the problem of taxing the incomes of spouses has a broader aspect than that of eliminating the discrimination in favor of husbands and wives living together in community-property States. Since spouses living together in non-community-property States may file separate returns, there is a strong incentive for them to arrange their property holdings in such a way as to realize the greatest possible tax advantage through a division of income or an allocation of losses (p. 310).

And then in answer to the remedy for this situation, Dr. Magill said:

I do not know whether we have got anything essentially different from what was worked out in 1933 and 1934 or not. I have not been able to go over that carefully in the last 2 or 3 weeks. As I say, our net suggestion is that we think it would be desirable over the country as a whole to provide that the incomes of husbands and wives living together should be aggregated and the tax computed with respect to the total (p. 312.)

REPORT OF THE ROYAL COMMISSION (GREAT BRITAIN) ON THE INCOME TAX

The following is taken verbatim from the Report of the Royal Commission (1920):

SECTION VII. THE ASSESSMENT OF MARRIED PERSONS

248. The correct method of assessing married persons has received a great deal of public attention both before and since the appointment of this Commission. The matter has been freely ventilated in the press and has been raised on several occasions in the House of Commons. In the course of our inquiry a considerable volume of evidence on the subject has been presented to us, and we have examined witnesses from representative women's societies; we have also received a large number of letters in connection with this part of our investigation.

249. Speaking generally, the existing position is that husband and wife are regarded as one unit for the purpose of income tax; the income of a married woman living with her husband being deemed to be (for this purpose) the income of the husband, and the husband being responsible for the inclusion of his wife's income in his own return; but this general position is subject to two important modifications.

(a) It is in the power of either spouse to elect to be separately assessed, and if that election is made, income tax is assessed, charged, and recovered on the income of the husband and on the income of the wife as if they were not married.

(b) If a married woman earns income by her own personal labor, and her husband also earns income unconnected with his wife's business or employment, a separate claim of exemption or abatement can be made in respect of the wife's earned income—provided the joint income of husband and wife does not exceed £500.

250. The option of separate assessment referred to in (a) dates from 1914; it applies to married men equally with married women, but it does not appear to be very widely known; indeed, some of the witnesses

seem to have been unaware of the existence of any such provision. The option is rarely taken advantage of, either because of this prevailing want of knowledge, or because its exercise is not in fact often desired. Although a married woman can make a separate return and be assessed separately from her husband, if she wishes it, the total of their separate liabilities to income tax, if the election is made, does not differ from the combined liability that would have arisen if the option had not been exercised. For example, if husband and wife have incomes of £2,000 and £1,000 a year respectively, and claim to be separately assessed, neither is granted exemption from supertax, but the liability attaching to an income of £3,000 is divided, and charged separately upon husband and wife in proportion to the size of their respective incomes.

251. This position does not satisfy the more extreme advocates of separate assessment; they say that husband and wife should be assessed as though they were separate taxable units—without any regard to the amount of their combined incomes. This contention has been urged upon us by many witnesses, and it forms the burden of the many letters we have received on this subject—mainly written by persons who would themselves benefit by the change proposed. By those who take this view it is claimed that the right to a completely separate assessment is an essential part of separate citizenship, and that the principle of absolute equality in regard to civil obligations should override any principle of taxation. The statement was also made that the present method of assessment imposes a penalty on marriage.

252. On the other hand, it has been contended by several witnesses that this proposal for separate assessment of husband and wife is not reconcilable with a just view of the principle of ability to bear taxation, and that the common mortgage which is our general mode of social life must be considered in any equitable system of taxation. From the point of view of ability to pay those who oppose separate treatment contend that it would be an anomaly if different sums of income tax were levied on two married couples enjoying equal incomes, merely because in one case the income belonged wholly to one spouse and in the other to both. In the case of a married man with £1,000 a year unearned income, the sacrifice involved by income tax, say £187 10s., may in most households be regarded as borne equally by each spouse, a sacrifice of £93 15s. each. If the husband and wife each have £500 a year there is no such difference in their taxable capacity as would justify a sacrifice of only £60 a year each, which is what would result from treating husband and wife as two separate units.

253. If we conceive a number of households where the wife has a varying amount of separate income, but where the total income (unearned) of the husband and wife is the same, the anomalies that would result from the proposed method of separate assessment will be apparent. Let the total income be assumed to be £1,000.

| | £ | s. | d. |
|--|-----|----|----|
| If the husband has the whole income, the tax paid would be..... | 187 | 10 | 0 |
| If the husband has £900 and the wife £100, the tax paid would be.... | 168 | 15 | 0 |
| If the husband has £800 and the wife £200, the tax paid would be.... | 162 | 0 | 0 |
| If the husband has £700 and the wife £300, the tax paid would be.... | 145 | 2 | 6 |
| If the husband has £600 and the wife £400, the tax paid would be.... | 135 | 15 | 0 |
| If the husband has £500 and the wife £500, the tax paid would be.... | 120 | 0 | 0 |

H. Rept. 1040, 77-1—5

The difference in the sums borne by the first and last of these households with identical incomes would thus be £67 10s., a result which appears to us not only inequitable but ridiculous under a system which aims at adjusting the tax in accordance with the principle of ability to pay.

254. Other witnesses referred to the fact that the income of husband and wife under the ordinary conditions of married life is treated as a joint one so far as expenditure is concerned, and argued that it is, therefore, not unfair to make their expenditure for taxation dependent upon their total resources. Under the present law and practice if the husband and wife are living apart their incomes are treated as separate subjects for assessment. It was pointed out that if the allegation is correct that joint assessment is conducive to immorality (an allegation unproved in the course of our inquiry and characterized by one of the women witnesses as being neither reasonable nor probable), the logical, even if not the practicable, remedy is to render liable to joint assessment the income of two unmarried persons living together.

255. It has been stated by the Chancellor of the Exchequer in the House of Commons that the loss which would arise from the separate assessment of husband and wife would be £20,000,000, increasing possibly to £45,000,000 in consequence of avoidance of tax by transfer of income from the husband to the wife. To shift a burden from the shoulders of persons whose joint income is such that their ability to pay permits of its being equitably borne by them, and to place part of that burden, by means of an increased rate, upon the shoulders of other taxpayers, would be, in our opinion, entirely contrary to all principles of equitable assessment.

256. We feel that the demand of those who favor this change is in effect not so much a demand for separate assessment or separate recovery of tax—this they can have under the existing law—as for a diminution in income-tax liability on the ground that part of the joint income happens to belong to the wife. There are two methods of recognizing, by diminished taxation, the obligations of marriage. One is to make an allowance, a wife allowance or marriage allowance, from the joint income; this wife allowance is already granted under the present law, and we have made proposals which will in effect increase it considerably. The other method is, by a complete severance in the treatment of husband and wife for income-tax purposes, to effect a differentiation the results of which will depend entirely on the particular manner in which a given income chances to be distributed between the two members of the household. The first method, seeing that it affects every married couple, is far more likely than the second to encourage marriage.

257. It strikes us as curious that, while ignoring the joint obligation of husband and wife for the purpose of pressing their claim to entirely separate treatment, the same witnesses have asked for increases in the wife and children allowances—which are express recognitions of the joint responsibilities created by marriage. It seems to us that it would be quite illogical, under the same system of taxation, to make an allowance which recognizes the joint responsibilities of husband and wife, and at the same time to grant relief to each of the partners to the union as though they were complete strangers. If separate assessment were granted the marriage allowance should

logically be abolished, and the result would be a shifting of burdens from the rich to the poor, because in the vast majority of cases the wife has either no separate income at all or a separate income less than the amount of the present marriage allowance, and far less than allowance we suggest should be made.

258. The question involved should not be regarded as a political question, but purely as one of finance and revenue, and we are satisfied that it must be decided, not on any theoretical grounds of equality of citizenship, but in accordance with the outstanding principle of "ability to pay," which we recognize as governing all questions of taxation. In the application of this principle, we must regard the social conditions of the country in which the taxation is imposed. The great majority of married persons live together and use their several incomes for common purposes, and this common menage and joint dependency is recognized, to the benefit of the wife, for other purposes of taxation, e. g., legacy and succession duties payable by a widow are less than those payable by a person unrelated to the deceased.

259. The aggregation for income-tax purposes of the income of husband and wife is not dependent upon any medieval conception of the subordination of women; nor is it a question of sex disability, since either partner can claim separate assessment and separate collection. The incomes are aggregated because the law of taxable capacity is the supreme law in matters of taxation, and taxable capacity is, in fact, found to depend upon the amount of the income that accrues to the married pair, and not upon the way in which that income happens fortuitously to be owned by the members of the union. It is beyond question that in the immense majority of cases where the wife has separate means she contributes to the common purse, either by actual merger of her income with her husband's, or by bearing expenses which in less fortunate households fall upon the husband.

260. We have given a great deal of time and attention to this subject and have considered with the utmost care all the arguments that have been put before us, and we have been forced to the conclusion that the grievance complained of is more vocal than real, in other words, that it is a grievance rather than a hardship. We therefore recommend that *the aggregation of the incomes of wife and husband should continue to be the rule.*

261. In paragraph 249 (b) we referred to the exceptional treatment allowed under the existing law to the earned income of a married woman where the joint income does not exceed £500. The effect of this provision, in a case where, for example, husband and wife each earn £250 and have no other income, is that two abatements of £120 each are allowed, as compared with the single abatement of £100 which would be allowed if the whole £500 were earned either by the husband or by the wife. The limit of £500 has been represented to us as too low in present conditions. We agree with this point of view, and recommend that the relief in its present form should be discontinued, and that where the wife has £50 or more of earned income the joint exemption or abatement allowance to a married couple should be increased from £250 (earned) to £300 (earned). Where the wife earns less than £50, the joint allowance for a married couple should be increased from £250 (earned) by the amount of the wife's earnings.

262. In connection with this subject, our attention has been directed to some minor details in regard to which we make the following suggestions: (a) that the revenue should have power of assessment, apportionment, and recovery of the tax against the spouses in respect of their separate incomes where necessary to the collection of the tax; (b) that the notice to be given by a wife or husband requiring separate assessment should be allowed to be given at any time not later than June 30 in the year of assessment; and (c) that when husband and wife are separately assessed any relief in respect of their unearned or investment income should be given to the husband and to the wife in proportion to their respective assessable incomes.

INDIVIDUAL VIEWS OF CERTAIN MEMBERS OF THE WAYS AND MEANS COMMITTEE

The undersigned members of the Ways and Means Committee, while agreeing in the main with the provisions of the bill, desire to express their disagreement and dissent to those provisions which require mandatory joint income-tax returns by husband and wife.

This provision was included in the bill without hearings or without permitting affected parties any opportunity to appear before the committee.

We have read carefully the pamphlet prepared by the staff of the Joint Committee on Internal Revenue Taxation. To us the arguments seem fallacious, and are open to the serious objection that for more than 100 years, in this country at least and elsewhere for longer, that husband and wife have been considered separate entities. While it is true that under the common law all of the property of the wife, even that which she held at the time of marriage, became her husband's, for generations that has not been the rule in our country. We believe the proposal is not only unsound but definitely unconstitutional.

The effect of the mandatory joint returns provision is to merge, for taxation purposes, the income of both spouses, so that the old common-law rule is in effect revived, and the wife is no longer recognized as a separate person.

It is realized by us that this provision will increase the revenue of the Federal Government, but it will do so only on the basis of gross injustice to the womanhood of the country. A simple example will suffice: Two sisters, each acquired \$20,000 by inheritance or gift from their father. One of them is married to a husband who is making an additional substantial salary. The other is single. The single daughter will pay tax only upon the income from \$20,000. The married daughter and her husband will pay income tax upon the income from the \$20,000 plus all of the salary, wages, and other earnings that her husband will receive.

It is not our intention to present the full argument against this discriminatory proposal in these views, but it is our intention to present these views fully and in some detail on the floor of the House during the consideration of the bill.

FRANK H. BUCK.
MILTON H. WEST.
KNUTE HILL.
THOMAS A. JENKINS.
B. W. GEARHART.

SUPPLEMENTAL VIEWS OF THE REPUBLICAN MINORITY

We, of the Republican minority on the Ways and Means Committee, desire to submit the following supplemental statement with respect to the revenue bill.

ADDITIONAL TAXES IMPERATIVE

The Nation's finances are in a critical state, due to the extravagant spending and reckless borrowing under the New Deal administration during the past 8 years. This condition is now aggravated by the fact that unprecedented outlays for national defense are being required.

It is obvious that a substantial increase in the tax burden is imperative if the credit of the Nation is to be preserved and the defense program is to go forward.

We, therefore, have no alternative but to support the general objective of the bill in seeking to bring revenues and expenditures closer together.

PAST NEW DEAL PRODIGALITY MAKES DEFENSE FINANCING MORE DIFFICULT

Already, emergency defense appropriations total 43 billions of dollars, with some 7 billions more in immediate contemplation. This stupendous expenditure—which may in the future be multiplied several times over—must be financed on top of the doubled cost of the ordinary functions of Government under the New Deal.

As the American people reflect upon the astronomical magnitude of the defense program, they must be painfully aware that the ability of the Government to finance it has been greatly impaired by the prodigality of the New Deal spenders.

These wastrels have engaged in the greatest peacetime orgy of extravagance in all history. In 8 years they have spent as much as it cost to run the Government during the first 131 years of our country's existence, from the administration of George Washington through the administration of Woodrow Wilson, including the World War period.¹

They have accumulated a series of staggering annual deficits which have piled up the national debt to a point where even the necessary borrowing for defense will seriously jeopardize the public credit.

They have taxed and taxed the people until the available sources of Federal revenue have been all but exhausted. Thirteen major tax measures have been enacted under the New Deal.² The American

¹ Such expenditures totaled \$96,344,000,000. See the Annual Report of the Secretary of the Treasury.
² The 13 tax measures include: (1) The National Relief Administration Act tax levies, 1933; (2) the Agricultural Adjustment Administration processing taxes, 1933; (3) the beer-tax bill, 1933; (4) the liquor-tax bill, 1934; (5) the Revenue Act of 1934; (6) the pay-roll taxes under the Social Security Act, 1935; (7) the Revenue Act of 1935; (8) the Revenue Act of 1936; (9) the Revenue Act of 1937; (10) the Revenue Act of 1938; (11) the Revenue Act of 1939; (12) the First Revenue Act of 1940 (defense taxes); and (13) the Second Revenue Act of 1940 (excess-profits tax).

people are now loaded down with a burden of taxation—largely in hidden levies—which is 50 percent greater than under the World War revenue acts.³

The following table gives the unpleasant facts of the New Deal financial record from July 1, 1933, to June 30, 1941. It shows that in this period the administration has spent 67 billions, collected 40 billions in revenues, accumulated a combined deficit of 27 billions, and increased the public debt to 49 billions, not including over 6 billions of obligations of New Deal agencies which are guaranteed by the United States.

The New Deal fiscal record¹

| Fiscal year— | Expenditures | Receipts | Deficits | Public debt |
|--------------|-----------------|-----------------|-----------------|------------------|
| 1934 | \$6,011,000,000 | \$5,116,000,000 | \$2,895,000,000 | \$27,053,000,000 |
| 1935 | 7,010,000,000 | 5,800,000,000 | 3,210,000,000 | 28,791,000,000 |
| 1936 | 8,666,000,000 | 4,116,000,000 | 4,550,000,000 | 33,778,000,000 |
| 1937 | 8,177,000,000 | 5,029,000,000 | 3,148,000,000 | 36,423,000,000 |
| 1938 | 7,209,000,000 | 5,855,000,000 | 1,354,000,000 | 37,165,000,000 |
| 1939 | 8,797,000,000 | 5,165,000,000 | 3,632,000,000 | 40,440,000,000 |
| 1940 | 8,968,000,000 | 5,357,000,000 | 3,611,000,000 | 43,928,000,000 |
| 1941 | 12,710,000,000 | 7,907,000,000 | 4,803,000,000 | 48,961,000,000 |
| | 67,018,000,000 | 40,974,000,000 | 27,443,000,000 | |

¹ Figures from 1934 through 1940 taken from the 1942 Budget. Figures for 1941 taken from Treasury press release of July 2, 1941.

Of the total expenditures of 67 billions, only 5 billions represent extraordinary outlays for defense since the emergency program was instituted last year.²

Thus it is evident that the finances of the Nation—which are its first line of defense—were in a critical condition before the present emergency began. In other words, the defense program did not precipitate the present crisis in Government financing, but merely made it more acute.

In further substantiation of this fact, we need only to recall that at the time the initial request for emergency-defense funds was made last year, it was found that the New Deal spenders had exhausted the then-existing \$45,000,000,000 debt limit. The Congress in establishing this limit several years before had never dreamed that it would ever be reached. It thus became necessary to raise the debt limit to 49 billions in order to get the defense program under way.

This year, Congress was obliged to further increase the limit to 65 billions so that the Treasury could continue to meet the Government's obligations, both civil and military. It now appears that the \$65,000,000,000 limit will be reached next year, and it is probable that before the present emergency is over the national debt may easily go to 100 billions. Even this figure, which is nearly equal to the assessed value of all real estate in the United States, may be all too conservative.

² Receipts from existing tax laws in the current fiscal year are estimated at \$9,400,000,000, not including revenue contemplated from the proposed bill. The highest receipts under the World War revenue acts were in the fiscal year 1935, when collections amounted to \$6,241,000,000.

³ According to the Treasury press release of July 2, 1941, total national-defense expenditures in the period beginning July 1, 1940, and ending June 30, 1941, amounted to \$9,045,000,000. This figure, of course, includes the normal expenditures for national defense, which in the preemergency period of 1938 and 1939 averaged slightly over \$1,000,000,000 annually. It must be deducted from the total in order to compute the "extraordinary" defense outlays.

The President, in 1933, said that "too often in recent history liberal governments have been wrecked on rocks of loose fiscal policy." In view of the extravagant spending which subsequently occurred under the New Deal administration, it is now pertinent to inquire whether this statement was intended as a warning or as a prophecy. When it was made, only 3 deficits, aggregating 5 billions, had accrued. Since then, the number of successive deficits has grown to 11, and their aggregate amount to 32 billions.

MEANS MUST BE FOUND TO FINANCE DEFENSE AND PRESERVE THE NATION'S CREDIT

If the credit of the Nation should fail, our whole economic and political structure would collapse with it. Therefore, action to strengthen the national finances is urgently required.

During the preemergency period it would have been possible to have brought the Federal Budget into balance, and thereby, have prepared the Nation better to sustain the burdens which now lie ahead. The New Deal administration, however, was apparently more interested in continuing itself in power than in putting the Government's financial house in order.

We of the Republican minority continually warned of the dangers which the country would face if the irresponsible, spendthrift policies of the New Deal were continued. Those dangers are now at hand.

While the New Deal spenders must assume the responsibility for the country's present "financial unpreparedness," the fixation of the blame does not repair the damage. That is the immediate task which is before us.

Probable expenditures in the current fiscal year, ending next June 30, are presently estimated at more than 22 billions, not including recent requests for several billions of supplemental defense appropriations.

The estimate of probable revenues from existing tax laws is 9.4 billions.

Thus a deficit for this year of 13 billions or more is indicated. This is a staggering sum and, to the extent that it is not reduced by economies in expenditure and by additional revenues, it will have to be financed by further borrowing. Even with the enactment of the pending bill, which proposes to increase taxes by 3½ billions to a total of 13 billions, the deficit will probably exceed 10 billions. It should be kept in mind that only 50 to 60 percent of the contemplated additional revenue will actually be collected in the current fiscal year.

To try to place the finances of the Government on a strict pay-as-we-go basis would be utterly impossible at the prospective level of expenditures. Just to pay the interest on the present debt will require all the additional revenue which will be realized from the increase in personal-income taxes under the pending bill.

Notwithstanding the dangers inherent in it, further borrowing apparently cannot be avoided. We should, however, keep it to a minimum by reducing expenditures wherever possible and by imposing such additional taxes as may be levied without unduly burdening the people or crippling production.

Regardless of the fact that our country must enter upon this emergency period with its borrowing and taxing powers dangerously

weakened by the New Deal spenders, the obligations of the Government must, at all costs, be met. It is to be deplored that they can only be met by imposing an onerous additional burden of taxation upon an already heavily taxed people, and by further straining an already strained public credit.

THE NEED FOR ECONOMY IN NONDEFENSE SPENDING

While we must support—on the ground of imperative need—an increase in the tax burden, we at the same time insist that there should be coupled with such increase a mandatory reduction in expenditures for civil purposes. Despite the emergency, these costs have been constantly increasing.

The same critical state of affairs which calls for an increase in taxes also requires that nondefense spending be drastically reduced, and all unnecessary and wasteful expenditures completely eliminated.

If the Government is going "all out" for national defense and "all out" for taxes upon the people, it is compelled both by necessity and by a regard for its obligation to the taxpayers of the country to also go "all out" for economy.

That it should be possible to bring about action along this line seems to be almost universally conceded. The Secretary of the Treasury, in his appearance before the Ways and Means Committee, stated that in his opinion nondefense expenditures could be reduced to the extent of at least \$1,000,000,000. Various other estimates of possible savings have been made by responsible individuals and organizations, running as high as 2 billions and over.

The country has waited in vain for the President of the United States to assume leadership in the matter of economy. Without his wholehearted support, there, of course, is little hope of success in achieving it.

It is significant that while the President has sent a special letter to the Committee on Ways and Means stressing the need for additional revenue, he has either neglected, or purposely avoided, the opportunity of sending a similar letter to the Appropriations Committee stressing the need for economy in expenditures. His very silence on this matter offers eloquent testimony as to the underlying cause of our country's present financial insecurity.

We believe that the time is ripe for the reiteration by the President of the wise counsel expressed in his since-forgotten economy message of March 10, 1933, which, in view of its applicability to present conditions, we append to and make a part of this report.

We have often said that we do not feel the administration has a right to call upon the people for more sacrifices through taxes without first making every effort to reduce expenditures to the bone. This is more true today than ever.

We are sure that the American people are ready and willing to make whatever sacrifice is necessary to pay the increased taxes which are required. However, they will do so with more satisfaction, and with better feeling toward their Government, if they are shown that it, too, is making some effort to reduce its spending. They may rightfully resent being called upon to pay increased taxes under the supposition that they are contributing toward national defense, only to

find that their tax dollars are also being used to finance further New Deal extravagance.

Although we have placed emphasis on the need for the curtailment of nondefense spending, it is apparent that there also is much room for economy in connection with some of the phases of the defense program itself. We particularly have in mind the extravagance in the construction of Army cantonments, which has been so rampant as to constitute a national scandal. According to an investigation conducted by one of our colleagues in the House, at least \$250,000,000 of the \$800,000,000 appropriated for this purpose was wasted.¹ There are other phases of the defense program where appropriations could be spent more wisely and prudently without in any way impairing actual defense needs. It is not too much to ask that the taxpayers of the country be given their money's worth, even in the case of expenditures for defense.

A recent tendency has been for everyone with a pet project for spending the public money to allege that it contributes to national defense, and thus attempt to justify it. The administration itself has freely engaged in this practice, and millions are being spent in the guise of national defense on projects which actually have no remote connection therewith. Hence the mere fact that some item of expenditure carries a defense label is no reason why it should be immune from scrutiny.

We feel that the President could make no greater contribution to the defense and security of the Nation than to assume the necessary leadership in the matter of reducing nondefense expenditures. In such an effort, he would find the people united behind him.

Due to the fact that the Ways and Means Committee has no jurisdiction over appropriation matters, we regret to say that it was precluded by the rules of the House of Representatives from including an economy provision in the tax bill.

REPUBLICAN MINORITY HAS COOPERATED ON NONPARTISAN BASIS IN DRAFTING BILL

We of the Republican minority have cooperated with the Democratic majority on a strictly nonpartisan basis in endeavoring to help them produce the best possible measure under all the circumstances. In this connection, it should be pointed out that the administration has been able to exert less influence in its preparation than on any tax bill since 1933.

Those who, like ourselves, feel that there is much room for its improvement, should always bear in mind that there is no such thing as a good tax bill. None could be devised of the proportions of the pending measure which would satisfy all. The most that can be said in its favor is that it might have been worse. We feel that we have at least made some contribution in helping to keep it from being as bad as it first appeared it might be.

Since there are differences among us as to many of the items, we have not undertaken, in this statement of our views, to comment upon the merits or demerits of specific tax proposals.

¹See speech of Hon. Albert J. Engel, of Michigan, Congressional Record of June 2, 1941, on subject of construction of Army camps.

Some of our members would have preferred to have seen the income-tax base broadened instead of confined to present taxpayers. Some opposed the joint-return provision. Some voted for a particular tax and others opposed it. Therefore, our respective viewpoints with respect to the separate provision of the bill necessarily will have to be discussed by us individually when the measure reaches the floor of the House.

ALLEN T. TREADWAY.
FRANK CROWTHER.
HAROLD KNUTSON.
DANIEL A. REED.
ROY O. WOODRUFF.
THOMAS A. JENKINS.
DONALD H. MCLEAN.
BERTRAND W. GEARHART.
FRANK CARLSON.
BENJAMIN JARRETT.

APPENDIX

ECONOMY MESSAGE OF MARCH 10, 1933

MESSAGE FROM THE PRESIDENT OF THE UNITED STATES

To the Senate and House of Representatives:

The Nation is deeply gratified by the immediate response given yesterday by the Congress to the necessity for drastic action to restore and improve our banking system. A like necessity exists with respect to the finances of the Government itself which requires equally courageous, frank, and prompt action.

For 3 long years the Federal Government has been on the road toward bankruptcy.

For the fiscal year 1931 the deficit was \$462,000,000.

For the fiscal year 1932 it was \$2,472,000,000.

For the fiscal year 1933 it will probably exceed \$1,200,000,000.

For the fiscal year 1934, based on the appropriation bills passed by the last Congress and the estimated revenues, the deficit will probably exceed \$1,000,000,000 unless immediate action is taken.

Thus we shall have piled up an accumulated deficit of \$5,000,000,000.

With the utmost seriousness I point out to the Congress the profound effect of this fact upon our national economy. It has contributed to the recent collapse of our banking structure. It has accentuated the stagnation of the economic life of our people. It has added to the ranks of the unemployed. Our Government's house is not in order and, for many reasons, no effective action has been taken to restore it to order.

Upon the unimpaired credit of the United States Government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprises, the value of our agricultural products, and the availability of employment. The credit of the United States Government definitely affects these fundamental human values. It, therefore, becomes our first concern to make secure the foundation. National recovery depends upon it.

Too often in recent history liberal governments have been wrecked on rocks of loose fiscal policy. We must avoid this danger.

It is too late for the leisurely approach to this problem. We must not wait to act several months hence. The emergency is accentuated by the necessity of meeting great refunding operations this spring.

We must move with a direct and resolute purpose now. The Members of the Congress and I are pledged to immediate economy.

I am, therefore, assuming that you and I are in complete agreement as to the urgent necessity, and my constitutional duty is to advise you as to the methods for obtaining drastic retrenchment at this time.

I am not speaking to you in general terms. I am pointing out a definite road. The last Congress enacted legislation relating to the reorganization and elimination of executive agencies, but the economies thus to be effected are small when viewed in the light of the great deficit for the next fiscal year. They will not meet the pressing needs of our credit situation. Provision for additional saving is essential, and therefore I am asking the Congress today for new legislation laying down broad principles for the granting of pensions and other veteran benefits and giving to the Executive the authority to prescribe the administrative details. We are unanimous in upholding the duty of the Government to care for those who suffer in its defense and for their widows and orphans. The application, however, of this great principle to large numbers of people involves complications—so great that it is almost impossible to draw legislation with sufficient flexibility to provide substantial justice in varying situations. The proposed legislation states the principles and, limited to them, permits the Executive to draw the lines of differentiation necessary to justice.

In accord with the same purpose of substantial justice I request also the enactment of legislation relating to the salaries of civil and military employees of the Government. This would repeal the existing furlough plan, substituting therefor a general principle and authorizing the Executive to make application of this principle. The proper legislative function is to fix the amount of expenditure, the means by which it is to be raised, and the general principles under which the expenditures are to be made. The details of expenditure particularly in view of the great present emergency can be more wisely and equitably administered through the Executive. The flexibility of the measures which I am proposing is not only practical, but proceeds along the road of constitutional government.

Such economies which can be made will, it is true, affect some of our citizens, but the failure to make them will affect all of our citizens. The very stability of our Government itself is concerned and when that is concerned the benefits of some must be subordinated to the needs of all.

When a great danger threatens our basic security it is my duty to advise the Congress of the way to preserve it. In so doing I must be fair not only to the few but to the many. It is in this spirit that I appeal to you. If the Congress chooses to vest me with this responsibility it will be exercised in a spirit of justice to all, of sympathy to those who are in need, and of maintaining inviolate the basic welfare of the United States.

I ask that this legislation go into effect at once without even waiting for the beginning of the next fiscal year. I give you assurance that if this is done there is reasonable prospect that within a year the income of the Government will be sufficient to cover the expenditures of the Government.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
March 10, 1933.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1941

TO Ferdinand Kuhn, Jr.
FROM Herbert Merillat

PRESS OPINION ON TAXES:
TAXPAYERS' MORALE

After several months of editorial consideration of various tax proposals, it is possible to make some appraisal of public willingness to accept the proposed tax burdens, as reflected in editorial comment.

The most usual editorial reaction to the Ways and Means Committee's proposals, in metropolitan and country-town papers alike, has been an involuntary cry of pain, followed by an expression of willingness to accept any fair tax burden in the interest of national defense. Quite apart from alleged inequities in the distribution of the burden, the total revenue goal has generally been regarded as "staggering", but justified. A truculent tone has been sounded only in relatively few papers which are bitter critics of the Administration's foreign and domestic policies.

The need for substantial increases in tax revenues has been universally recognized. The Treasury formula -- to raise 2/3 of the funds necessary for federal expenditures by taxes, 1/3 by borrowing -- was originally hailed as a sound one and there has been no substantial quarrel with the revenue goal of 3½ billions

fixed under that formula. It is perhaps significant, however, that there has been little press demand for a greater revenue yield since it became apparent that $3\frac{1}{2}$ billions would not be adequate under the formula. A few editorial writers and commentators who have followed the development of the tax bill with closest attention have expressed alarm at the inadequacy of the proposed taxes to cover $\frac{2}{3}$ of federal expenditures in the fiscal year 1942. John T. Flynn, the New York Journal of Commerce, the New Republic, and the Nation, are in that group. The vast majority of papers, however, have expressed no concern over abandonment of the formula and have shown no disposition to call for a tax burden heavier than that provided by the Committee bill.

Likewise the President's remark that higher taxes will be necessary year after year was accepted as inevitable, but did not evoke a suggestion from the press that the problem be faced now by increasing taxes still further.

In brief, the typical editorial reaction to the prospect of new taxes to defray defense costs has been something like this:

a protestation of willingness to pay higher taxes;

considerable dismay when the form of the new taxes actually has become known;

reluctance to face the fact that the taxes may be increased even more in the near future, and

bitterness that taxpayers should be called upon to make greater sacrifices when the Federal Government does nothing to cut non-defense expenditures.

TREASURY DEPARTMENT

139

INTER OFFICE COMMUNICATION

DATE July 24, 1941

TO Ferdinand Kuhn, Jr.
FROM Alan Barth

DEEPENING EMERGENCY

Warnings

Events in South America have sharpened the editorial awareness of imminent danger. Few newspapers doubt the influence of the long hand of the German Government in the fighting between Ecuador and Peru and the abortive Nazi putsch in Bolivia.

Trouble is anticipated in other Latin American republics as well. The fact that the Nazis are making the effort to brew it has been widely accepted as proof of an intention to assail and encircle the United States. A German thrust into Spain and Portugal, accompanied by seizure of the Atlantic islands belonging to these countries, is feared by many commentators. Most of them insist that this nation must act vigorously to prevent such occurrences.

Some of the strongly interventionist newspapers continue to urge occupation of additional Atlantic outposts; the prevailing view, however, is that such action involves strategic considerations which can best be determined by the competent authorities. There was general approval of the blacklisting of Axis-influenced business concerns in Latin America. Few demurred at the stringency of the order. The reaction of our neighbor governments was considered,

In the main, quite satisfactory. Bolivia's dismissal of the German Minister was taken as a hopeful sign of cooperation to the south.

The fear of new disturbances in Latin America was heightened by General Marshall's enigmatic suggestions of danger in his testimony on the Selective Service Act. The General's warning swelled the demand for a congressional declaration of emergency. Indeed, the sense of emergency appears to be growing among press and public. Along with it is an increasing conviction that the choice between war and peace now depends upon events beyond American control.

The feeling is that the Germans are likely soon to take steps which the United States cannot fail to oppose. The majority view seems to be in full agreement with General Marshall's observation that "a state of war can best be avoided by recognition of the emergency."

Impatience

There has been a marked stiffening of editorial attitudes toward countries which are fellow-travelers of the Axis. The term "appeasement" has been revived and applied rather liberally to concessions which the State Department has granted to doubtful governments. A recent speech by General Franco, in which the United States was taken to task for attempting to wean Spain from the Axis, grated harshly on American editorial ears. Most commentators regarded it as an object lesson in the futility of trying to win fascist friends and influence dictators.

The shipment of oil to General Weygand in Africa was also roundly deplored by liberal and strongly interventionist newspapers, although a few observers considered it diplomatically sound. But the prevailing feeling is that Weygand is beyond redemption and that the oil may fuel bombing raids on British or Free French forces.

The shipment of oil to Japan is condemned in a growing number of editorial pages. The latest intimations of fresh Japanese designs on Indo-China have evoked a considerable demand for stringent economic sanctions by the United States. It seems noteworthy, in this connection, that the major oil companies which have been carrying on business with Japan have engaged in publicity campaigns to persuade the public that these dealings were endorsed by the Department of State.

Hesitation

Russian resistance to the Germans has proved more formidable than the American press expected. As the conflict on the eastern front moves along into its second month, with British air raids on Germany continuing from the west, editorial writers over here have permitted themselves the hope that the Hitlerian timetable may be seriously deranged.

It has been suggested in news despatches from abroad that a part of the Nazi strategy is to enlist assistance from the western world by raising the spectre of a possible Communist triumph. To

most American commentators the possibility seems too remote for serious concern. Some suggest that if it should be realized, the Red Army will be a good deal easier to handle than the Reichswehr. The great majority continue steadfastly to point out that, in any event, Hitler is public enemy number one. Only a few, in addition to those who have consistently echoed Berlin's philosophy, appear to have been taken in by this latest stratagem of terror.

But there is a general reluctance to join hands with the Soviet Union. Editors feel obliged to keep reminding their readers that aid to Russia signifies no sympathy with Communism. A great many of them have been at pains to argue that, despite Prime Minister Churchill's unequivocal words, the Anglo-Russian alliance is not really an alliance at all; they insist, at least, that it constitutes no alliance with Communism. Such protestations suggest, perhaps, the existence of soil in which, under certain circumstances, the Nazi doctrines might take root. They are not likely to do so, however, so long as German arms are in the ascendant and so long as Hitler is the leader of the crusade.

Psychology

American newspapers have applauded the inauguration of Britain's V-for-Victory campaign, despite a certain degree of skepticism as to its effectiveness. Most editors seem to feel that it can't do any

harm and may do a great deal of good.

There is a broadening recognition of the fact that democratic propaganda has been wholly inadequate. In the light of totalitarian boasts that theirs is a "new order," the democratic way of life has been allowed to seem somewhat shoddy and old-fashioned. Liberal critics have been urging for some time that the case for democracy be stated in dynamic and hopeful terms.

It is generally believed among American editors that conquered Europe -- and even parts of Germany -- desires freedom. The expectation of revolts against Nazi domination has grown somewhat dim; yet eventual rebellion is regarded as a prerequisite of final victory. One important job now, it is argued, is to hold out to the subject peoples of Europe the hope of liberation on which rebellion may be nourished.

A number of commentators complain that the United States has done too little toward this end. The New York Herald Tribune, commenting on British efforts, says of this country that, "Preoccupied with the defensive attitude, it has done little to fill such symbols as the 'V' with the positive promise of what a democratic victory will make possible in terms of human welfare." More vigorous and forthright American intervention is seen as the most effective anti-Nazi psychology.

TREASURY DEPARTMENT
OFFICE OF THE UNDER SECRETARY

The Secretary

Attached is a memorandum of yesterday's Cabinet meeting. I understand that Ed is sending you a memorandum covering the actions that were taken here today, a copy of the Press release, and also a copy of the memorandum covering policy matters.

scwb

Under Secretary.

July 25, 1941



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

July 24, 1941

MEMORANDUM FOR THE SECRETARY:

Cabinet Meeting, Thursday, July 24, 1941

The President discussed the Japanese and French situation, stating that Vichy was trying to make the world believe that France had to look to the Japanese Government for the protection of its colonies. He said of course every one knew that the orders were issued under pressure from Germany. The President asked Mr. Welles if anything had been done about printing and releasing documentary files on Bolivia. Mr. Welles said that nothing had been printed and released except one document, and Bolivia had released that. Mr. Welles said that he had received a report that United States consular officers had crossed the Spanish border into Portuguese territory.

Mr. Welles then brought up the matter of freezing Chinese and Japanese assets in the United States. There was a great deal of discussion of the proposed order and the administration of it. It was made quite clear that the President did not want to make any exceptions in the order with respect to certain commodities, such as petroleum going to Japan. He said he wanted to make it just as wide in its application as the other orders, but we can follow any policy we desire in its administration and then that policy can be changed from day to day without issuing any further orders. I asked then as to how that

policy would be determined. Would the Treasury be given very specific instructions as to the policy of the Administration in its administration of the order. Mr. Welles said it was his idea that the policies would be determined from day to day by the Foreign Funds Control Interdepartmental Committee as the applications were presented to the Treasury. I raised the question as to whether or not this type of order which upon its first publication would indicate to Japan that it could not get further supplies of oil from this country might not force it to take action in the Far East which we have tried to forestall during the past year. The President said that he did not think so, that he was inclined to go ahead with the order in the regular way and grant licenses for the shipment of petroleum as the applications are presented to the Treasury. This policy, he stated, might change any day and from thereon we would refuse any and all licenses. Mr. Welles agreed to this and added that we might want to take some special action with respect to silk, but that all other requests for licenses should be treated in about the same manner as requests for licenses under other freezing orders.

The President said that in announcing these freezing orders on Saturday morning he wanted to be sure that it was clearly stated that the freezing order with respect to China was made at the request of the Government of China.

The President stated he was leaving tonight for Hyde Park and if we did not get the orders over this afternoon, they would have to come to Hyde Park tomorrow by plane. I said that we would attempt to get them over this afternoon but I did not want them to be made public as I wanted time for the State Department and the Treasury Department to

- 3 -

get together on a memorandum of policy which could be initialed by representatives of each department and put in the file as a guide for the Foreign Funds Control Interdepartmental Committee.

The President said that the next step he wanted taken was to reduce the present high octane in gasoline that goes to Japan down to 67 and he thought this action might be taken on Monday. He did not indicate which office should take this action but I assumed Mr. Welles would follow through on this. (Mr. Welles called me on this later and said he was sure the President did not wish this action taken, but mentioned it more as an example.)

The President then asked Mr. Welles about some planes for Russia and there was a great deal of discussion as to whether these planes could be flown to Alaska, from there to Siberia, and across Siberia to the Russian-German front. Secretary Stimson thought that the light pursuit planes could not be flown that distance, but that the Lockheed-Hudson bombers might make that trip and be of service after they arrived. Mr. Welles suggested that a possible solution for the moment would be to send the Lockheed bombers immediately and wait until the military expert from Russia arrives next week and let him decide what to do with the others.

Secretary Stimson and the President had quite an exchange of views regarding Senator Wheeler and his connection with the circulars that had been mailed out under his franking privilege to the boys in the camps, asking them to write their Congressman on the matter of their retention for another year. The President said that this was bordering on treason and something should be done to bring it clearly before the American people. He said he thought it was time for some one to begin

making a few speeches regarding the activities of both Wheeler and Nye. Secretaries Knox and Stimson both said that all they wanted was the green light, they could make some of the speeches and they could get a number of other people to make some. They both thought that the President should stay out of the picture for the moment.

Mr. Biddle said that the only thing he had to bring to the attention of the Cabinet was the pipe line bill, which he understood had passed both Houses and was on its way to the President for signature. He said the President would have to designate the agency to handle the administration of the provisions of this bill and his Department had already drawn an executive order leaving the name of the department to administer it blank, to be filled in by the President.

The question of building the pipe line was then discussed. Secretary Ickes said that private industry is perfectly willing to build the pipe line but they want a reasonable rate of return on their investment plus amortization of the cost over a period of five years. He and Mr. Jones both agreed that this was unreasonable and that the Government should build the pipe line. The President suggested that Mr. Ickes' Department might get busy and see what could be done along that line and that Mr. Jones might look into the question of buying the pipe.

Mr. Frank Walker gave a brief outline of his trip throughout the West, saying that he had made some 24 speeches on Savings Bonds and Stamps, that this gave him a good chance to discuss the Administration's policy in general, and he thought he had had a very good reception every place. So far as he was able to tell, he thought the Middle West and West is solidly behind the President in the National Defense program in everything he is doing. He also said that Mr. Knudsen was turning out

to be a very good emissary for the Administration. He is very popular and liked every where he goes. He thought Mr. Knudsen had done the President a great deal of good on these trips. The President commented to the effect that Walker's speech in Great Falls, Montana, had done a great deal of good. He understood that a poll had been taken after Walker had made his talk and that the poll was four in favor of what he had advocated in his talks, against one for the Wheeler contention.

Secretary Knox said that the President had asked him about the Shornhorst and he wanted to advise him that it was in Spanish waters, ~~standing by waiting for orders.~~

Secretary Knox said that he had also received information from London, which had verified information that they had received from other sources, to the effect that the German Army had suffered 600,000 casualties on the Russian front. The President asked Knox and Stimson both as to what the military experts thought of the German campaign. They both said that when this war between Russia and Germany started it would only take two weeks to complete the campaign, and as it has gone along they have more respect for the Russian Army and had to admit now that Germany is not making the progress that military experts here thought they could, and they had not been able to make the progress that the German General Staff thought they would. They thought that the progress had been a distinct disappointment to the German Army officers. They also had some information from an individual, who apparently is a newspaper reporter, *familiar with* ~~both~~ both the Russian and German situations, to the effect that if the German people get the feeling that this war is going against them, the Hitler regime is liable to go out over night. The President and Mr. Welles both said this tallied with other information which they had received in June.

Secretary Ickes discussed the mineral resources of Labrador, which apparently the President had previously requested. The President said that his son, Elliott, had just made a survey of Labrador for the Army and he had found some wonderful harbors and landing fields. He had also remarked on the number of waterfalls in Labrador which had excellent power possibilities.

Secretary Wickard said that the British had increased their request for food from about 100,000 tons to 300,000 tons for the month of August. He had not been able to find out the reason for this, unless the British have the space in ships and they cannot get other commodities, such as steel, etc., to fill the space, so they are filling it with foodstuffs. The President commented that the sinkings of the British ships had fallen way down during the past month and we were repairing many of their ships in our yards, which was helping the British a great deal. There was also some discussion of the sugar situation.

Secretary Jones discussed the proposed air line from the United States to Africa. He said that he had continued to study it and had come to the conclusion that planes would have to land in Brazil and then hop from Brazil to Africa. He had been in touch with the Pan American Airways and they were cooperating. He called attention to the fact that the Germans had materially improved their service during the past few months.

Secretary Perkins said that a very serious unemployment situation is liable to be created in the automobile industry if production is cut 50% as proposed by Leon Henderson. The President told her to get Henderson and Knudsen together and maybe they could solve the problem. Others thought that this reduction would be gradual and the unemployment from the reduction would shift to defense industries.

Mr. McNutt had nothing to comment on with the exception of the unemployment in Terre Haute, Indiana. He said they had about 20,000 unemployed in that town and he had made every endeavor to get a defense plant located there in order to take up that unemployment, so far he has been unsuccessful.

Mr. Carmody discussed in a general way the proposal to build a large War Department building on the grounds of the Agricultural Experimental Station across the river in Arlington. He found the Appropriation Committee very much interested and apparently willing to go ahead. He understood it would take about a year to build the building, and when completed it would house the entire War Department personnel, moving them from seventeen different buildings in Washington. It is contemplated that a great deal of space would be available in a period of six months. As soon as the building is completed, the Navy Department would take over the present War Department's new wing, which has just been finished.

The President asked the Vice President when he would be ready on the order covering the committee set up to handle economic warfare. The Vice President said he was having the Budget prepare a new order along the lines of their discussion the day before, and that he understood that the representatives of the Budget are now in process of taking that order around and showing it to the various Cabinet officers interested. He thought Director Smith would present the order to the President on Monday or Tuesday of next week.

swB

~~7-28-41~~

152

Mr. Chauncey --

Mr. Foley gave this memo to
Mr. Bell before Cabinet meeting on Thursday.

Mr. D. W. Bell

July 24, 1941

E. H. Foley, Jr.

In connection with the discussion of the extension of the freeze control to China and Japan which will ensue this afternoon at Cabinet Meeting, I think it is important for you to have in mind the following points:

1. The freezing control order not only blocks all dollar balances and other financial transactions, but also blocks all exports and imports between the United States and Japan.

2. Although on Saturday the State Department indicated that a very strict control was to be exercised over oil and petroleum products going to Japan, the current position seems to be that there will be no further restrictions on the export of oil and petroleum products to Japan. The question that must then be decided is how such petroleum products are to be dealt with under the freezing control extension. In other words, are we to issue a general license to cover all transactions involving petroleum products to Japan, or shall we publicly announce that we will issue specific licenses covering petroleum exports to Japan, or shall we simply follow the practice of issuing special licenses upon request without any public announcement. Mr. Welles appears to prefer the last mentioned course. If this course is followed it is important that the President and the State Department realize the implications which this may carry to the Japanese. On the other hand, to announce that we are going to permit all petroleum exports to go to Japan may create an adverse reaction in this country due to Iakes' announcement as to the rationing of gasoline on the Eastern seaboard.

3. What action shall be taken with respect to the remainder of imports and exports between the United States and Japan? There is some uncertainty as to how this is to

- 2 -

be treated. Here again the alternatives are general licenses or special licenses or something the equivalent of clearing arrangements whereby we let Japan have an amount of exports that Japan needs equivalent to the amount of imports that we need from Japan. Here again the important thing is to get a decision as to how this trade is to be handled and to what extent it is to be made public.

4. The thing to make clear to the President is that freezing control covers a very wide area and is a very flexible instrument. Under freezing control the Treasury can carry out whatever policy the President desires and in whatever manner the President desires. The Treasury ought not to be made the goat if in the process of carrying out these instructions there is an unfavorable reaction either in Japan or from the American public.

(Initialed) E. H. F., Jr.

TREASURY DEPARTMENT

155

INTER-OFFICE COMMUNICATION

DATE July 24, 1941.

TO *Miss Channoy*
Secretary Morgenthau

FROM Mr. Dietrich

At 11:25 a.m., Mr. Lang of the New York Federal Reserve Bank telephoned to report two further withdrawals of U.S. currency by the New York Agency of the Yokohama Specie Bank:

\$50,000 was obtained in \$100 bills from the Chase National Bank by Mr. Mulligan's cashing of a check drawn to his order. Mulligan is an employee of the Yokohama Agency.

\$50,000 was withdrawn in \$100 bills from the Irving Trust Company. The method of withdrawal was not reported.

Including the above mentioned items, total cash withdrawals by the Yokohama Specie Bank during the past three days now amount to \$500,000, of which \$250,000 has been obtained from Chase, \$200,000 from Guaranty, and \$50,000 from Irving.

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PLAIN

Shanghai via N. R.

Dated July 24, 1941

Rec'd. 10:15 a.m., 25th

Secretary of State,

Washington

924, 24th. (SECTION TWO).

Number of Japanese ships plying between west coast of United States and Orient also declined and number of foreign ships calling at Japanese ports drastically reduced. All indications point to still further reduction in available shipping space. German-Russo war added to confusion already existing in the outlook for cotton market and it was feared Japan's supplies raw cotton may be materially decreased.

First week July all export cotton piece goods suspended pending reorganization of export control procedure according to official version but may have been due to fear supplies of raw material could not be replenished.

Previous estimate imports one point five million bales will not be exceeded but American may reach one hundred fifty thousand, Brazilian probably less than three hundred thousand and Peruvian about one hundred

- 2 -

sixty thousand. Indian cotton not so severely affected by shipping shortage as other growths but future import may not be so fortunate.

Price parity tables no longer available but one June thirteenth indicated in terms strict middling seven eights as follows Sao Paulo type number four eighty five per cent five Akola fifty per cent.

LOCKHART

MG

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PLAIN

Shanghai via N. R.

Dated July 24, 1941

Rec'd 9:55 a.m.

Secretary of State

Washington

924, twenty fourth. (SECTION THREE).

Important source on June thirteenth indicated total amount of all kinds of raw cotton available or contracted for including cotton in warehouses equal to sixteen weeks consumption current at XXX rate. In view of possibility unable obtain all cotton purchased industry may not actually have more than two or three months supply. Reports in Japanese press during past months that exports piece goods increasing may be too optimistic. In any event exportation in July may not be so smooth as indicated for June. Exports to Netherlands East Indies exceeded any other destination and were much larger than same period year ago.

Sales to mills of one hundred ninety six thousand bales were only slightly less than high mark or XXX for year reached during May while American sales of thirty six point five thousand bales were lower than previous

-2-

month but still well above average of first few months of cotton year. No sales were recorded during June for Brazilian Peruvian or Egyptian growths although known that some unrecorded sales of Brazilian were made.

The Cotton Report Control Company perfected its plans during months and prepared begin operation during latter part July. A raw cotton loading committee was established to begin operation July first with purpose of regulating and expediting allocation of shipping space to merchants for importation of raw cotton. Inform Agriculture.

END OF MESSAGE.

LOCKHART

MG

COPY

160 ←

No. 80

Chungking, July 24, 1941.

Subject: Chinese Currency Stabilization

Air Mail

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,
Washington, D.C.

Sir:

I have the honor to enclose a memorandum of conversation with Mr. F. B. Lynch, a financial advisor to the Chinese Government, in regard to Chinese financial problems with particular reference to operations under the Chinese currency stabilization agreement.

Mr. Lynch was a member of the Kemmerer Commission which visited China in 1929. He has been an advisor to the Chinese Government since that time. His particular work is with the Central Bank of China where he deals primarily with currency and banking problems as distinguished from economic, taxation, and public finance problems.

The Embassy has no reason to believe that Mr. Lynch was representing and expressing views other than his own in the conversation reported in the enclosed memorandum. His views are being communicated to the Department in the belief that it may wish to be kept informed in regard to problems of the character discussed in the memorandum. Mr. Lynch will be in America this autumn and will probably visit Washington.

Respectfully yours,

C. E. Gauss

Original and one copy by air to the Department.
Three copies to the Department by pouch

JCV/wr
851/851.5

True copy of signed original

Enclosure no.1 to despatch
no. 90 dated July 24, 1941
from the Embassy at Chungking

STRICTLY CONFIDENTIAL

C O P Y

July 21, 1941

Memorandum of Conversation

Present: Mr. F.B. Lynch, Financial Advisor to
the Chinese Government
Mr. Vincent

Mr. Lynch had recently returned from a visit to Hong Kong. He said that he had talked with Cyril Rogers, British financial expert, with regard to British membership on the Chinese Currency Stabilization Board. Mr. Lynch was curious and critical concerning the Chinese Government's refusal to approve Mr. Rogers for membership on the Board. He said that Rogers had his "faults" but that he considered him a good choice, the best that could be found readily available. He said that he had heard the name of Mr. Murray, former manager of the Chartered Bank in Shanghai and now retired in Shanghai, mentioned as a possible choice as British member of the Board, - a choice he did not favor, explaining that Murray's background as a Shanghai banker did not well suit him for membership on the Board which he understood was planning to operate along broader lines than those characterizing normal currency stabilization operations.

With regard to Dr. H. H. Kung's statement on the fourth anniversary of hostilities with Japan (July 7) Mr. Lynch indicated disagreement with Dr. Kung's confident claim that currency inflation was not the serious problem that many people thought; that the saturation point in currency issue had not yet been reached. (Currency now in circulation is between ten and eleven billion dollars - roughly four times the amount in 1937.) He said that if the saturation point had not been reached it was going to be reached very very soon.

Mr. Lynch felt that the high and mounting price level was the principal economic problem now facing the Chinese Government. High prices were caused broadly by two factors. Due to difficulty of bringing goods into unoccupied China and to inadequate production in this area, there was a very real shortage of goods in relation to demand. This condition caused prices to rise irrespective of other factors and unfortunately it was a situation for which there seemed to be no early remedy. The other factor was currency inflation. He said that the Government was covering its deficit by the issuance of new currency; that the deficit now amounted to roughly four hundred million Chinese dollars a month; and that new currency in about the same amount was being put into circulation monthly. He did not know what total Government expenditures were monthly but felt that they were considerably less than one billion dollars. Effective revenues from all sources he estimated at two to three hundred million dollars. He pointed out therefore that, whereas it was well to endeavor to increase revenue and reduce expenditures, such endeavors would not

materially alter the situation -- that is, deficit financing through currency issues to the extent of half or more of the total budget.

He said that the situation outlined in the foregoing paragraph could not continue long without serious consequences. He suggested, as an unorthodox remedy, that the Stabilization Fund be utilized to cover the Chinese Government's deficit. He thought that the deficit might be reduced, through economies and measures for increasing revenue, to three hundred million dollars a month. He recommended that the Fund be used in open market operations for the sale monthly of approximately fifteen million dollars, United States currency, which at the current rate would withdraw from circulation about three hundred million Chinese dollars making it available to meet the Government's deficit. These operations would be carried on only with the understanding that new currency issues would cease. He felt that adoption of the suggested plan would be certain to stabilize and reduce prices and said that a collateral and beneficial effect would be the discouragement of commodity hoarding, particularly of rice, in as much as hoarders would probably prefer to buy American dollars.

Mr. Lynch admitted that the Stabilization Fund would be exhausted within a few months if used as he suggested. He seemed to think however that more funds could and should be made available without publicity such as that which attended the signing of the Stabilization Agreement. He also admitted that use of stabilization funds in the manner suggested was quite unorthodox and would be tantamount to American financial support of the Chinese Government. But he felt that, if prevention of progressive inflation with the serious consequences to public confidence and to the Chinese Government's financial and general position were considered a vital concern of the United States, it was necessary to pay the price -- fifteen million dollars a month.

(Some weeks ago Mr. Freeman, also a financial advisor to the Chinese Government, expressed to Mr. Vincent ideas substantially similar to those of Mr. Lynch.)

JCV

JCV/wr

True copy
of signed original (1) W.R.

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CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales in July Compared with June, 1941
On Basis of Issue PriceFirst Nineteen Business Days
(June 1-23, July 1-23)

(Amounts in thousands of dollars)

| Item | Sales | | Increase or Decrease (-) in July Compared with June | |
|------------------|-------------------------|------------------|--|---------------|
| | July | June | Amount | Percent |
| | Series E - Post Offices | \$ 38,700 | \$ 31,627 | \$ 7,073 |
| Series E - Banks | <u>70,155</u> | <u>47,557</u> | <u>22,598</u> | <u>47.5</u> |
| Series E - Total | 108,855 | 79,184 | 29,671 | 37.5 |
| Series F - Banks | 19,131 | 23,223 | - 4,092 | - 17.6 |
| Series G - Banks | <u>122,136</u> | <u>147,581</u> | - <u>25,445</u> | - <u>17.2</u> |
| Total | <u>\$250,123</u> | <u>\$249,988</u> | \$ <u>135</u> | <u>0.1%</u> |

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

July 24, 1941.

Source: All figures are deposits with the Treasurer of the United States
on account of proceeds of sales of United States Savings Bonds.Note: Figures have been rounded to nearest thousand and will not
necessarily add to totals.

Daily Sales - July 1941
On Basis of Issue Price
(In thousands of dollars)

| Date | All Bond Sales | | | | Post Office Bond Sales | Bank Bond Sales | | | |
|-----------|----------------|-----------|-----------|-----------|---------------------------|-----------------|-----------|-----------|-----------|
| | Total | Series E | Series F | Series G | | Series E | Total | Series E | Series F |
| July 1941 | | | | | | | | | |
| 1 | \$ 9,505 | \$ 2,387 | \$ 957 | \$ 6,160 | \$ 595 | \$ 8,910 | \$ 1,793 | \$ 957 | \$ 6,160 |
| 2 | 11,612 | 4,066 | 845 | 6,701 | 1,735 | 9,877 | 2,331 | 845 | 6,701 |
| 3 | 15,045 | 4,903 | 843 | 9,299 | 2,077 | 12,969 | 2,827 | 843 | 9,299 |
| 5 | 22,900 | 9,589 | 2,437 | 10,875 | 3,191 | 19,709 | 6,397 | 2,437 | 10,875 |
| 7 | 11,028 | 6,315 | 472 | 4,242 | 3,908 | 7,120 | 2,407 | 472 | 4,242 |
| 8 | 11,226 | 4,867 | 1,197 | 5,162 | 1,346 | 9,881 | 3,522 | 1,197 | 5,162 |
| 9 | 16,570 | 6,277 | 880 | 9,413 | 2,229 | 14,341 | 4,048 | 880 | 9,413 |
| 10 | 11,430 | 6,018 | 605 | 4,808 | 2,459 | 8,972 | 3,559 | 605 | 4,808 |
| 11 | 16,311 | 8,504 | 1,197 | 6,610 | 2,405 | 13,905 | 6,098 | 1,197 | 6,610 |
| 12 | 12,689 | 4,482 | 860 | 7,347 | 1,672 | 11,017 | 2,810 | 860 | 7,347 |
| 14 | 13,435 | 7,754 | 1,046 | 4,636 | 3,060 | 10,375 | 4,693 | 1,046 | 4,636 |
| 15 | 10,083 | 4,754 | 602 | 4,728 | 1,458 | 8,625 | 3,296 | 602 | 4,728 |
| 16 | 11,994 | 5,541 | 808 | 5,645 | 1,645 | 10,349 | 3,896 | 808 | 5,645 |
| 17 | 15,332 | 6,213 | 1,189 | 7,930 | 1,799 | 13,533 | 4,414 | 1,189 | 7,930 |
| 18 | 12,404 | 6,730 | 836 | 4,837 | 2,042 | 10,362 | 4,689 | 836 | 4,837 |
| 19 | 7,553 | 4,513 | 926 | 2,114 | 1,505 | 6,048 | 3,007 | 926 | 2,114 |
| 21 | 14,136 | 7,105 | 1,015 | 6,016 | 3,060 | 11,076 | 4,046 | 1,015 | 6,016 |
| 22 | 12,191 | 3,820 | 1,208 | 7,164 | 1,001 | 11,191 | 2,819 | 1,208 | 7,164 |
| 23 | 14,677 | 5,018 | 1,208 | 8,451 | 1,514 | 13,163 | 3,505 | 1,208 | 8,451 |
| Total | \$250,123 | \$108,855 | \$ 19,131 | \$122,136 | \$ 38,700 | \$211,423 | \$ 70,155 | \$ 19,131 | \$122,136 |

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

July 24, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

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



TREASURY DEPARTMENT

WASHINGTON

July 24, 1941

Memorandum for THE SECRETARY:

The following report is made of Stamp sales
at "Treasury House":

| | |
|-----------|-----------------|
| July 1-22 | \$11,395.65 |
| July 23 | <u>1,462.95</u> |
| Total | \$12,858.60 |

GRAVES



TREASURY DEPARTMENT

WASHINGTON

July 24, 1941

Memorandum for THE SECRETARY

The following report is made of requests received for "Any Bonds Today?" from the experimental mailing of 10,000 cards:

| | <u>No. Requests</u> | <u>No. Copies</u> |
|-------------|---------------------|-------------------|
| July 1 - 22 | 1010 | 5777 |
| July 23 | <u>26</u> | <u>108</u> |
| | 1036 | 5885 |

GRAVES

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 24, 1941

TO Ferdinand Kuhn, Jr.
FROM Helen Dallas

DEFENSE BONDS: THE COUNTRY LIKES THEM

From New York City to Tacoma, Washington, there is unanimity among early newspaper reports of local July sales to the effect that Defense Bonds and Stamps are going well -- much better than they did in June. In New York City last week four metropolitan newspapers reported that preliminary tabulations for the month showed an "exceedingly heavy" demand; in Tacoma the local postmaster said, "Oh, fiddlesticks with the percentage; but anyway they're showing a mighty tidy gain."

Reports similar to these have come from such widely-scattered areas as Montana and Missouri, Ohio, South Carolina and Texas. Indications are that when the last returns for the month are in, they will show a substantial upturn.

In the meantime editorial writers increasingly are using Defense Savings as a morale builder. Recurringly their theme, while optimistic, is: "Don't expect that it is going to be easy to win this war for freedom. America is big and America is strong, but America needs your help. Buy Defense Savings Bonds."

- 2 -

A spectacular development of this argument was made by the Detroit Free Press in a special 22-page section, which told the story in pictures and text -- of what America has done in the past and what America must do to preserve itself in the future.

Other newspapers continue to discuss Defense Savings in relation to inflation. Consumers are urged to refrain from buying unnecessary goods with their current incomes, and to buy Defense Bonds and Stamps instead. Official consumer approval was given this argument this week by Miss Harriet Elliott of the Office of Price Administration and Civilian Supply who said that "if there is real need for a car, a refrigerator or a washing machine, the consumer should get it, but if not, the money should be put into Defense Bonds."

In connection with inflation, only two editorials of all of those examined paid any attention to the suggestions of A. F. of L. President William Green and several New York financial writers who last week urged "enforced savings" as a means of holding down consumer purchasing power. The Baltimore Sun pointed out that "while talk of 'enforced savings' for defense continues to be heard in the National Capital, Baltimore banks and other institutions having Defense Bonds on sale report that voluntary purchases of these issues continue to be made in satisfactory volume in this area." In St. Louis the Post-Dispatch took issue with the supporters of compulsory thrift: "Instead of trying to sell such a will-o'-the-wisp

panacea against depression, why not continue the forthright offer of these bonds? Is there any reason to question the patriotic response of the people?"

Sales Promotion

In the states that pioneered in local participation in the Defense Savings program, there are indications that the promotion of Bonds and Stamps is now reaching down into the smallest communities.

In Michigan, for example, what started out to be hit-or-miss cooperation on the part of retail stores in the selling of Defense Savings Stamps, has now emerged as a state-wide plan by which all of the chain stores and most of the independents are handling the Stamps. If over-all retail store cooperation proves successful in Michigan, it will be tried in other states.

There is newspaper evidence that such "pioneer" states as Texas, Connecticut and South Carolina are among those in which employee salary-allotment plans have cut horizontally through plants and industries, with almost every skill and trade represented in a group plan. Recently in Texas workers on the Lake Worth bomber plant project announced that they were 100 per cent subscribed to national Defense Bonds.

It is not surprising that in these states, the first to be organized, some frills in promotion should have made their appearance. Defense Stamp chain letters have turned up in some

localities, and have in turn been barred from the mails. A Missouri telephone company has issued instructions to its operators to say a word for Defense Bonds when they take calls over non-dial telephones. In Fort Worth, Texas, a mechanical service for the "correct time" adds a plug for Defense Savings.

The progress of the Defense Savings program in the second group of states to be organized for the sale and promotion of Bonds and Stamps is also traceable in newspaper clippings from those states.

From Florida comes news that county governments are investing in the Bonds, and from Washington a story that the State Government is buying up to the limit allowed by law. In Jackson, Mississippi, patriotically decorated booths "manned by young Jackson matrons" have been set up in department stores as outlets for stamps. In Massachusetts the use of Defense Stamp machines is urged. In New Jersey, gasoline station operators plan to sell stamps.

Fair Miles (unclassified)

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 24, 1941.

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|---------|
| Sold to commercial concerns | £60,000 |
| Purchased from commercial concerns | £15,000 |

Open market sterling held steady at 4.03-3/4. The only reported transaction consisted of £2,000 purchased from a commercial concern.

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

| | |
|--------------------------|------------------|
| Canadian dollar | 11-5/8% discount |
| Argentine peso (free) | .2380 |
| Brazilian milreis (free) | .0505 |
| Uruguayan peso (free) | .4380 |
| Colombian peso | .5800 |
| Mexican peso | .2070 |
| Cuban peso | 1-5/16% discount |
| Japanese yen | .2358 |

In Shanghai, the yuan advanced 1/32¢ to 5-11/32¢. Sterling was quoted at 3.94-1/2, up 1/4¢.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot and forward silver were fixed 1/16d higher at 23-1/2d, equivalent to 42.67¢.

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

We made one purchase of silver amounting to 75,000 ounces under the Silver Purchase Act. This represented new production from various foreign countries, and was bought for forward delivery.

- 2 -

The report of July 16 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$5,054,000, a decline of \$592,000 in the short position since July 9. Net changes were as follows:

| <u>Country</u> | <u>Short Position</u> <u>July 9</u> | <u>Short Position</u> <u>July 16</u> | <u>Change in</u> <u>Short Position*</u> |
|----------------|--|---|--|
| England** | \$ 766,000 | \$ 627,000 | - \$139,000 |
| Europe | 2,922,000 | 2,878,000 | - 44,000 |
| Canada | 421,000 (Long) | 475,000 (Long) | - 54,000 |
| Latin America | 469,000 | 172,000 | - 297,000 |
| Japan | 42,000 | 48,000 | + 6,000 |
| Other Asia | 1,921,000 | 1,819,000 | - 102,000 |
| All others | <u>53,000 (Long)</u> | <u>15,000 (Long)</u> | <u>+ 38,000</u> |
| Total | \$5,646,000 | \$5,054,000 | - \$592,000 |

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

**Combined position in registered and open market sterling.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

PERSONAL & CONFIDENTIAL

DATE July 24, 1941

TO Secretary Morgenthau
FROM John C. Wiley

For your information -

Réné Plevén was in to see me this morning. He wanted you to know that he had been in touch with Oscar Cox and that everything was progressing well, though slowly. He no longer seems to feel any concern over the Bergman incident in New York.

JCW
W

COPY

DEPARTMENT OF STATE
Washington

July 25, 1941.

In reply refer to
EA 841.5151/1841

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses a copy of despatch no. 707 of June 16 from the American Embassy, London, with regard to the sale of Courtaulds, Limited, holding in the American Viscose Corporation.

Enclosure:

no. 707 of June 16
from London

Copy:MEW 7/28/41

COPY

duplicate

175

LONDON, June 16, 1941.

No. 707

SUBJECT: Sale of Courtaulds Limited Holding
in the American Viscose Corporation.

The Honorable

The Secretary of State,

Washington.

Sir:

1/ I have the honor to refer to the Embassy's telegram
No. 2449 of June 14, and to enclose herewith a copy of the
statement issued by the directors of Courtaulds, Limited,
regarding the recent sale of its holding in the American
Viscose Corporation.

Respectfully yours,

Herschel V. Johnson
Charge d'Affaires ad interim

Enclosure:

1. Clipping from The Times of June 13,
containing Statement, in triplicate.

WCF/JC

Copy:MEW 7/28/41

Enclosure No. 1 to despatch No. 707 of June 16, 1941 from the Embassy at London, England.

PAPER: THE TIMES
CITY: LONDON

NUMBER:
DATE: June 13, 1941

AMERICAN VISCOSE CORPORATION

Courtaulds Statement

The directors of Courtaulds, Limited, have issued the following statement to stockholders regarding the recent sale of most of the shares the company held in the American Viscose Corporation:

Stockholders in Courtaulds, Limited, are aware that at the urgent request of H. M. Government their directors parted with about 95% of the company's shareholding in the American Viscose Corporation. This was acquired from Courtaulds, Limited by H. M. Government on March 15, 1941, and in turn was sold by H.M. Government to a group of investment bankers in the U.S.A.

The amount to be realized by H.M. Government from the sale of this shareholding depended upon the amount to be received by the investment bankers in response to a public issue which has recently been made by them in the United States and with which Courtaulds, Limited, were not concerned. On the other hand, the price to be paid by H.M. Government to Courtaulds, Limited, for this shareholding is not determined by the price realized in the United States, but is to be agreed upon mutually with recourse to arbitration if need be.

Your directors do not yet know what sum will be received from the British Treasury, and it is too early to say what their recommendations may be in regard to the allocation of the money when it is received.

A word of caution is necessary at this stage. The way is by no means clear for the making of any capital distribution, even should that course be deemed advisable. Meanwhile, your directors think it their duty to issue a statement which will enable the 80,000 stockholders in the company to understand the range and magnitude of the transactions mentioned.

Courtaulds, Limited, bought the American rights in the viscose process as long ago as 1909. They were bought from the American proprietors who had held them for five years without developing them. Very little interest was then taken in the manufacture of rayon on the other side of the Atlantic. It may justly be claimed in this instance that British initiative and enterprise virtually gave the United States a new industry.

The American Viscose Company, the first company to be created by Courtaulds, Limited in the U.S.A., rapidly developed the making of rayon, and by 1916 the business of its successor, the Viscose Company, was already large. Profits expanded rapidly in the next few years and remained at a very high level until the end of 1929; of the total profit made in this period, after payment of taxes in the U.S.A., well over one third was not transferred to Great Britain, but was "ploughed back" into the American business.

Share of Output

The output of viscose yarns by these companies in U.S.A. expanded from 5,750,000 lb. in 1916, when the American Viscose Company was the only producer of rayon in U.S.A., to 62,000,000 lb. in 1929. The potentialities of the industry having been thus developed and success demonstrated, it was a natural consequence that competition should begin immediately after the basic patent rights had expired, which they did about 1920. The competition grew into large proportions, but even in 1929, though there were then no less than 16 producers of rayon in the United States, the Viscose Company manufactured over 50% of the total output of 121,000,000 lb. Last year, 1940, its successor, the American Viscose Corporation, employing about 18,500 work people, produced some 30% of the total weight of viscose yarns, or, if acetate be included, some 25% of the total output of all the rayon yarns, which total amounted to 390,000,000 lb. These facts and figures will give stockholders in Courtaulds, Limited, and the public generally, a fuller picture of what was achieved in a comparatively brief period of time, principally by energetic scientific research, swift technological improvements, and the policy faithfully followed of "ploughing back" profits.

Altogether, from the beginning, the American Viscose Company, The Viscose Company and the American Viscose Corporation have earned profits, after meeting all other charges except taxation in the United States, amounting to more than \$480,000,000. The disposal of these profits has been approximately as follows:

| | £ | | £ |
|---------------------------|------|---------------------------------------|------|
| To U.S.A. revenue | 20 | } Total left in U.S.A. | 50 |
| To U.S.A. shareholders | 4½ | | |
| Retained in business | 25½ | | |
| To United Kingdom revenue | 9½ | } Total received in United Kingdom | 50 |
| To Courtaulds, Limited | 40½ | | |
| | 100% | | 100% |

Your directors calculate that the written down value of the American Viscose Corporation's assets at the date of the sale of shares to H.M. Government, and before adding anything at all for the very valuable goodwill, amounted approximately to \$128,000,000, made up as follows:

| | £ |
|--|----------------------|
| Cash at banks and in hand | 10,000,000 |
| Marketable securities (market value) | 26,000,000 |
| Debtors | 7,000,000 |
| Stocks-in-Trade | 13,000,000 |
| Properties and Plant (before deducting special reserves amounting to about \$13,000,000) | <u>80,000,000</u> |
| | 136,000,000 |
| Less creditors | <u>8,000,000</u> |
| | <u>\$128,000,000</u> |

The sale to H.M. Government of about 95% of the company's shareholding in the American Viscose Corporation represented about 91% of that company's issued share capital. About 5% is still held by Courtaulds, Limited, and about 4% by others. Under the new arrangements the company is at present directly represented on the board of the American Viscose Corporation by one director.

Recent Expansion

During the last two years, as is known from statements made at the annual general meetings of Courtaulds, Limited, the American Viscose Corporation has been engaged on an extensive programme of reconstruction and expansion involving many millions of dollars from the corporation's own resources. This large expenditure has not yet had time to bear fruit, but it will add in a notable degree to the earning capacity. There are other facts which also are of great importance for the future. It should be specially noted that in addition to the manufacturer of viscose yarn, the American Viscose Corporation today manufactures acetate yarn on a large scale, and it has a great and rapidly growing business in the making of staple fibre, a comparatively new textile development with enormous potentialities which is attracting great attention in the United States at the present time.

Whatever temporary difficulties and restrictions may arise from the repercussions of the war on the United States, there can be no doubt that the prospects of continuing and increasing prosperity for the American Viscose Corporation, with the largest home market in the world, are real and substantial.

On the other hand, Courtaulds, Limited, apart from the loss of the American Viscose Corporation, with the goodwill attached to that business in its own country, will lose a large part of the additional goodwill which has been acquired by the English business from its prestige as being in virtual control of the largest group of rayon interests in the world. The strongest plank in this edifice was the mutual support which Courtaulds, Limited, and the American Viscose Corporation gave to each other in all matters affecting world policy in the rayon industry.

Furthermore, it must not be forgotten that Courtaulds, Limited, have owed much of their financial strength in the past to the fact that a large part of their interests was in another continent. The spreading of interests is always a stabilizing factor, and it is hardly necessary to point out how immensely valuable a large investment in U.S.A. might have proved to be as an insurance in the coming years.

Your directors exerted themselves from the very beginning and left no stone unturned in their efforts to find a way of retaining the whole or a major part of their interest in the American Viscose Corporation.

Copy:HEW 7/28/41

C
O
P
Y

P A R A P H R A S E

A telegram (no. 3191) from the American Embassy at London, dated July 24, 1941, reads substantially as follows:

In an informal talk between Coe and Waley of the British Treasury the problem of Far Eastern shuffles was mentioned by Mr. Waley and the suggestions which have been sent to the United States recently by the British Treasury. Mr. Waley said that the British Treasury is not overly hopeful in regard to results; that from the point of view of the Treasury the important thing is to work in harmony with the Government of the United States in regard to the Far East. Doubts in regard to the ability of the CHINESE GOVERNMENT to make decisions about the types of transactions which would benefit them seem to underlie Mr. Waley's fears that the proposed scheme might not work well. Mr. Waley was desirous that the proposed exchange control and the Stabilization Board should be tied up closely one with the other, and made the suggestion that Hall-Patch might, for the present, be invited to serve on the Stabilization Board. The matter of including Hong Kong in the sterling area is now under discussion by the British Treasury, according to Mr. Waley, and the Treasury is discussing the problems concerned. Coe desires to remind the Treasury, in this connection, of the proposition which was taken up orally with Manuel Fox of establishing around Mr. Fox a freezing control committee.

Copy:bj:7-27-41

RESTRICTED

G-2/2657-220 No. 449 H.I.D., W.D. 12:00 M., July 24, 1941

SITUATION REPORTI. EASTERN THEATER.

Ground: No further information has been received as to the situation on the German-Finnish front.

There appears to be no change on the Leningrad front, the German columns in this area being halted near Narva and Luga. The battle between encircling German forces and encircled Russian divisions in the area between Nevel and Vitebsk continues. Strong Russian formations are also believed encircled in the area between Smolensk and Mohilev.

The German High Command reports privately that Russian forces have been encircled in the "Western Ukraine."

Axis troops have captured Tighina in eastern Bessarabia and the Dniester bridge at that point. Strong Russian forces hold the southern portion of Bessarabia, including the Danube Delta region. The retreat of these Russian forces has been endangered by the Axis capture of Tighina.

Air: No change in the general situation. Moscow was bombed again.

II. WESTERN THEATER.

Air: German. Scattered light raids over Great Britain.

British. Continuation of the offensive. Mannheim and Frankfurt were attacked for the third successive night.

III. MEDITERRANEAN THEATER.

Air-Naval: The Italian air force attacked a British Convoy in the central Mediterranean. This indicates a British attempt to reestablish east-west communication in this sea.

Air: Normal harassing raids by both sides.

RESTRICTED

The Secretary of the Treasury, by this public notice, invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated July 30, 1941, and will mature October 29, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Monday, July 28, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

- 2 -

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on July 30, 1941.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest.

- 3 -

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

-000-

July 25, 1941
10:35 a.m.

RE AID TO BRITAIN
Conference held in Mr. Bell's office

Present: Mr. Mack
Mr. Brown
Mr. White
Sir Frederick Phillips
Mr. Keynes
Mr. Thompson
Mr. Bewley
Mr. Childs
Mr. Chance
Miss Kistler
Mr. Kades
Mr. Keyes
Mr. Hicks

Bell: Now, Mack, I understand you want to leave --

Mack: There is just one question, I believe, that concerns me.

Bell: All right. Report on the administratively difficult purchases?

White: Yes. We have had numerous meetings, as you know, trying to devise some way of making possible purchases under Lend-Lease by private corporations abroad of special items that are not large enough individually, or for one reason or another wouldn't normally go through the British Purchasing Commission, and the - I

- 2 -

think the net result seems to be that it can be done, but that in a comparison of the method to be used, we mustn't employ the procedure which they had formerly used individually as a basis of comparison, because the procedure which was formerly used by individual companies would no longer hold true.

They now have to deal with priorities and shipping, but priorities particularly, and therefore a good deal of the expedition in consummating the transaction no longer holds true.

With that preliminary remark, I thought Mr. Mack would explain how he feels the most effective procedure could be conducted, although there is an alternative procedure which is more in line with what I think we first had in mind. But Mr. Mack feels, with reason, I believe, that that would be not as expeditious as the method which he has devised.

(Miss Kistler and Mr. Kades entered the conference.)

Mack:

Yes. These purchases had to do with the commercial purchases now being made by British importers from private sources here in this country, and the present procedure is of course for the British importer to buy directly from the private source here.

Now, the question has been raised about putting these transactions through the Procurement Division. Now, we have gone into the matter a bit and it seems that to attempt to handle these purchases as a post action,

- 3 -

in other words, to attempt to make a contract to cover a purchase that has already been effected between a British importer and an American exporter, would raise all sorts of administrative difficulties on this side. There would be a question raised as to competition and verifying the price, and all that sort of thing, so that our thought is that if these purchases could flow through Lend-Lease as all other purchases do, that it would be the best way of handling it, of course, with this consideration, that up to this time all purchases are for the direct war effort or related to it.

Now, this would of course call for a policy determination as to bringing purchases of this type under Lend-Lease.

Now, with that exception, we can handle them through the regular machinery that has been set up to handle Lend-Lease purchases.

(Mr. Keyes entered the conference).

Bell: Has the policy been determined? I thought that at one meeting we had, Cox said that they could be brought in.

White: That was my understanding. I didn't think that there would be any question of policy except for - there might be certain items, but in the main they felt that the bulk of the commodities which are purchased could be handled under Lend-Lease. There has been a new thought injected into the discussions. I have observed that it kind of runs across all of these and needs to be clarified if it can, and that is the question of articles sold to the British Government under

- 4 -

Lend-Lease being resold at a profit. Now, it is clear that the bulk of these items would be - would fall in that category. They would be transactions which would enter the normal avenues of distribution, and as such, I presume, yield the usual return for distributive services, and so forth, to the manufacturer, the producer, and an additional amount of sterling profit to the Government.

Now, I take it that, so far as I know, there is no objection to sterling profit that the Government would make in selling these goods, presumably to the producer, but that there has been some suggestion that there might be some objection to a profit which might arise at the other end. That question came up, I think, in connection with foodstuffs. The President, you may have noticed, made some reference to it at a press conference.

Now, that raises a quite novel problem which strikes a - a new problem which strikes not only at this, but strikes at some of the Dominion purchases. I don't know, but I somehow feel, that what the President had in mind need not apply to this type of transaction at all.

- Keynes: What was it the President said?
- White: May I quote from a press release? It will become clear from --
- Brown: He said that the British had no idea of making a profit.
- White: May I just quote it verbatim? This is a report which appeared in the Herald Tribune of a statement made by the President at

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one of his press conferences. We can get the exact quotation from them, but there appears to be no difference of opinion of those who were there to what this statement says. I will read from it - I will quote from the Herald Tribune: "The President at a press conference of July 18 took occasion to back his faith in Lend-Lease program and when asked if it would be possible for Great Britain to accept materials from the United States under the terms of Lend-Lease program and then sell them at profit, the President laughed such an idea down. He expressed grave doubt that there was any desire on the part of the British or any other recipient of Lend-Lease aid to re-sell at a profit. When asked whether he believed that the British were selling food from the United States at a profit, the President said, 'I doubt their desire to do any such thing on food.' Questioned about other materials, he replied, 'That wouldn't be quite according to Hoyle.'"

Keynes: I thought he was talking about exports there.

White: That is not clear. He may have been.

Keynes: I read that in the New York Times at the time. I thought he was speaking of exports. The answer didn't mention exports, but the question did, as I understand.

White: That may be a possible interpretation, that the tenor of the discussion might have been relating to some claims that there have been exported materials from Great Britain to Latin America in competition with American producers, and so forth.

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Bell: Well, that was the charge on the floor of the House, wasn't it?

White: Yes, that was.

Bell: He was attempting, apparently, to answer that charge.

White: But the fact that they were speaking of selling food led me to believe that that may not have been the only thing he had in mind. I raise the question here to make certain that there is an understanding that this thing would run counter to this type of purchase and the Dominion type of purchase, and would ramify so profoundly the Lend-Lease arrangements that I doubt very much whether the President envisaged this type of transaction in his comments about re-selling at a profit.

Keynes: I think that is worth looking up, because if the question related to re-export, as I thought it did, that would ease it a good deal, because in the case of re-export, of course we shall keep strict checks on that.

Childs: The very first food shipments we got under Lend-Lease, when we took it down there to get it, we spent quite a long time talking, explaining why we distribute through normal channels, which would involve profits for the middleman, because essentially there was no other way to do it. Cox and Phil Young, I think both, I know Cox did, took it up to Hopkins and Hopkins then advised us. He put it to the President. He said, "They fully understand the whole situation on this food distribution," and on the basis of it we got the oral consent for this type of distribution involving the use of normal commercial channels, which would necessarily involve a profit for the middlemen on the way. Cox repeated that not very many days ago, that both Hopkins and Hopkins made the President understand that at the time.

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- White: Well then, it is something that I take it can be clarified with the Lend-Lease as you go along. I was a little bit disturbed when I first read it, because a little thought indicates the extent of its implications and because of that extent I am inclined to think that the President was thinking in terms of some specific episode, either exports or there has been some talk of cheese being sold at high prices or something of that character. I think we would all agree that this - that there are times when we would have to forego consistency or logical reasonableness by virtue of political expediency and do certain things in a way which is probably less effective or efficient than another way because of the political reactions than the President here can make much of the fact that the American Government is sending over, let us say, cheese, and the cheese is being sold in stores at high prices. There is no consistency, necessarily, in that at all, but there you have it.
- Keynes: We are selling food in the aggregate at a very heavy loss, but it is adjusted as between one and another. I believe the useful thing to do here would be when Thompson and I get back to London to get a report made to you on the supplies in London.
- White: I think that would be very helpful, because I think the President - the Secretary would very much like that, and it would place him in a position where he could have the facts and discuss it.
- Bell: I think he may be asked about it.
- Keynes: We are selling - the Ministry of Food - if you will put in the Lend-Lease goods at cost price and what the cost price would be if we paid

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cash, the Ministry of Food in the aggregate is selling food for about a hundred million pounds a year less than it costs. We distribute that over different commodities in a rather arbitrary way, so far as relations to cost is concerned, in order to keep the cost of living index steady and in order to have a maximum substancy on those articles.

- White: But there may appear to the superficial observer distortions in which there appears to be a high price for one commodity, and not being familiar with the general program, they may jump to conclusions on the basis of a few items.
- Phillips: I would be inclined to suspect that price was very high, after you take into account the freight and so forth.
- White: That I don't know, but the possession of the facts on that would be very helpful here, because there would be somebody who would be in a position to answer that charge.
- Keynes: I don't think there was any profit on cheese. We are in the Treasury urging the Ministry of Food in the case of non-necessaries, to make profits where they could in order to offset the losses, and the only substantial case that was under discussion, where there was any profit worth bothering about, was chocolate. We thought chocolate was not so necessary that we couldn't make a penny a bar and that brought in an astonishing amount of money.
- Bell: Do you say that the losses of a hundred million dollars--
- Keynes: A hundred million pounds.
- Bell: Which the Ministry of Food assumes would

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more than cover the profits of the middle man?

Phillips: I don't think he made any profits.

Keynes: What we have now in case of all the necessaries on a-like cheese, we have two fixed prices, we have two fixed prices. I think he makes hardly any profit because we have fixed prices at which he gets his cheese and fixed prices at which he sells it.

White: Mr. Bell's point is that if we could get an over-all figure like that, it would be the most effective way of stopping at once any question of any profit being made on food without even going into some of the details.

Keynes: That is right.

If that came to you from Coe, that would be about the best way for it to come wouldn't it?

White: I should think it would be very helpful if Coe came back with as much information on that point and if he also could be given some table so he could say, "I saw this and that and the other thing." Then I think the Secretary would be equipped with just the kind of argument that would be necessary in some of these discussions, either from - either on the Hill or in Cabinet meetings, because they have occurred and they haven't been appropriately answered.

Phillips: I was going to ask, Dr. White, if you could let us have, not what you think the President means by profit, but what you think would be a reasonable definition of profit. It isn't - for instance, the retailer. We can't take

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over all the retail shops in the country, and therefore the retailer must earn enough to keep his shop going.

A profit would be probably something in excess of what was necessary to keep him going.

White: I agree with you a hundred per cent, Sir Frederick. I thought I started by saying there is no consistency in this and that the mere spread between the middleman's cost and the selling price in the first place shouldn't be called profit, although it might loosely be called profit by many, and I take it we might agree that profits could only be measured in its pure sense on the net return on invested capital, et cetera, and the spread would give a clear indication of that, but on political grounds the mere selling price as compared with the price which the American Government presumably is paying, would appear to the man in the street or the man on the Hill as being either exorbitant or reasonable, but I don't think he would approach it as intelligently as you suggested. I think that our approach would have to take cognizance of their reactions rather than the actual situation.

Bell: You can, perhaps, state that England is trying to maintain the middleman's service and, naturally, they have to get a small profit out of what they do.

White: That is right.

Bell: That more than makes up for the losses.

Keynes: Could I raise a very important question which has been bothering us an awful lot? We should

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value your advice. It is the question of the price at which we would lease American cotton.

We are beginning, you know, to put in requisitions under Lend-Lease for it. The Government took over the distribution of cotton a few months ago. I forget whether it was April or a little later. We then froze the price of cotton at what was then the correct price in relation. Since then, the American price, as you know, has gone up. Our prices remain at the frozen price.

White:

I think that is potentially a dangerous practice. I think it would be highly desirable, it would seem to me, if the Government could, in reselling its cotton, follow closely the market price - and this is the reason for it. If the British manufacturer obtains his cotton at a lower price than we would have to buy it in the market and presumably at a lower price than the American manufacturer has to pay with the usual spread, that might give a point to some of the claims or arguments, that the British manufacturer exporting cotton goods to Latin-America competes with the American manufacturer, is being subsidized by our own Government.

Keynes:

I haven't quite finished the end of my story.

You have an export subsidy, and until recently, if one took account of that, our subsidy was no greater than yours. In fact, it was smaller. But now, since there is a further rise in the price of cotton, that would cease to be the case. But there is another thing. There is cotton for domestic consumption. Our clothing has already gone up enormously. And the program greatly upset our whole cost of living to raise cotton for domestic consumption. We thought this probably only related to export

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cotton and there, if we made a distinction, that would be the case. We simply cannot charge higher prices for clothing.

White:

I should think if you could devise some method which would be apparent or could be easily made apparent through an export tax or through some other - through dual rates so that we would be able to meet the charge which I am almost positive is going to be made - I don't know whether some of it has already come to you, any of you, but I am almost positive that very sure we are going to hear about the fact that there is this type of competition. Every manufacturer who does or does not get an order, who may never have gotten the order, will now have an additional item of griping against the administration, and if we are not in a position to say that the British Government gets the full benefit of this, the British people as a whole get the full benefit of this, and that the exporter is not in a stronger competitive position by virtue of the Lend-Lease arrangements on cotton, but that he has to pay the same price for cotton as he would have had to pay if the Lend-Lease arrangements did not exist, I think we have got an argument which--

Phillips:

I don't think we explained it clearly to you, Dr. White.

We must not alter from the assumption that the fact that American cotton we are taking, a, for shipping reasons, and b, because you like us to take it. We are also trying to protect your price. We could perhaps get cotton from Brazil.

White:

Again, I think that we will have to depart

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from the intrinsic merits of the discussion. I think that we are in the realm exclusively of - shall I say nonsense, largely, or irrational procedure, which is another way of saying political considerations - and the more trouble can be given - I don't know whether it is true in your departments, but it is certainly true in our departments. A dozen or twenty letters on a given point will raise more difficulties and influence policy more than intrinsic merits of the problem ever would.

Now, if they get the National Association of Cotton Manufacturers behind them and the cotton exporters and they can make a case which seems to the man in the street to be perfectly simple and perfectly obvious, irrespective of the merits of the case, there is nobody to defend them that way. I think that the trouble that they can make is worth avoiding if it can be avoided in some such way.

Keynes: Do you think there is force in the argument that we can take account of the American export subsidy? You see, you realize that your price of cotton is too high for the export business. Provided we are not giving them a larger subsidy than the equivalent of that, is that a good reply? The old argument may exist, we mustn't go beyond that.

White: Well, I just don't know. I am only expressing one man's point of view on this, and I imagine you would have to feel your way, and so long as you are aware of the political difficulties, you can guide yourself in accordance with that, and I am sure that you can arrive at some--

Keynes: It is a very great perplexity administratively. We are getting cotton from different parts of the world at different prices. You can't, when

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you release cotton know the exact stage, whether it is for export or domestic use. You will recognize in your system that the American cotton price is too high for export. You see, we, in order to be on the same position, have always to recognize that same point.

White: It is a troublesome point to raise.

Bell: I didn't get your point that they should sell it at about the American price, Harry.

White: Well, in order to avoid the charge that--

Bell: That they would be selling it to their manufacturers--

White: It doesn't cost them anything. I mean, this is the arrangement. I am not examining the validity of the argument, but this is the way the argument usually runs and will run. I have already heard it, but only from one source, but I suspect it will increase. The British Government is getting cotton for nothing. That is the way they put it. The British Government in turn is selling that cotton to exporters at prices which are less than the American manufacturer has to pay. Now, that needn't be true, but that is the way it is stated. Therefore, the American - the British manufacturer has no difficulty of going to, let us say, Colombia and underselling the American exporters, so that the American exporter is losing in two ways. His Government is giving away something for nothing, and then when he has to maintain his normal business in Colombia, he is underout by British manufacturers who receive cotton at less than the cost price or the fair value. That is the way the argument will be presented.

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Keynes: That is exactly as we have seen it.

White: So I said if that argument could be met by the statement that the British manufacturer is not receiving a subsidy from his Government in the form of cotton prices which are lower than he would have to pay, that would scotch that argument.

Now, Professor Keynes has raised a very real point, that we subsidize our own industry. In order for them to compete, isn't it reasonable for them to base the price of cotton which they permit their manufacturers to pay on cotton which will go in cotton goods to be exported on our subsidized price rather than on the market price, to the domestic manufacturer, and I said, "It is a meritorious point." I just don't know the answer.

Bell: Where should you go to get the answer? Is that an Agriculture problem or does it tie in with Lend-Lease policy?

Phillips: I think you will find the agricultural exporters want to sell us all the raw cotton they possibly can.

White: They don't care who subsidizes it.

Bell: As long as it is paid for.

White: Well, I suppose it is mostly Lend-Lease, but it is largely a question of trying to conduct the arrangements in such a way as will arouse the least effective political arrangements or will supply those of us here who appreciate the intrinsic merits of the thing with as much ammunition so that we can effectively stop such arguments as follow, because if that argument is going to gain weight on the Hill, then it will limit the Lend-lease

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and the amount of things it can include under Lend-Lease and thereby we are interested in the sense that that will reduce their dollar balances, so there is that--

Bell: But there isn't any policy that can be determined here in this committee, it seems to me.

White: That is right.

Keynes: You see, it makes a great difference in the answer to my second question, because if we are allowed to take account of your export subsidy, providing you prevent cotton from rising above its present price, we are just about all right. The adjustment we have to make is very small. But your export subsidy is equivalent to three cents a pound. So that if we neglect that, it really becomes a very large figure.

White: I am wondering whether a memorandum on the whole matter might not be worth preparing for examination by the Lend-Lease and by Agriculture and others so that they will have in their possession all the reasons that justify your action, so that they will be able to utilize them if there is any question raised with Mr. Hopkins by the President or anyone else.

Brown: I could certainly take up that matter with our administration this afternoon.

White: So far as we are concerned, I don't see any particular need for speed on that matter. That is wholly a question of political - between you and them.

Keynes: Yes. You see, if we take account of your

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export subsidy, this has only become a practical problem in the last week. It is only last week's rise in cotton which has brought in a different figure.

Kades:

I would like to just make this remark. In connection with the furnishing of ammunition to some of these arguments - so these arguments can be met, the point was made at the Office of Production Management, I think it was the day before yesterday, with steel manufacturers. Mr. Eugene Grace, the president of Bethlehem Steel, objected to our Lend-Leasing scrap to Great Britain because he said that a large proportion of that scrap was going into the manufacture of steel which was used for civilian purposes, and he made some estimate of the amount, and apparently no one in the Office of Production Management had any data with which to refute that contention. I suppose it is erroneous. It is just along the lines - I mention it along the lines of Dr. White's statement that if possible we ought to have basic memoranda on these points, because his point was that as long as scrap was being Lend-Leased he was unwilling unless he was ordered to curtail civilian consumption of steel in this country.

Brown:

What does he mean by civilian consumption, rebuilding houses that have been bombed or luxury automobiles?

White:

Well, there is nobody there, you see, to--

Brown:

But I mean, what did he mean?

Kades:

I don't know.

White:

He probably was talking very loosely. That is the difficulty of these things. If they were real meritorious points, you would want to

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Kades:

I don't know.

White:

He probably was talking very loosely. That is the difficulty of these things. If they were real meritorious points, you would want to

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reconsider them and act accordingly, but for every point that has merit there are probably a half a dozen which are either loosely stated or talked through or completely wrong or superficial and yet which gathers momentum. A man of his position makes a statement of that kind and buzzes around in various quarters and--

Brown: That particular type of objection could be at least narrowed down very considerably on our end before we have to bother the British for a memorandum on what they do with their steel, because we can find out what is in his mind and in the minds of the people for whom he speaks. We may be able to give him an immediate answer.

Back: A further development is this, that on the scrap question you mentioned, they talked to me about it. I arranged for Mr. Elliott of the British Purchasing Commission to meet with OPM this morning and talk with them about it, and we are being represented there, so that they have both sides of the story.

Keynes: I agree entirely with what Mr. Kades says, we must prepare the data. Mr. Elliott has prepared a memorandum which Phillips and I have been through and which is in draft now, and I think he was going to discuss further how far that should be amplified, and I believe that data gave the complete answer.

Of course, in the steel we have gone to the utmost limit. I mean, Mr. Grace is completely wrong. He couldn't be more wrong.

Kades: I don't question that at all, you understand, Mr. Keynes.

Another point - to give you an illustration--

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- Keynes: The difficulty, Mr. Kades, is this, that it isn't the businessmen like Mr. Elliott who is buying steel here, but he is not up to date on what is happening in Great Britain. He hasn't been there in many months and doesn't know the latest facts. It is extremely difficult here to be as correct as might be on matters of purely internal British administration.
- Kades: Another one of the steel men there, I think it was Mr. Girdler - I wasn't present. I have gotten this from Mr. O'Connell.
- Mack: I was present.
- Kades: Were you? I didn't know you were there, Mr. Mack. He made the statement that a good deal of the steel was also being used for reexport.
- Well, of course, as a result of the discussions which I have had the benefit of here, I had previously talked to Mr. O'Connell, and he was aware of that fact, and he was able to nail that particular point, but on the question of civilian use, not having any information, I don't believe there was any refutation made at all. Is that right? On the amount of civilian steel used for civilian purposes in--
- Mack: There were no figures, no.
- Kades: They just let Grace's statement stand.
- White: Perhaps we have discussed the point enough to - merely to call attention to the fact that there are certain political problems, and I wonder whether in the discussion of the procedures which Mr. Mack is taking that we can assume that this question of profit does not apply and continue with the procedure which

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you have indicated. We don't know what - I think we can assume that at least for the purposes of this discussion.

Keynes:

If we come back to the ordinary procedure which should be adopted, I think we have then got to go on the line of paring down. We have already gone a long way of finding things we can handle administratively. We will find out in London what proportion of it is fairly large cases. We don't know, for example, if we took orders over ten thousand dollars - we don't know what proportion that would account for. If that accounted for a high proportion, we could then forget about the rest, you see, and concentrate on those fairly large cases. I think when Thompson and I get back to London, we have got to look into all that. It is very hard to get further information here than we have got already. I doubt whether we can deal - if we deal with it in the way Mr. Mack suggests, which is very likely the right way, we can't possibly handle all of it, and I think it is only in London that we can find out how much can be routed that way.

White:

Mr. Mack thought at the last discussion - I don't know whether there were any subsequent discussions or not, so I may be repeating something you have already taken up, but he thought it would be extremely helpful if you could have analyzed one or two or three months' business, either from the point of view of the import permits which you have granted or by requesting a copy of all orders given by individual firms to individual United States firms and collect those and have them analyzed, both from the point of view of view of what the items consist of and what the amounts were, and if you are shorthanded over there, we

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thought we would be glad to set up a small organization here that would quickly do that and give you all the possible information on the basis of those items that you would want, and that he would need to know what it was that couldn't be purchased through the channels that he suggested, because Mr. Mack felt that there would be very little of the items that are so purchased that they couldn't handle as expeditiously, excluding any items of the - that the Lend-Lease might find for reasons of policy were not satisfactory, so that you might bear that in mind.

- Keynes: I think that is exactly what we can do. We can sample these and see what they really are.
- Bell: Has Mack's procedure been worked out with the British? Do they understand thoroughly what your procedure is?
- Mack: We contemplate the regular Lend-Lease procedure.
- Bell: I see.
- Mack: Because, as you know now, the matter of production of priorities comes into almost every purchase, and, as a matter of fact, all of our purchases have to first be cleared by the Office of Production Management to determine production difficulties, priority difficulties, and that is progressively more and more difficult. For example, heretofore we have general priorities on most commodities. Now we - this week we find that it is going to be necessary to have specific priority ratings on commodities instead of general priority taking precedence over civilian business, it must be A-1, A-1-A, or S-A, or 4-A, whatever the facts call for.

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- White: Is it a reasonable assumption, Mr. Mack, to say that most of the things which the British corporations are importing, not the BPC but private corporations, are of a character that you would expect would be susceptible to priority considerations.
- Mack: Well, that is one intangible in this discussion, that we don't know the commodities that are contemplated except in a very broad way. I believe there was some thought that there might be a substantial amount of machinery and equipment.
- Keynes: Yes.
- Mack: If so, that would be very strictly subject to priority and production.
- White: If that is so, Mr. Mack was of the opinion that from the point of view of priorities, he is in a position to get much quicker service than would the former channels of trade and that therefore it might be a more expeditious way of handling it than would pursuance of the prior methods.
- Keynes: I think we can hardly reject that argument, because that is exactly what we have been telling the dominions, to operate this way.
- Mack: I see.
- White: Well, then, does that complete what you have?
- Mack: I think so.
- Phillips: Would your priorities really go right down to the bottom? Suppose there is an order for machinery or something of the value of eighty-seven dollars. Would your priorities system require that to be submitted?
- Mack: We submit all orders.
- Phillips: Everything?
- Mack: Every single order. As a matter of fact, on prompt shipments of equipment and machinery, we find in many cases prompt shipment now is thirty days, sixty days. Someone, the other day gave objection, because they are just jammed up with work on the assembly lines.
- (Mr. Mack left the conference.)

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- Bell: Mr. Phillips, have you anything further?
- Brown: Mr. Cox and the Secretary and Mr. Lovett and Mr. McCloy had lunch on Tuesday, and Mr. Lovett was very skeptical about how much money the Air Corps would have to take over these contracts, but he undertook to go back and put as much pressure on them as he could. Mr. McCloy has been in the same position with the Ordnance. That was Tuesday.
- Bell: You haven't heard anything since Tuesday?
- Brown: I know that Sir Henry Self and Colonel Hires had a talk to try and see if either one could find some water in the other one's program and I think that came out at a draw. It doesn't look, at the moment, as though a very substantial amount was going to be found.
- Phillips: But as regards the Ordnance, I understand they hadn't accepted that.
- Childs: Forty-four million.
- Brown: I understand the same, Sir Frederick, and I talked to Mr. McCloy the day before yesterday and he said he would get after that and I tried to reach him four times since then and he has always been out or busy. I will get after him again today.
- Bell: Some letter came in from McCloy on a small item. Have you got that?
- Kistler: Yes. Well, it was with respect to taking over the four machine gun contracts.
- Bell: It was a small amount involved.
- Childs: Those are already done.

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Bell: That is completely done?

Childs: Yes.

Kistler: It hasn't been put in the file yet, but the figures are thirty point, the total amount which McCloy estimated the British would get. Twenty-two million nine hundred sixty on the plants and about seven million six hundred thousand on the - he said the negotiations had been completed.

Childs: As a matter of fact, the document has been signed, but the history of those contracts is a good sign post on this matter, because we began those in January, and are just completing them now.

Kistler: The cash now should be transferred very shortly.

Childs: Yes. The cash was urgently needed in January.

White: Does that relate to the letter that we got some time back from Mr. Jones - it would seem to indicate that the delay in taking over the plants was due to the failure of some documents to be forthcoming from the British, and he didn't understand the delay.

Childs: Jones said that?

White: Yes.

Childs: Jones called me from New York once, but I got hold of his counsel and he said he had everything he wanted.

White: Let me quote from this letter of June 4:
"We believe that generally the situation is due to the fact that since the passage of the Lend-Lease Bill, the British have been slow to follow through on their desire to

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realize on these contracts, and have not yet delivered the cancellation orders."

Phillips: I believe, Dr. White, he has got all he wants, and furthermore, I am not worrying about that, because those ~~are~~ capital facilities, and they can't run away. What I am worrying about are these airplane contracts which are running along every day.

White: I didn't mean to divert the discussion.

Bell: Do you know whether you will get another report from McCloy and Lovett, Brown?

Brown: This afternoon, I think.

Phillips: Mr. Brown, will that cover the tanks and also the things signed after March 11?

Bell: Yes.

Phillips: You remember there was forty-eight millions --

Brown: I understand that Colonel Greenbaum and Mr. Cox and others had found a substantial amount of leeway which they could use to take over the - about up to forty millions of the contracts signed since March 11.

Phillips: They have found it?

Childs: That money was supposed to have been found some days ago.

Brown: Yes. We called up the Ordnance and told them not to allocate that money, to keep it, because we were going to need it for this purpose. Now, how far they have gone on doing that, I don't know.

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White:

Mr. Brown, I am not saying this in any way even suggesting criticism, because I don't know where the fault lies, but there certainly has been, I think, an unfortunate amount of changing of minds and uncertainty that is a little bit unreasonable, I think, from the point of view of the British Treasury. There are several of these items that we have told them would definitely be taken care of.

Brown:

I entirely agree with you, sir. Take the tank one, for example. Mr. - Sir Frederick and Mr. Childs and Mr. Cox and myself and General Lewis, who is the next head of the Ordnance Department and Colonel Aurand, who is a fine officer, and Mr. McCloy, all met together and it was definitely decided and understood by everybody, I think. It was perfectly clear and General Lewis said it, that forty-four million dollars of the existing appropriation was to be used to transfer tanks to the British and have them replaced by later deliveries, and the point was specifically made that the British were not only going to get the tanks, but they were going to get back their down payments and everybody - Mr. McCloy said, "Is that all understood?" And the General said, "Yes," so everybody went away happy. Subsequently, General Wesson, who is General Lewis' superior, has raised some question about it.

Now, I think that the responsibility lies clearly in the Ordnance Department, and not in either Sir Frederick and Mr. Childs or in our branch.

White:

Well, it appears to me that it is time that something be done about this, no matter how high it is to go, that we ought to go that high with respect to these matters which we have made statements would be

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taken care of and then there are doubts raised, and so forth. I think, that, to put it mildly, it is a little embarrassing to ourselves and a little unfair to the British.

Brown: I think it is too, and immediately when we heard that General Wesson had raised that question, I communicated with Mr. McCloy and he said he would get right at it and - because his understanding was precisely the same as ours.

Hell: Was it a question of policy or a legal question involved as to whether or not they could take them over legally? McCloy or Lovett couldn't give orders --

Brown: Certainly they could. I don't want to be quoted outside this meeting, but I think it is because General Wesson doesn't want to give up some of his money.

Kades: That is it, it is a question of policy and Mr. McCloy is reluctant to overrule General Wesson, that is all it amounts to. I do want to say, though, out of fairness - I was present at the same meeting and I recall there being said, and I put it in my memorandum to the Secretary reporting on the meeting, that what was said and done there was subject to General Wesson's approval. I wrote the memorandum as soon as I came back, and when this question came up I, to refresh my recollection, looked at it and both Generals, General Lewis and Colonel Aurand, had specifically said that they had to consult with General Wesson on it, but there isn't any doubt of the power of Mr. McCloy to overrule General Wesson if he wants to do it, but General Wesson, as I understand it, has taken the position that General Lewis didn't know all the items that he had intended to use

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the money for, in which case he shouldn't have sent General Lewis to the meeting, but should have attended himself.

White: In whose hands does the matter now rest?

Brown: It is now in Mr. McCloy's hands.

White: And Mr. McCloy said he would do something about it?

Bell: How long ago has that been?

Brown: Three days ago.

White: Well, I do think that if something isn't forthcoming very soon that this whole matter ought to be again re-raised with the Secretary upon his return, and I think he ought to --

Brown: Now, the airplane situation is somewhat different because that was definitely - it was definitely a question all along as to whether there was enough leeway in the airplane funds to take over any items as substantial as two or three hundred million dollars. The air people just say they haven't got it.

Bell: They haven't got the money unobligated?

Brown: Yes.

Keynes: A smaller sum than that, if all the other things go good, a much smaller sum than three hundred million brings us to our total. It is simply that we have been following all these things, not knowing which we could work on. If the others were all right, one hundred would fill the bill out of the three hundred.

White: You see, if we could take something down, than I think there would be a good deal of

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give on some of these other things that are more difficult, but as we have been going over this thing in order to summarize it for the Secretary, we are not able to take anything down. It is all in a state of, shall we say suspended animation. It seems to almost die periodically and be resuscitated and it looks hopeful and then - and so forth. You are as familiar with its history as I am. I think it is a little unfortunate and I am inclined to think that the Secretary will kind of feel that way upon his return.

- Brown: Well, if the matter is placed in the hands of Mr. McCloy and Undersecretary Lovett, then it is a little difficult to see how you could go much higher unless the Secretary himself personally has a hand in pushing the matter.
- White: That is what I am wondering, whether he may not wish to do that.
- Bell: What is the next step, Brown?
- Brown: I will call McCloy because I have talked to him about it, and if he finds - perhaps we will have to call in the Secretary and ask him if he can see Mr. Stimson or Judge Patterson.
- Bell: And you will let us know?
- Brown: Yes, sir, I will call you this afternoon.
- Bell: All right. Is that all on it?
- Phillips: No. I was going to ask Mr. Brown, there is also the question of the ships, which of course is not the War Department.
- Brown: That looks much better, Sir, because we have asked them to set aside about a hundred million for their allocation of their new appropriation, and they seem very receptive to the idea.

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- Phillips: The thing we are worrying about very much are those tanks, first of all, and the contracts and amendments --
- Brown: Well, the contracts and amendments --
- Phillips: Since March 11, and also there are those odd contracts, for instance, Vultee - to the extent that the undertaking was - there are two others, Savage Arms and Remington. If you can find out anything about those in the nature of a situation, we would like to hear of it.
- Brown: The situation on Remington is that the requisition which had been put in was for - this is the thirty caliber - five hundred thousand thirty caliber rifles?
- Phillips: Yes.
- Brown: The original requisition was put in for two hundred eight thousand rifles. It did not include the necessary bayonets, slings or equipment to go with them. An allocation of ten million dollars was made and it went down to - went through our office and went down to Ordnance to be procured. Ordnance raised the question that the rifle was incomplete because it didn't have the equipment to go with it, that is to say, the requisition was incomplete. They also raised the question that ten million dollars wasn't anywhere near enough to cover the cost of the rifles because it was based on fifty dollars a rifle, whereas the rifle is probably going to cost nearer sixty-five. Then Ordnance also raised the question as to whether it was a take-over which ran counter to Mr. Smith's testimony. Well, as soon as we

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heard that, we got the Ordnance people over in our office and General Burns wrote a memorandum to General Wesson and said that it was perfectly - this particular contract was such that it was a proper one for us to take over and that it should be done. That was either the end of last week or the beginning of this week. In the meanwhile, we asked your people to put in an amended requisition which would take care of the necessary equipment to go with the rifles, and also to put in a requisition for the balance of the three hundred thousand. I checked yesterday and no requisition had been received. In the meanwhile, Ordnance is holding up and waiting to - until they get the submitted requisition, Colonel Gory has been in touch with your representatives and with the company and he knows exactly what you want, and approximately the price it is going to cost, so that the minute he gets his amended requisition he can put the figures in and send it right back.

Phillips: We will see that that is done.

Brown: Now, that is, of course, subject to availability of funds, because that is going to cost about seventy-two dollars fifty cents a rifle.

Childs: Remington?

Brown: Yes, with all its equipment, including bayonets, slings and spares and so forth.

Childs: They were considerably less than that before.

Brown: Fifty dollars was the original estimate. That is about what ours run.

Childs: You haven't communicated with anybody in our office about it yet.

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Brown: Oh, yes, I told Robinson about it a few days ago. Now, on Savage - let's see, that came up here, didn't it? Well, I can't - I am just not familiar with the Savage situation.

Bell: Will you give Sir Frederick Phillips the information on that when you get it?

Brown: Yes.

Bell: You might tell White too, for his files. Do you want it?

White: Not particularly.

Brown: I have also communicated to - I also told Robinson what the unallocated balances in Ordnance and in miscellaneous military supplies were, and suggested that there is plenty of money that hasn't actually been allocated as distinguished from what you have laid out as a program for using that appropriation.

White: What will the total of those two amount to if they go through?

Brown: Remington is--

Phillips: I have got Remington thirty million and Savage twenty.

White: Fifty million for both if they should be made available.

Bell: All right. Anything else?

Phillips: I have nothing more.

White: I think this third question we discussed.

Bell: Yes, I scratched that off. Deferment of payments due France, Mr. Kades and Mr. Childs

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were going to discuss that. Anything to report on that, gentlemen?

Kades: Well, the question is purely a question of policy as to whether or not the license which the British now have to make a payment to the French should be revoked. There is a special license in effect which was requested by the British because we held that the general license did not cover it.

Bell: That is merely for protection, I take it, to the British.

Kades: If the special license is revoked, what would happen thereafter would presumably be this: The French would then ask us, as they have power to do - a right to do under our regulations, for a license under which the British could then make the payment, and we would decline to issue that license, in which case the British would have what I think would be an airtight defense in case of any action abroad by the French Government against the contractors to restrain the delivering of goods.

I think they probably have a good defense now, but that would certainly button it up so there wouldn't be any possibility of injunction issuing.

Childs: I agree with that.

Kades: Now, as I understand it - I have gotten a few more figures than the figures that were given in the memorandum that you supplied me with, or I think Dr. White sent me a photostat of it. On the undelivered materials, there is due to the suppliers as of July 1 a hundred million, and to the French eighty-five million, approximately, for a total of a hundred and

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sighty-five million. Now, of the eighty-five million which is due the French, there is past due twenty million.

On future deliveries there will be due forty-five million, and on twenty million you have caused the French to rescind the contract and didn't take assignment of the contract, but made a new contract, so I take it as to that twenty million there is no problem because the French have no interest in the contract at all. The problem is solely between the French and the British, so that the amount actually involved is sixty-five million, and twenty million is past due, and forty-five million will be due on future deliveries.

- Childs: We have to show losses on the cancellation.
- Kades: There is no way by which the French could bring any action at all against the contractor even under existing contracts.
- Childs: Yes, you are quite right. That was just to complete your statement.
- Kades: It is purely a question of policy involved here. It is a mixed State and Treasury matter. I suppose that the State Department would want to approve a revocation of a license, or at least approve any action which we might anticipate taking in denying the French a license when they apply, as they undoubtedly would.
- White: Well, is it my understanding that you have already approached the State Department?
- Kades: That is right. I spoke to Mr. Acheson, and he was going to take the matter up with Sumner Welles.

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- Bell: Foley just called me about the matter, and I told him we would discuss it right after this meeting, as to how the Treasury should look upon it.
- Kaden: Now, what happens here - you may be interested in knowing. The British make a check out to the order of the Bank of Canada, drawn on the Federal Reserve Bank, on His Majesty's account in the Federal Reserve Bank in New York, and that check is actually sent to the Bank of Canada. The Bank of Canada then credits the French account with dollars. Now, it would be possible, as I understand it, for the Bank of Canada to lend the dollars which never go out of the country, out of the United States, back to the British and keep a hundred per cent reserve against the account, which is an unusual practice, but the discussions have already taken place with the Canadian Government, and they are reluctant to do that. That is my understanding from the conversations with you.
- Childs: That is right. After we raised that point I discussed it with Sir Frederick and gave him the answer I gave you yesterday, that they have raised the question and it was Canada which said they felt they had to stand as trustee of these funds, the point being that if we could get the funds back after we pay them, there is no point in not determining to pay the French, collect the money and spend it again.
- White: Their attitude toward those funds, I take it, is identical with their attitude toward the half billion dollars?
- Phillips: I spent a week last July trying to persuade the Canadians to what I thought was a more

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reasonable line of thought. I am not at all sure - it has always been a complete failure. The Canadians take the view they are the custodians of these funds. The money is being really lent to the Federal Reserve Bank of New York.

- Kades: The reason of policy for revoking the existing license is that it deprives the British of dollar balances. But that is only because of the attitude of the Canadian Government.
- Phillips: You can't shift them.
- White: Well, is it our understanding that the British Government would wish us to revoke the license if a check is made out? Have you reached that stage in your policy?
- Phillips: Yes, sir. The British Government would be highly gratified if the U.S. Government could see its way to take that attitude.
- White: Therefore it remains a policy question between the State Department and the Treasury.
- Bell: I understand that. Canadian aluminum situation. Have you got that? Cox is supposed to discuss it.
- Brown: Which aspect of that? Do you mean the --
- Bell: I don't know. It is just on the line here. I don't know what White had in mind.
- Brown: Using the aluminum capacity of that plant up there.
- Childs: Australia requisitioned aluminum under Lend-Lease.

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White: Seven million dollars' worth of aluminum.

Phillips: You haven't gotten any further with that?

Brown: Has a requisition come in on that?

Phillips: I don't think it is really pressing, because I understand the Canadian Government would sell this aluminum to Australia for sterling.

White: They would be willing to do what --

Phillips: Supply the aluminum to Australia for sterling, in which case no question of Lease-Lend arises.

White: Oh, Canada might be willing to do that?

Phillips: I think so.

Bell: All right. Brown, have you any information on the United States Government bearing the cost of construction jobs at Iceland?

Brown: Yes. I have been in touch with the Navy Department, and Commander Huntington over there feels that it is something that the Navy could properly do and is getting in touch with the Chief of Staff to ask him to ask the President for an allocation from his Emergency Funds to take care of that. In the meantime, they are holding two million four and not spending it.

White: Is that the total of that job?

Brown: Yes. They are holding that two million four intact.

Bell: So that is under way. How about the cost of the Civilian Technical Corps? The - there were some prospects of the Army bearing that.

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- Brown: I thought that the Secretary was going to take that up with the Army.
- Bell: Down here it looks as though Cox was going to take it.
- Brown: I know we have no further dope on that.
- Keynes: If they have to recast it, we might bear all this in mind.
- Bell: It might cost quite a bit of money in the end if you get it on a different basis.
- Keynes: It is nothing at all. It isn't three hundred.
- Brown: You mean only three hundred have volunteered?
- Keynes: Yes. It is in the hundreds, not in the tens of thousands.
- Bell: The next item on this is tax convention. I thought we had settled that point.
- White: We were waiting to hear from the British Government and wondered whether there was anything that they had.
- Childs: Yes, I have some news about that. After the Secretary had been so very good as to send this letter to the State Department, the State Department finally put it back in the hands of Mr. Hackworth, who had been doing it before and Mr. Hackworth informed the Ambassador yesterday that he thought there were several undesirable aspects of the thing, and wasn't at all sure they could push it. I was just wondering if we could ask again for the vigorous support we got before in tackling Mr. Hackworth.
- Kades: I arranged with Mr. Acheson that it would go to

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him, so I will have to some way or other --

- White: He will have to inform Mr. Hackworth that he apparently didn't observe those two difficult points.
- Childs: I can't tell you how pleased I would be.
- Kades: I will talk to Mr. Acheson about it. Did you get authority from London to go ahead in the event that is straightened out?
- Childs: It was asked for and I think we can be fairly certain it is coming.
- Keynes: There was a cablegram.
- Childs: Oh, I hadn't seen it.
- Keynes: Yes, I think I read it yesterday or day before.
- Kades: Well, Mr. Acheson is entirely in accord with the Treasury's view on it, so if I can get it back on the track it will be all right.
- Childs: That is a relief.
- Bell: All right, what is the meaning of this item, transfer of title to the United States?
- White: That is something that they wanted to raise.
- Bell: Is that in the transfer of the planes?
- White: Mr. Chance has something on that.
- Kades: Brown, I think that is the transfer of title --
- Brown: Yes, I am familiar with it. What aspect of it would you like to know about?
- White: Well, I gathered that it was the British that

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wanted that included, we didn't.

Bell: Is that transfer of the title to the planes after they had crossed the line or something?

Kades: Yes.

Brown: Well, the latest development on that is that - let's see, the California sales tax exempts the United States from tax on any transfer of title or possession of the United States. Therefore, it was thought that if the title to these aircraft could be assigned to the United States and possession delivered to the ferrying command, that it would come within the exemption and there would be no tax. However, that couldn't be a purely paper transaction because otherwise it wouldn't have its effect. Therefore, the thought was that the title to the aircraft should remain in the United States and only the use and possession of them should be re-delivered to the British.

Sir Henry Self was unwilling to sign the papers assigning the title to all the aircraft that the British had purchased or contracted for in California for the consideration of one dollar, so it was done on the basis of one month's anticipated deliveries and we have an assignment to the United States for title of those aircraft.

The President has directed the Secretary of War to take possession, title and possession, and deliver the possession back to the British.

Then the attorneys for the companies raised a lot of objections and said that didn't go far enough, and proposed all kinds of different schemes involving the British giving money to us and we making the payments to the companies,

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many of which Lend-Lease didn't - couldn't go along with, and finally a new method has been worked out which is satisfactory to counsel for the companies and to counsel for the War Department, whereby the companies give an option to the United States to take title to planes and a few of the planes, certainly the training planes, are delivered into the United States - on to the United States for use in training the United States pilots.

Those papers were completed and approved by everybody concerned yesterday at noon.

- Bell: That is one month's delivery of planes?
- Brown: Yes, and I don't know whether you have heard from London as to whether you want to go ahead.
- Childs: I have not had any word since yesterday.
- Brown: But the machinery is ready to go on the whole batch if London approves.
- Bell: Did the State of California raise any question?
- Brown: I don't think the State of California knows anything about it.
- Bell: They haven't had an opportunity then to present their side.
- Chance: We will come to that.
- Bell: That comes later.
- Brown: They are going to be presented with a letter from the President to the companies telling them to hand over these planes, and the United States will exercise their option to take title to it.

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- Bell: I see.
- White: How much does that involve of a saving?
- Brown: It might be as much as --
- White: Per month.
- Brown: Ten to thirty million dollars.
- White: A month?
- Childs: No, over-all.
- White: But the over-all hasn't been determined upon, it is merely a month in advance, but if that month works out there is no reason to assume that it won't be continued from month to month.
- Phillips: If it was covered by the tax convention, we could drop this system.
- White: I see.
- Kistler: Would this take care of all the local taxes?
- Brown: No, just the sales tax.
- Kistler: And the sales tax alone might mount up to thirty million?
- Childs: No, the total over all taxes we hope to save by the tax convention is somewhere between ten and thirty millions. What we would save on this is three per cent of whatever the value involved is.
- Keynes: That is additional? These are two separate things? The tax convention saves a different tax.
- Childs: It saves taxes in addition to this. That was tax on commercial profit, sales and use, and this is sales only.

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- Brown: How much does the California sales tax - how much is it estimated to amount to?
- Kades: Three per cent of whatever the sale price of the plane is.
- Brown: It might be an awfully lot of money.
- Keynes: I should think easily it might go to thirty million dollars.
- Childs: On a billion dollar program.
- White: Which this method will take care of.
- Brown: Which it is designed to take care of.
- White: It would save somewhere around thirty million dollars if it applied to all the purchases from California?
- Keynes: If the tax convention goes through, do we need this as well?
- Brown: Mr. Kades is the authority on that subject, sir.
- Keynes: If the tax convention goes through, do we need this other device as well?
- Kades: I don't think so. Not as we intend the tax convention to be drafted. It would be broad in scope and would cover this situation. It is interesting --
- Bell: Then you can eliminate this machinery when you get your tax convention through. Isn't that what you contemplate?
- Brown: Yes.

Kades: Within the last ten days or two weeks the Attorney General of California has given a formal opinion on the question of taxation of sales to the British Government, and he concludes that the tax must be imposed in the absence of any statutory exemption in the California statutes, and in the absence of any treaty between the United States and the British, taking, in his opinion, without knowing it, the very thought that we have in mind.

White: Well then, in any case, if this works there will be a saving. The tax convention will merely replace one method for another and will also apply to purchases elsewhere, so there is a potential saving here of some thirty million dollars if it works out right.

Bell: How about the sale of West African cocoa?

White: We have pursued that a little further. It looked very hopeful, but it has taken a down turn. We got the interdepartmental committee on cocoa to agree it would be an excellent thing if we could get this additional cocoa, the twelve thousand tons which are here, and make provision for the larger amount in the new crop from the point of view of maintaining prices so there would be certain conditions attached to it which we would want to discuss with you.

The Office of Price Administration likewise were desirous of consummating an arrangement looking to the same end. We contacted the Maritime Commission and told them of our desire to make provision for the importation of the twelve thousand tons, with a later consideration of the later crop. Their comment was that with respect to the later crop, they are in no position at all to know the circumstances they will be confronted with, and it will be quite useless for them to speculate as to whether shipping would be available then. With respect to the twelve

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thousand tons, they say that that now competes directly with space reserved for cargoes of manganese coming from the West Coast which they are behind on, and which OPM has desired to place the A priority on. They said this amount of cocoa would replace three cargoes of manganese, and that they, according to their instructions, couldn't make the ships available for the twelve thousand tons.

I am now taking it up with the OPM to see to what extent the marginal amount of these three cargoes is a significant item in their program, to determine whether they would be willing to relinquish all or any part of that three cargoes of manganese for the cocoa. By the next meeting I will have their answer.

Keynes:

I think it is worth mentioning that the official in our Colonial Office arrived in Washington yesterday, and he could probably give you the information. I gathered from him yesterday that in his opinion this action this year - what he was very much hoping for was something which would happen earlier next year.

White:

We have been confining our comments to the twelve thousand tons which are available now, as I understand it from the memorandum which was submitted. The much larger amount which is involved after January 1, we could get no information of that in the shipping because they said there are so many variables and so many unknown factors that there is nobody in the Maritime Commission that could give any assurance whatsoever with respect to that crop, so I think that on that point so far as we here are concerned, we merely will have to wait until the period is a little closer. I don't know whether he would be able to get any clear indication

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of their promises. I presume there is no harm in his trying. I spoke to the man who is in charge of that area.

Keynes: If you want any further information, he knows more than anybody about it.

White: It may be necessary to get some, judging from the - depending on the comments of the OPM, but if the OPM says, "We have got to have every ton of that, it takes precedence over everything else," I don't see now any way out. I understand there are some other ships going that are not under control of the Maritime, but there are very few. It may be possible that the British Government may be able to arrange some ships.

Keynes: I don't think you could press them particularly about that. What he is much more concerned about is after the turn of the year.

White: Then can we come to this conclusion, that unless OPM feels that they can easily dispense with three cargos, that we drop this matter of twelve thousand tons?

Phillips: Where is this manganese coming from, Dr. White?

White: He says from the West Coast of Africa. He says "a high grade manganese". I think there is some from Nigeria.

Phillips: It is probably just as good as the other.

Would it be possible to get any arrangement with the Maritime Commission, any kind of a promise of an undertaking that they will look into it?

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White: Well, I will be very glad again to approach them and tell them that the British are very eager to have the problem reexamined sometime before the first of the year. His comments related wholly to his ability to foresee that circumstance now. It didn't preclude at all the possibility of reopening the situation later.

I am wondering whether it might not be more feasible at this time merely to drop the question and then reopen it two or three months from now.

Keynes: I understand you have got quite adequate stocks and our existing crop has been reasonably fully shipped and that the seasonal considerations is going to produce pressure from now on.

White: There is a question of the adequacy of the stock. In our discussions it was not independent with the discussion of the price, and we are not satisfied with the prospects of the price, and it was from that point of view that the stock was being considered, so that that may be another reason why you may be - it will be all right to drop the issue now and reexamine it two or three months from now.

Keynes: He won't be here two or three months hence. If further information is wanted from him, he will only be here a month or two, I think.

White: Then I think it would be desirable in addition to whom else he may wish to see if he would drop in and see me, and we will go over the situation.

Keynes: I am sure he will be very glad to do that. He is going to Jamaica for a bit, and then he is

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coming back here.

White: Well, the later the better, because the closer it will be then to the actual date.

Bell: All right?

Did he submit a memorandum on that or will he discuss it?

White: I didn't receive a memorandum yet on sugar, and I assume this is it.

Chance: Yes.

White: Why don't we leave this and discuss it next time.

Keynes: There is quite a lot of money in this.

Phillips: Perhaps I might just say a word or two about it. I don't know whether Mr. Bell and Dr. White remember when Mr. Layton went down to Cuba. He wanted to get an agreement by which Cuba would take sterling for sugar. No hope was given. Therefore, we have got shipping considerations also to consider and the problem is very grave. Is it possible to bring that under Lease-Lend? There is a tiny complication which arises from the fact that-- (inaudible) That was the thing, whether it could be Lease-Lent.

Bell: It seems to me you could.

White: It seems to me offhand to raise a new question of policy, a purchase from a foreign country.

Does it raise, Mr. Brown - I know of no similar point that has come up.

Bell: You did discuss it in one of those meetings,

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didn't you, about buying some Latin-American product under Lend-Lease.

White:

Tin.

Brown:

I don't remember. Legally we are authorized to, but whether it is a policy matter that would hold it up, I wouldn't know.

Bell:

Have you got a copy of this memorandum?

Brown:

Yes, sir, I have.

Bell:

All right.

The next one is transfer of plants to Defense Plant Corporation.

White:

That I have mentioned. Sir Frederick answered that question.

Bell:

A report of any action taken since the last meeting, you mean, don't you, Mr. Brown and Mr. Keynes?

Keynes:

I can submit a sheet covering the decisions of Mr. Brown on the various items he has ruled on.

White:

Oh, that is the requisition. Was there any other action? I think that was the last item. There wasn't anything else, was there?

Brown:

No.

Keynes:

What happened on the dominion requisitions?

Phillips:

Some were accepted and some were rejected. I am thinking of how we will announce that to England.

Keynes:

There really were two or three, weren't there?

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- Brown: Yes.
- Bell: This list looks as though they have been handled.
- Childs: Oh, yes, they were all handled.
- Brown: Well, Mr. Bell, there was such a long time between the meeting and uncertainty as to when it would be that I talked to Dr. White, and it seemed a good idea if Keyes and I could go over them and certainly put the requisitions in and if there was any question raised by the committee after that, of course the requisitions could be withdrawn, but it seemed to me to hold up the requisitioning for perhaps two or three days or a week when we didn't know when the committee was going to meet was useless.
- Whiter: He called me up and I suggested they had better go ahead since the decisions were chiefly theirs in any case, and then if there was anything turned up in the review, we would reconsider it, so the only question that can be raised is whether the British have any question with respect to those that were turned down.
- Phillips: I was going to ask to tell me why you turned down that item about one hundred and one.
- Brown: I asked for more information about that one. If it is used for training purposes of soldiers the way we use motion pictures in our training schools, I should think it would be proper, but if it is just to make a history of New Zealand or the war effort, I don't see why it is a defense article.
- Bell: It says a major portion of this equipment is to replace that sent from the New Zealand

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Government motion picture headquarters to the Near East. The equipment now desired is for the New Zealand Government studios and is for the maintenance of war documentary films.

- Brown: I was wondering what a war documentary film was.
- Chance: You saw one last time after the meeting.
- Brown: A propaganda movie?
- Chance: Sure.
- Bell: It says it is not for commercial use.
- Phillips: I should have thought myself that motion picture machinery is purely of service and is now being employed for documentary service, and since it was to replace other machinery which had actually gone to the expeditionary force, I should have thought it quite proper.
- Brown: It suggested to me something historical.
- White: Sir Frederick is raising the question that the use of these films is to be interpreted in the light of the use to which the material which was sent to the Far East was put, and that this is merely replacement so that in evaluating the use of this new material, it must be the use to which the film was made in the Near East rather than the use to which it is being put in New Zealand. I think it was probably a little bit unfortunately stated here, but that is the interpretation.
- Brown: I think there is a difference.
- White: From the point of view that if they can get along without that in New Zealand--

- 52 -

- Brown: They could use it for a USO movement in New Zealand or something like that.
- White: Therefore, the question is not for the use to which the material sent to the front was put but rather what this is for. Did you suggest that that was for propaganda, documentary?
- Brown: I made that suggestion just now.
- White: If so, that might place a different light on the subject.
- Chance: It all depends on the propaganda. If you take a moving picture film of His Majesty's ships in action or of Australians cavorting across the sands of the desert in tanks and you publish them, they are obviously propaganda.
- White: Either propaganda or for the use of the military forces to learn who are at home in the training.
- Chance: It is a very nice point, you see.
- White: I should think it is much like ours. I think the word documentary is a little unfortunate.
- Brown: Certainly a film which is to be used for training purposes--
- Bell: The word "historical" is in there too.
- Chance: "Documentary" is an English technical term in film production as opposed to "fiction."
- White: Unless they want to reconsider the use to which they are going to put those films, I can see Mr. Brown's point, because from the point of view of furnishing evidence that would be of documentary use for future Ph. D.'s.

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I can see Mr. Brown's point.

- Phillips: "Documentary" means film which is not ordinarily fictional.
- Chance: A picture of the Post Office Department would be documentary.
- Bell: Can't you rewrite that and leave "history" out?
- Chance: It is like we call "actual broadcasts" on this side.
- Keyes: At Mr. Brown's suggestion, we are getting more information on that with a possibility of re-submitting it.
- White: A further study might reveal the fact that they are being used for propaganda or training purposes.
- Keynes: I think "documentary" merely means "truthful".
- Chance: That is it, non-fictional.
- White: It is a bit misleading.
- Chance: That was a very excellent documentary we showed to the Secretary of the war.
- White: Then the change you would like to suggest instead of dollars, is to withdraw the application?
- Phillips: Withdrawn for further consideration.
- White: Is that all right, Mr. Brown?
- Brown: For more information, yes.
- White: Any other items on that list?
- Bell: Any others, Phillips?

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- Phillips: No.
- Thompson: Yes. Raising of this discretionary expenditure, five thousand.
- Phillips: Oh, yes. That was in connection with that memorandum you put in which was rather tentative on the basis that the limit for individual cases, of cases which weren't brought before this committee, should be one thousand dollars, with a weekly limit of fifty thousand, and the proposal there is after a certain amount of experience to raise the limit from the individual cases from one thousand to five thousand, without, however, altering the weekly limit of fifty thousand.
- Bell: Just less cases.
- Thompson: That is passed?
- Bell: Yes, I don't think there is any objection.
- White: To return for a moment to the matter we were previously discussing, maybe it would be helpful for Mr. Brown to arrive at an evaluation if we could see some samples of the documentary films. We have a moving picture theater downstairs.
- Keynes: Of course, it is rather dangerous, because Mr. Brown might find himself moved by it.
- Childs: Where did the rubber memorandum come from?
- Chance: This is your memorandum, Mr. Bewley.
- Bewley: It isn't on the agenda.
- Chance: No, that was the reason I passed to you at the time I did. The appropriate moment at which it seemed to come up was after that cocoa discussion.

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- Bewley: Well, Mr. Bell and Mr. White have copies of it.
- Phillips: I can give you a copy of a quite short memorandum on the subject of purchases in the sterling area. The arrangement is that these purchases of raw material are paid for on shipment. If they can't be shipped, they remain in stores, as I understand, for a month or so and if they are not shipped then, payment doesn't pass to the corporation, and we are asking your good offices to have it extended.
- White: Well, we did have that on the agenda, and I suggest we now take it up, because we are still in the process of trying to get somewhere with that, but I am inclined to think as you indicate here, that if - whatever we can do on any one of those items, that the principle might well apply to the several items indicated here.
- Phillips: My feeling is - I may be just a shade out of date. I don't think I am very much out of date, but my feeling is that that strategic woolstuff is actually here, is now of the order of twenty-seven million dollars, whereas the whole amount, including the stuff which is not shipped, is something like seventy million dollars, so in the case of wool there might be a difference of forty million dollars and there are some other cases, but they are not very big.
- Bell: Has that been discussed with Jones?
- Phillips: No, but it will be very shortly.
- White: We took up the matter of wool with the committee and with the OPACS, from the point of view of releasing the wool which is here.

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Apparently the price situation is such that they don't feel they can get very far with that request now, but the situation may change in the near future.

Phillips: You mean releasing it for civilian consumption?

White: Merely selling it, yes. You know, there was a question that that would not be offered on the market until --

Phillips: But don't they want any of it for military purposes?

White: Well, have you been contacting anybody to - we have been pushing purely from the point of view of civilian consumption, but if you like and if we could be of any assistance, we can very quickly contact the Army or our own Procurement to see whether there is any wool that is needed for the other purpose that they could buy there. I take it that they have the problem of--

Bell: How could they buy it.

Phillips: Well, I understand that the Army requires wool from the first of July to the thirtieth of June, something in the order of two hundred fifty-eight thousand pounds.

White: Well, at the moment, you see, it is tied up with a price question. If the - if there was any indication of prices rising, the point which would be disturbing to OPACS or the Procurement Division, then the question of domestic supply would become vulnerable to the charge that the price which the Army and civilians are paying is too high, and that we ought to resort to this additional supply, but until the Army and civilians can get all the wool they want at

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prices which in the opinion of OPACS, for one, are not unduly high, then the question of releasing this wool for any public use, Army or civilian, becomes more difficult.

- Bell: I thought Jesse was going to look into that whole question as to what we should do with it.
- Phillips: They are just about to take up the question now.
- White: And we were before approaching him wanting to see what the price situation would be, thinking that we might have additional argument to use as pressure against him, and we recently got a memorandum from OPACS giving us their support, so the next step is to approach him.
- Bell: All right. How about a meeting next Thursday? Is that soon enough? The Secretary will be back on Friday, the first, and I just thought we might have a meeting, say the day before he gets back, to see what is in the mill, and we can report to him the first of the week. Does 10:30 suit you, or would you rather have it in the afternoon?
- Childs: It suits me fine. I take it Mr. Brown will continue to try these things.
- Bell: Yes. Ten thirty Thursday morning. All right?

AGENDA FOR 10:30 MEETING

- ~~gibby~~
1. ✓ Transfer of certain large British contracts to the Army - Sir Frederick Phillips and Mr. Cox.
 2. ✓ Report on the administratively difficult purchases.
 3. ✓ The question of profits earned on the distribution of Lend-Lease goods.
 4. ✓ Deferment of payments due France - Mr. Kades and Mr. Childs.
 5. ✓ The Canadian - U.S. aluminum situation - Mr. Cox.
 6. ✓ The prospects of U. S. bearing the cost of construction job in Iceland - Mr. Cox.
 7. ✓ The prospect of Army bearing cost of Civilian Technical Corps - Mr. Cox.
 8. ✓ Tax convention.
 9. ✓ Transfer of title to U. S.
 10. ✓ Prospects for sale of West African cocoa. 1200005
 - ~~11. Prospects for sale of West African cocoa.~~
 12. ✓ Memorandum on Caribbean Sugar by Mr. Bewley.
 - ~~13. Over all picture of British armament production and purchases.~~
 14. ✓ Status with respect to transfer of plants to Defense Plant Corporation.
 15. ✓ Report of action taken during interim period - Mr. Brown and Mr. Keyes.
 16. ✓ Requisitions.

July 25, 1941

U. S. PURCHASES OF RAW MATERIALS IN THE
STERLING AREA.

It is understood that American purchases of rubber are now concentrated in the hands of the Rubber Reserve Corporation, and that while some purchases are being made on a c.i.f. basis, the tendency is for the rubber to be bought either ex-godown or f.o.b. with a promise that payment is to be made if shipping is not available within a month of the date prescribed in the contract.

It would be of real value in strengthening the British dollar position if one or other of the two latter methods of purchase (ex-godown or f.o.b. with payment in the event of shipping being delayed) could be adopted in all cases for rubber, and if similar arrangements could be applied to purchases of other raw materials.

Other raw materials which the U.S. authorities are either buying or are likely to buy, and to which it is suggested that the principle of payment before shipment might be applied are wool, sisal, manganese and mica. There may be other materials also.

It is not suggested that the Committee should concern itself with the details of the individual negotiations. It would, however, be extremely helpful if the U.S. Treasury could see its way to intimate to the negotiating departments that it would in general favour the adoption of methods of purchase in these cases providing for payment in advance of shipment, if shipment is delayed. The purpose would of course be to strengthen the British dollar position at an earlier date than otherwise and thereby to give greater freedom to the British authorities to meet unforeseen contingencies of any character.

CARIBBEAN SUGAR

1. On account of the shipping position, the Ministry of Food has found it necessary in the past few months to divert purchases from more distant sources of supply and to buy some sugar in Cuba and San Domingo. Over the next twelve months, it is estimated that some 600,000 to 900,000 tons will have to be bought in Cuba, San Domingo, Haiti or other non-Empire Caribbean territory. All available supplies in the British West Indies will, of course, be purchased for sterling.
2. Some discussion took place recently between U.S. and British representatives regarding methods of payment in Cuba, and in these discussions the question of sugar purchases necessarily played a part. It is understood that it was indicated to the British representatives that if the need arose, sympathetic consideration would be given to a request to bring Caribbean sugar under the Lease-Lend Act.
3. The question has been put before the Department of Agriculture. Since Caribbean sugar is not a domestic product, the Department of Agriculture would wish that the Joint Treasury Committee should decide whether Caribbean Sugar can be Lease-Lent.
4. There has existed since the war a sugar agreement whereby the Ministry of Food purchases all the sugar requirements of Canada, Newfoundland and New Zealand, as well as of the U.K. and in order that competitive bidding may be avoided it is highly desirable that this agreement should continue. The Ministry of Food estimated that over the next twelve months, of the total purchases of 600,000 to 900,000 tons, approximately 100,000 to 150,000 tons will be on Canadian account. The present practice is that the Ministry buys, say in Cuba or San Domingo, and after the contracts have been placed, resales are made by the Sugar Control of the Ministry of Food to Canada, according to the availability of sugar and availability of ships and according, also, to the relative need of Canada and the U.K.

In the event that U.K. purchases of Caribbean sugar are bought under lease-lend some arrangement will therefore be needed whereby repayment is made to the U.S.A. for any sugar so bought which is diverted to Canada.

(An alternative arrangement would be to bring the matter within the scope of the Hyde Park arrangement between the U.S. and Canada. In connection with that arrangement it has been provided that certain purchases of defense articles within a total of about \$100 millions a year may be made under lease-lend by the United Kingdom for transfer to Canada, - see memorandum by Dr. Clark and Sir F. Phillips dated May 14th and approved by Mr. Secretary Morgenthau. There seems no reason why these purchases of sugar for Canada should not be similarly carried, of course within the total of \$100 millions.)

5. If a decision could be obtained at an early date on the question of principle, the Ministry of Food would supply more detailed estimates of possible quantities and of the possible allocation.

- (a) Between Caribbean sugar producing countries;
- (b) Between Empire consuming countries.

In view of the stock position in the U.K., in view also of the probability that over the next month or two, the shipping position in regards of foodstuffs may be temporarily somewhat easier, the British Food Mission has asked that every effort should be made to secure as early a decision as possible.

6. For the reasons explained in paragraph 1 above the sugar will in any event be needed by the U.K. so that if it cannot be lease-lent it will have to be purchased for dollars; no arrangement for payments in sterling to Cuba having proved possible. The amount is substantial, and as it has not been included in the estimates of U.K. dollar needs hitherto given to the U.S. Treasury, it would have to be regarded as an additional commitment.

MEMORANDUM INITIALED BY DR. CLARK & SIR F. PHILLIPS
AND HANDED TO MR. MORGENTHAU.

Washington, May 14th, 1941.

From April 20th, 1941 to June 30th, 1942, it would be necessary for Canada, under present programs to spend approximately \$220 million in U.S. funds for purchases in the United States of articles and materials required for Canadian production for the United Kingdom. In the Hyde Park Declaration of April 20th, 1941, it was agreed that "in so far as Canada's defense purchases in the United States consist of component parts to be used in equipment and munitions which Canada is producing for Great Britain... Great Britain will obtain these parts under the Lease-Lend Act and forward them to Canada for inclusion in the finished articles."

Part of the estimated amount of \$220 millions represents the value of defense articles which retain their identity in the process of being incorporated in Canada into war supplies for the United Kingdom, or which are otherwise readily identifiable and capable of being dealt with directly and effectively under the machinery of the Lease-Lend Act. The balance consists of a very large number of items, including materials, which it would be very difficult so to identify and administer, involving thousands of contracts which would individually represent very small sums. At present it is estimated that the former category will amount to approximately \$120 million for the period mentioned, and the second category to about \$100 million.

Pursuant to the Hyde Park Declaration, it is agreed that the United Kingdom will obtain under the Lease-Lend Act for forwarding to Canada, defense articles up to a total value of approximately \$220 million, or such amount as may be determined from time to time to represent the actual value of the "United States content" of Canadian War Supplies to the United Kingdom. In part these will be the actual articles represented by the first category mentioned above. Articles coming within the second category will continue to be purchased in the United States and paid for in cash by Canada, but Canada will be compensated by other defense articles to an equivalent value, which it would otherwise have to purchase in the United States. These will be obtained by the United Kingdom under the Lease-Lend Act and transferred to Canada.

The object of this understanding is to carry out the purposes of the Hyde Park Declaration so that Canada shall not have to pay out U.S. dollars to purchase U.S. goods which are ultimately to be supplied to the United Kingdom.

C
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YDEPARTMENT OF STATE
Washington

July 25, 1941.

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

There is enclosed herewith a paraphrase of
Section one of a message received from London.

Further sections will be sent immediately upon
receipt.

Sincerely yours,

/s/ Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

no. 3189 of July 24
from London

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Copy:alm 7-25-41

C
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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: July 24, 1941, 9 p.m.

NO.: 3189

SECTION ONE.

The following telegram is personal for Secretary Morgenthau.

From Ambassador Winant:

Reference, your telegram of July 18, 3 p.m., no. 2657.

I delivered your message to Coe. I asked the Lord President of the Council (Sir John Anderson) two weeks ago to give me information on certain phases of the question raised in your telegram under reference. Sir John is in charge of the over-all statistical and accounting services which extend to all of the Ministries of the British Government. I also saw the Prime Minister at the same time, and said it was essential that the United States have the information. The Prime Minister promised his support and cooperation in the matter.

The following is for your information: I saw the Chancellor of the Exchequer, and Mr. Keynes before he left England, and brought to their attention the possible embarrassments that might come about if raw material which is bought under the Lease-Lend Act is introduced into ordinary channels of commercial trade, and into the export trade especially. I made the suggestion that an independent

- 2 -

accounting, with return payment, be made with regard to such material. Reference: a confidential report which I forwarded to Washington some time ago - in this report I also referred to this question as it concerns foodstuffs.

The gist of the conversation is known to Ben Cohen. The report was made available to him to read.

I went to see the Chancellor of the Exchequer and the Lord President of the Council yesterday and took Coe to meet them. We got a promise from the Chancellor of the Exchequer that a full report on the distribution of articles obtained under the Lease-Lend Act would be given us as soon as possible. In answer to the earlier inquiry I had made, I was given a short memorandum by Sir John Anderson.

WINANT.

EA:LWW
Copy:imc

DEPARTMENT OF STATE
Washington

July 25, 1941.

My dear Mr. Secretary:

I enclose herewith the remaining sections of the message addressed to you by Ambassador Winant (sections 2 and 3 of telegram no. 3189 of July 24, 1941 from London).

Sincerely yours,

/s/ Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

sec. 2 & 3, no. 3189,
from London.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF SECTIONS TWO AND THREE, TELEGRAM No. 3189
OF JULY 24, 1941, FROM THE AMERICAN EMBASSY, LONDON

This short memorandum is substantially similar to the statement issued by Keynes at Washington two weeks ago with regard to the question of reexports. The inquiry about \$.90 cheese is also answered in the memorandum.

Other Treasury officials who are at work on the question were introduced to Gos today. He expects to be able to get a general picture for you during the next few days, when he has had a series of interviews and memoranda from various British Government Departments.

I give below the text of the short memorandum from the Lord President of the Council:

(In paraphrase)

The British Government fully realizes how important it is for the appropriation debates to give a complete and clear reply to the suggestions that goods acquired under the Lease-Lend Act are being used to advance the interests of the British in their export trade with Canada, the United States, and South America.

With regard to the materials containing steel: A careful examination is made of individual orders coming from Canada. No releases of steel are made for manufacture in Canada unless the British are satisfied either that it is necessary for Canada's war effort and that the United States or Canada

- 2 -

cannot supply it, or that the goods containing the steel can be produced and shipped with no interference with war production in Great Britain and that a high conversion value is represented thereby.

As for South American countries: We make an effort not to export any materials containing steel in appreciable quantities. The exception is that we have felt bound to keep up our export trade with Argentina in some degree because of the necessity of maintaining means of paying for the supplies of food we get from Argentina. However, the quantity of goods containing steel has diminished rapidly, and we are prepared to prevent any new orders from being accepted, with very minor exceptions, if such action is necessary from the congressional point of view.

As for the United States: The amounts concerned are very small; it is the British policy to export goods containing steel only in cases where it is to the interest of both countries.

No basis for the criticism about aluminum has been found. In Britain, use for civilian purposes and use for exports taken together make up less than 1 percent of what we consume. For electrical equipment and machinery, tiny amounts are necessary. In this manner

- 3 -

manner a few pounds, and no more, may have gone to the South American countries.

For the most part, the goods which are being exported now which give rise to many of the complaints are to fulfil orders which were placed when circumstances were completely different months ago. Where production is involved, there must always be a time lag between policy and the final carrying out of that policy.

All of these phases are being taken up by Keynes in Washington. The British Government has given him the material to make a detailed reply, which he drafted in consultation with the State and Treasury Departments. We are told by Keynes that his reply seems to have been completely inadequate.

Mention was also made by the Ambassador that in the United States there were reports that American cheese is being sold here without being rationed and that the price is as high as \$.90 per pound in some cases. We state that this rumor is untrue. A small amount of cheese from Argentina was, for particular reasons and as a non-recurring matter, permitted to be sold with no restrictions and without being rationed, and thus a fancy price was paid for it. It is probable that the basis for the story was this incident.

(End memorandum)

I want to thank you for having Coe assigned to London.

END MESSAGE.

WINANT.

HLW



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

July 25, 1941

MEMORANDUM TO THE SECRETARY:

Weekly Report - Lease-Lend Purchases
(7/18 - 7/25/41)

| <u>Requisitions</u> | <u>Estimated Cost</u> |
|--|-----------------------|
| Cleared by O.P.M.....\$ | 206,900,259.57 |
| Awaiting clearance by O.P.M..... | 19,468,487.21 |
| | <hr/> |
| Total Pending Requisitions.....\$ | 226,368,746.78 |
| Less Requisitions for metals, where contracts will be made for term periods and allocations required from O.P.M.....\$ | 101,441,935.54 |
| | <hr/> |
| Total Pending Requisitions for Spot Purchases.....\$ | 124,926,811.24 |
| | |
| Purchases to 7/18/41.....\$ | 52,421,161.91 |
| Purchases 7/18 to 7/25/41.. | 21,869,765.29 |
| | <hr/> |
| Total to 7/25/41.....\$ | 74,290,927.20 |

Discussions are now being had with the Office of Production Management to obtain priority ratings to assure deliveries of steel as specified in our contracts for July and August. We have received an A-1-a rating for July steel shipments but were allocated an A-4 rating for August and September which necessitated taking the matter up with the Office of Production Management and the Priorities Board in order to obtain a stepping up of this rating to meet delivery requirements, which it is now indicated will be done.

Cliff Mack
 CLIFTON E. MACK
 Director of Procurement

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 Attachments-9

JULY 25 1941

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>ACQUI-SITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|------------------------|----------------------------------|-----------------------|---------------------------------|-----------------|--------------------|
| DA-TPS-467 | Nashua Mfg. Co. | China | Blankets, Cotton | 540,000 | \$ 572,400.00 |
| DA-TPS-566 | Catlin Parisa Co. Inc. | " | Blankets | 10,500 | 13,939.48 |
| DA-TPS-572 | Cone Export & Commission Co. | " | Blankets | 100,000 | 129,400.00 |
| DA-TPS-476 | Cannon Mills, Inc. | " | Blankets | 300,000 | 341,760.00 |
| DA-TPS-568 | Southeastern Cotton, Inc. | " | Blankets | 75,000 | 77,250.00 |
| DA-TPS-468 | R.R. M. Carpenter | U. K. | Lockheed Airplane | 1 | 58,500.00 |
| DA-TPS-346 | The Texas Company | " | Lockheed Airplane | 1 | 70,000.00 |
| DA-TPS-480 | Waterman Airline, Inc. | " | Lockheed Airplane | 1 | 37,800.00 |
| DA-TPS-466 | General Electric Supply Corp. | " | Circuit Breakers | 40 | 2,430.00 |
| DA-TPS-567 | C. P. Goerz American Optical Co. | " | Lens, Camera | 4 | 742.50 |
| DA-TPS-484 | Greenfield Tap & Die Corp. | " | Threading sets | 50 | 2,756.25 |
| DA-TPS-426 | J.P. Danielson Co. Inc. | " | Wrenches | 6,000 | 3,640.00 |
| DA-TPS-447 | S.B. Penick & Co. | " | Atropine Sulphate | 48 oz. | 612.00 |
| DA-TPS-208 | Caterpillar Tractor Co. | " | Spare Parts for Diesel Tractors | | 32,200.90 |
| DA-TPS-492 | Bay City Shovels, Inc. | " | Crawler Shovel and spare parts | | 15,178.87 |
| DA-TPS-278 | Chas. G. Stott & Co. Inc. | " | Penholders and Pens | | 71.10 |
| DA-TPS-421 | Ingersoll-Rand Co. | " | Sharpening Machines | 10 ea. | 5,365.00 |

MEMORANDUM TO THE SECRETARY
CONTRACT
NUMBER

CONTRACTOR'S NAME

REQUISITIONER

COMMODITY

QUANTITY

TOTAL VALUE

| | | | | | |
|------------|-------------------------------------|------|---------------------------------------|---------------|------------|
| DA-TPS-431 | The Upson-Walton Co. | U.K. | Blocks steel for Manila Rope 1,800 | \$ | 5,566.00 |
| DA-TPS-179 | American Airlines, Inc. | " | Spare Parts for Douglas Airplanes | | 129,970.22 |
| DA-TPS-465 | Westinghouse Electric & Mfg. Co. | " | Voltmeters and Ammeters | | 5,099.00 |
| DA-TPS-440 | Indianapolis Machinery & Supply Co. | " | Lathe and Chuck | | 9,585.00 |
| DA-TPS-601 | Whitlock Cordage Co. | " | Rope Manila | | 17,495.00 |
| DA-TPS-446 | The Lufkin Rule Co. | " | Micrometer Calipers | 80 | 581.10 |
| DA-TPS-602 | American Mfg. Co. | " | Rope Manila | 150,000 ft. | 10,126.05 |
| DA-TPS-448 | Monsanto Chemical Co. | " | Vanadium Catalyst | 15,750 liters | 48,125.00 |
| DA-TPS-585 | Atlantic Machinery Corp. | " | Machines, Milling, Vertical | 2 | 10,850.00 |
| DA-TPS-479 | The E. C. Brown Co. | " | Sprayers | 900 | 927.00 |
| DA-TPS-584 | Stein Equipment Corp. | " | Accumulators | 2 | 25,000.00 |
| DA-TPS-443 | Armour & Co. | " | Ammonia and Cylinders | | 27,071.50 |
| DA-TPS-445 | Johns-Manville International Corp. | " | Filter Powder | 42,000 cans | 186,480.00 |
| DA-TPS-469 | Ferguson Sherman Mfg. Co. | " | Cultivators, Ridgers & Harrows | | 119,835.39 |
| DA-TPS-458 | Swift & Co. Fertilizer Works | " | Phosphate Rock | 16,400 T | 105,432.00 |
| DA-TPS-456 | The Phosphate Mining Co. | " | Phosphate Rock | 61,000 T | 228,750.00 |
| DA-TPS-457 | Southern Phosphate Corp. | " | Phosphate Rock | 90,000 T | 404,500.00 |

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|------------------------|--|----------------------|-------------------------------|-----------------|--------------------|
| DA-TPS-452 | The American Agric. Chemical Co. | U.K. | Phosphate Rock | 72,000 T | \$ 271,800.00 |
| DA-TPS-451 | Dunnellon Phosphate Mining Co. | " | Phosphate Rock | 7,500 T | 48,000.00 |
| DA-TPS-454 | Coronet Phosphate Co. | " | Phosphate Rock | 62,000 T | 319,300.00 |
| DA-TPS-458 | American Cyanamid Co. | " | Phosphate Rock | 20,000 T | 78,000.00 |
| DA-TPS-450 | C & J Camp, Inc & J Buttgenbach & Co | " | Phosphate Rock | 40,000 T | 255,200.00 |
| DA-TPS-398 | The Dow Chemical Co. | " | Paratertiary Butyl Phenol | | 22,960.00 |
| DA-TPS-455 | International Agric. Co. | " | Phosphate Rock | 30,000 T | 135,000.00 |
| DA-TPS-389 | Lancaster Iron Works, Inc. | " | Bitumen Paddle Mixers | 60 | 153,129.60 |
| DA-TPS-609 | The O'Brien Machinery Co. | " | Mill, Boring, Vertical | | 6,750.00 |
| DA-TPS-210 | La Plant-Choate Mfg. Co. Inc. | " | Spare parts for Trailbuilders | | 1,065.23 |
| DA-TPS-588 | Caterpillar Tractor Co. | " | Caterpillar Tractors | 4 | 18,807.20 |
| DA-TPS-441 | The L. S. Starrett Co. | " | Gauges | 6 | 90.00 |
| DA-TPS-363 | Oliver Farm Equipment | " | Tractors and spare parts | | 436,588.10 |
| DA-TPS-606 | Anaconda Sales Co. | " | Zinc | 592 G.T. | 97,680.00 |
| DA-TPS-607 | The U. S. Smelting Refining & Mining Co. | " | Zinc | 128 G.T. | 21,120.00 |
| DA-TPS-608 | New Jersey Zinc Co. | " | Zinc | 528 G.T. | 87,120.00 |
| DA-TPS-610 | St. Joseph Lead Co. | " | Zinc | 352 G.T. | 56,320.00 |

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|--------------------------|---------------------------------------|----------------------|--------------------------------|-----------------|--------------------|
| DA-TPS-611 | The American Metals Co. Ltd. | U.K. | Zinc | 1,870 GT | \$ 284,614.00 |
| DA-TPS-612 | American Smelting & Refining Co. | " | Zinc | 600 " | 91,680.00 |
| DA-TPS-613 | American Zinc Co. of Illinois | " | Zinc | 360 " | 52,992.00 |
| DA-TPS-614 | International Minerals & Metals Corp. | " | Zinc | 570 " | 86,754.00 |
| DA-TPS-615 | Hegler Zinc Co. | " | Zinc | 270 " | 41,094.00 |
| DA-TPS-616 | Matthiessen & Hegler Zinc Co. | " | Zinc | 330 " | 50,226.00 |
| DA-TPS-652 | Continental Steel Co. | " | Wire Rods | | 261,400.00 |
| DA-TPS-423-1 | Keystone Steel & Wire Co. | " | Wire Rods | 1,750 | 91,000.00 |
| DA-TPS-260 (Adj.Add.) | Bethlehem Steel Co. | " | Alloy Steel Bars | | 1,461.60 |
| DA-TPS-653 | Marmon Herrington Co., Inc. | " | Ballistic tests | | 4,000.00 |
| DA-TPS-661 | Inland Steel Co. | " | Manganese Mo. Leadloy Steel | 1,400 G.T. | 152,726.00 |
| DA-TPS-662 | Kennecott Sales Corp | " | Copper | 2,500 N.T. | 596,250.00 |
| DA-TPS-695 | American Smelting & Refining Co. | " | Zinc | 4,000,000 lbs. | 305,600.00 |
| DA-TPS-318-1 | Alan Wood Steel Co. | " | Ingots | 8,325 G.T. | 274,725.00 |
| DA-TPS-352-1 | The Andrews Steel Co. | " | Rerolling Billets | 2,452 G.T. | 102,984.00 |
| DA-TPS-698 | Penn. Dixie Cement Corp. | " | Cement | 3,500 Bbls. | 7,350.00 |
| DA-TPS-699 | General Metals Corp. | " | Drop Forgings | 30 G.T. | 23,544.00 |

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|------------------------|--------------------------------------|----------------------|------------------|-----------------|--------------------|
| DA-TPS-311-1 | Inland Steel Co. | U.K. | Carbon Steel | 13,500 GT | \$ 548,740.00 |
| DA-TPS-504 | J. I. Case Co. | " | Drop Forgings | 10,000 | 15,652.50 |
| DA-TPS-571 | Duff-Norton | " | " " | 72,000 | 25,200.00 |
| DA-TPS-503 | Nash Motors | " | " " | 25,000 | 38,125.00 |
| DA-TPS-513 | Steel Imp. & Forge Co. | " | " " | 2,500 | 1,700.00 |
| DA-TPS-505 | Transue & Williams Steel Forging Co. | " | " " | 16,500 | 21,475.00 |
| DA-TPS-642 | The Union Forging Co. | " | " " | 6,000 | 2,607.00 |
| DA-TPS-506 | D. Wilcox Mfg. Co. | " | " " | 42,000 | 4,638.00 |
| DA-TPS-562 | Duff Norton Mfg. Co. | " | " " | 18,000 | 102,960.00 |
| DA-TPS-565 | Merrill Brothers | " | " " | 72,000 | 9,930.00 |
| DA-TPS-569 | Steel Imp. & Forge Co. | " | " " | 14,000 | 56,150.00 |
| DA-TPS-564 | International Harvester Co. | " | " " | 4,000 | 32,560.00 |
| DA-TPS-507 | Transue & Williams Steel Forg.Co. | " | " " | 42,000 | 44,340.00 |
| DA-TPS-643 | The Union Forging Co. | " | " " | 9,000 | 9,507.00 |
| DA-TPS-560 | Duff-Norton Mfg. Co. | " | " " | 15,000 | 7,170.00 |
| DA-TPS-508 | Minneapolis Moline Power Imp. Co. | " | " " | 2,500 | 919.00 |
| DA-TPS-570 | Steel Imp. & Forge Co. | " | " " | 7,500 | 24,625.00 |

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| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|------------------------|--------------------------|----------------------|------------------|-----------------|--------------------|
| DA-TPS-557 | Ford Motor Co. | U.K. | Drop Forgings | 5,000 | \$ 3,400.00 |
| DA-TPS-537 | Ford Motor Co. | " | " " | 5,500 | 14,190.00 |
| DA-TPS-546 | Ford Motor Co. | " | " " | 350 | 458.00 |
| DA-TPS-547 | Ford Motor Co. | " | " " | 160 | 254.80 |
| DA-TPS-545 | Ford Motor Co. | " | " " | 2,640 | 3,077.70 |
| DA-TPS-548 | Ford Motor Co. | " | " " | 109 | 11.78 |
| DA-TPS-554 | Ford Motor Co. | " | " " | 1,300 | 1,740.00 |
| DA-TPS-549 | Ford Motor Co. | " | " " | 10,600 | 5,819.00 |
| DA-TPS-550 | Ford Motor Co. | " | " " | 491 | 723.08 |
| DA-TPS-551 | Ford Motor Co. | " | " " | 1,900 | 3,081.00 |
| DA-TPS-556 | Ford Motor Co. | " | " " | 34,500 | 7,832.00 |
| DA-TPS-552 | Ford Motor Co. | " | " " | 7,470 | 9,959.40 |
| DA-TPS-553 | Ford Motor Co. | " | " " | 3,034 | 2,171.66 |
| DA-TPS-558 | Ford Motor Co. | " | " " | 200,000 | 24,000.00 |
| DA-TPS-538 | Ford Motor Co. | " | " " | 530 | 538.10 |
| DA-TPS-590 | Atlas Drop Forge Co. | " | " " | 7,965 | 15,825.59 |
| DA-TPS-555 | Ford Motor Co. | " | " " | 14,100 | 5,404.00 |

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|------------------------|------------------------------------|----------------------|------------------|-----------------|--------------------|
| DA-TPS-542 | Ford Motor Co. | U.K. | Drop Forgings | 44,900 | \$ 50,978.00 |
| DA-TPS-509 | Bethlehem Steel Exp. Co. | " | " " | 4,000 | 59,120.00 |
| DA-TPS-510 | Lefere Forge & Mch. Co. | " | " " | 3,200 | 4,800.00 |
| DA-TPS-511 | E. D. Clapp Mfg. Co. | " | " " | 3,000 | 1,560.00 |
| DA-TPS-512 | Thompson Products Inc. | " | " " | 72,000 | 69,120.00 |
| DA-TPS-563 | Globe Forge & Foundries, Inc.- | " | " " | 15,000 | 8,850.00 |
| DA-TPS-449 | Park Drop Forge Co. | " | " " | 2,200 | 180,000.00 |
| DA-TPS-514 | Lakeview Forge & Clevis Co. | " | " " | 2,000 | 1,710.00 |
| DA-TPS-515 | Bethlehem Steel Exp. Co. | " | " " | 6,000 | 28,900.00 |
| DA-TPS-516 | J. H. Williams & Co. | " | " " | 27,000 | 370,800.00 |
| DA-TPS-517 | Brewer-Titchener Corp. | " | " " | 2,000 | 1,950.00 |
| DA-TPS-587 | Willys Overland Motors Inc. | " | " " | 1,449 | 3,161.85 |
| DA-TPS-518 | Lefere Forge & Mch. Co. | " | " " | 4,000 | 5,800.00 |
| DA-TPS-559 | Willys-Overland Motors Inc. | " | " " | 24,000 | 52,560.00 |
| DA-TPS-519 | Transue & Williams Steel Forg. Co. | " | " " | 24,000 | 67,800.00 |
| DA-TPS-520 | Ford Motor Co. | " | " " | 70,900 | 50,862.00 |
| DA-TPS-539 | Ford Motor Co. | " | " " | 4,510 | 3,979.50 |

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|----------------------------|-------------------------------|----------------------|-----------------------|-----------------|--------------------|
| DA-TPS-543 | Ford Motor Co. | U.K. | Drop Forgings | 7,000 | \$ 4,200.00 |
| DA-TPS-541 | Ford Motor Co. | " | " " | 84,000 | 28,840.00 |
| DA-TPS-521 | Lefere Forge & Mch. Co. | " | " " | 11,500 | 16,850.00 |
| DA-TPS-544 | Ford Motor Co. | " | " " | 42,900 | 14,520.00 |
| DA-TPS-540 | Ford Motor Co. | " | " " | 142,000 | 70,007.00 |
| DA-TPS-561 | The Steel Imp. & Forge Co. | " | " " | 10,000 | 87,440.00 |
| DA-TPS-573 | The Steel Imp. & Forge Co. | " | " " | 8,000 | 137,040.00 |
| DA-TPS-477 | Wyman - Gordon Co. | " | " " | 3,000 | 237,000.00 |
| DA-TPS-478 | Wyman - Gordon Co. | " | " " | 1,000 | 79,000.00 |
| DA-TPS-666 | Crucible Steel Co. of America | " | Billet Core Steel | 105 G.T. | 69,384.00 |
| DA-TPS-325-1 | Crucible Steel Co. of America | " | Hi. Carbon Chr. Steel | 291,200 lbs | 19,543.44 |
| DA-TPS-325-2 | Crucible Steel Co. of America | " | Hi. Carbon Chr. Steel | 678,720 lbs | 52,838.02 |
| DA-TPS-325-5 | Crucible Steel Co. of America | " | Hi. Carbon Chr. Steel | 20 G.T. | 3,384.64 |
| DA-TPS-310 (Adj.Add.) | Great Lakes Steel Corp. | " | Carbon Steel | | 263,772.00 |
| DA-TPS-423 (Adj.deduct) | Keystone Steel & Wire Co. | " | Wire Rods | | 4,367.55 |

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|------------------------|------------------------------|----------------------|------------------|-----------------|--------------------|
| DA-TPS-308-1 | (Bethlehem Steel Export Co. | U.K. | Carbon Steel | 45,370 GT | \$ 1,927,180.00 |
| DA-TPS-308-1 | { " " " " | " | " " | 52,430 " | 2,634,386.96 |
| DA-TPS-309-1 | (Republic Steel Corp. | " | Carbon Steel | 46,350 GT | 1,749,923.50 |
| DA-TPS-309-1 | (Republic Steel Corp. | " | " " | 25,134 " | 1,054,371.30 |
| DA-TPS-310-1 | (Great Lakes Steel Corp. | " | Carbon Steel | 10,000 GT | 403,300.00 |
| DA-TPS-310-1 | (Great Lakes Steel Corp. | " | " " | 18,221 " | 742,963.43 |
| DA-TPS-314-1 | (Wheeling Steel Corp. | " | Carbon Steel | 2,000 GT | 104,000.00 |
| DA-TPS-314-1 | (Wheeling Steel Corp. | " | " " | 13,240 " | 569,320.00 |
| DA-TPS-328-1 | Jones & Laughlin Steel Corp. | " | " " | 28,400 | 1,013,129.00 |
| DA-TPS-329-1 | Armco International Corp. | " | Carbon Steel | 9,100 G.T. | 335,699.00 |
| DA-TPS-313-1 | Youngstown Sheet & Tube Co. | " | " " | 23,750 G.T. | 889,812.50 |
| DA-TPS- ---- | Metals Reserve | " | Copper | 2,500 N.T. | 512,500.00 |

| | |
|--|------------------|
| Purchases 7/18 to 7/25/41..... | \$ 22,159,545.29 |
| Contracts DA-TPS-249 and 312 were cancelled..... | 289,780.00 |
| Total Purchases 7/18 to 7/25/41..... | \$ 21,869,765.29 |

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YBRITISH EMBASSY,
WASHINGTON.

29th July 1941.

My dear Cochran,

I told the Consul in Boston the story about sailors changing pound notes as contained in the copies of letters which you sent me on July 11, and I now enclose an extract from the Consul General's reply to me.

I have confirmed through our Naval Attaché that practice on the ships conforms to the Regulations as I have heretofore understood them, namely that officers and men are allowed to change on board ship their pay into dollars, that some provision is made for changing savings into dollars up to a certain maximum and that an order has been issued forbidding the landing of pound notes of any denomination. A new order is about to be issued under which officers and men may pay their savings into the ship's post office on arrival in a U.S. port and draw freely in dollars at the official rate of exchange up to a maximum of £10 for any one stay in port. This privilege will be an unconditional right instead of, as at present, a conditional one, and the possibility of drawing up to £10 at the official rate of exchange should be a strong deterrent to landing sterling notes for sale at lower rates. I am told that the £10 limit will cover the needs of the vast majority of men and that therefore there should be little if any temptation to contravene the order against landing sterling notes.

I hope that I have told you enough to enable you to make a full reply to the Boston banks, but if not please do not hesitate to ask me for further details.

Yours sincerely,

(Signed) Rodvers Oyle

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

Copy:lg 7/28/41

Extract from letter from His Majesty's Consul General,
at Boston, 24th July 1941.

"Mr. Robert D. Brewer, President of The Merchants National Bank of Boston, wrote also to me on the subject. I subsequently had an interview with him, when I explained that the officers and men of U.S. ships at this port were entitled to exchange their pay in full into dollars at the official rate of \$4.025 to the £stg., plus a maximum sum of £10 from savings. If they brought sterling notes ashore for sale, they were contravening the regulations and were not deserving of much sympathy for the low rate of exchange which they received. I thanked him very warmly for his interest. He said that he had of course entirely misunderstood the situation. I have since had somewhat similar representations from another Bank and a private individual. I fear that our men have been 'telling the tale' to evoke sympathy and a higher rate of exchange!"

Copy to 7-25-41



GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

July 25, 1941.

My dear Mr. Secretary:

I am enclosing papers relating to the extension of the freeze controls to China and Japan:

(1) A press release which is being issued at Hyde Park at 8:00 p.m. Daylight time. An explanation of the Order and the proceedings under it will be given to the press by the Treasury.

(2) A memorandum approved by State and Treasury Departments outlining the policy to be followed in administering the freeze controls extension.

(3) A copy of a cable which is being sent to Fox and to the American Ambassador in China.

I had a conversation with Secretary Ickes in his office today and cleared with him the sending of our people to assist Governor Poindexter and High Commissioner Sayre in the administration of the Order in the Islands. The Secretary is sending one of his people from the Bureau of Insular Affairs to the Treasury this evening to assist in the sending out of instructions. With his approval John Pehle and I are calling Acting Governor Hite and Commissioner Sayre to explain the personnel situation and also that the controls in the first instance are to be administered with the least amount of disturbance to regular business in the Islands.

Through Cy Upham, arrangements have been made to put bank examiners in the Japanese agencies throughout the country when they open for business tomorrow morning. It is contemplated that at least thirty bank examiners will be employed for this purpose.

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Secretary Morgenthau

July 25, 1941

All of the Federal Reserve Banks have been asked to stand by to receive important instructions which will be put on the wire during the course of the evening so that when the banks open up for business in the morning the controls will be in effect.

I have just received a revised draft of the Order setting up the Vice President's board for economic defense. Some of the suggestions Dean Acheson and I made to replace the sinews have been made. The disturbing matters are (a) Army and Navy have been added, and (b) provision has been made for the appointment by the Vice President of an executive director. I have grave misgivings about the draft which Budget says must go to the President tomorrow. Dean agrees with me that the advantage of having Cabinet representation has been lost as the board is now too large and what we may get instead of the Vice President is a coordinator of the Maxwell type. I have told Gladioux that I cannot approve the Order without more time. Dan approves of this action.

Sam Clark just telephoned me that Nucky Johnson has been convicted. Since Judge Maris who conducted the trial has a reputation for being a "tough judge", Sam thinks Nucky will get at least three years. This is a great win for both Treasury and Justice, and Irey's men, especially Frank, are entitled to a great deal of credit.

I hope you are enjoying yourself and are getting a much deserved rest. It was pretty hot here today. Northern New York State or Bar Harbor are much more pleasant places.

As ever,

E.C.

Honorable Henry Morgenthau, Jr.
C/o Sam Lewishon Esq.
Twin Ponds Camp
Malone, New York.

Enclosures

FOR THE PRESS

FOR RELEASE MORNING PAPERS
SATURDAY, JULY 26, 1941

In view of the unlimited national emergency declared by the President, he has today issued an Executive Order freezing Japanese assets in the United States in the same manner in which assets of various European countries were frozen on June 14, 1941. This measure, in effect, brings all financial and import and export trade transactions in which Japanese interests are involved under the control of the Government and imposes criminal penalties for violation of the Order. This Executive Order, just as the Order of June 14, 1941, is designed among other things to prevent the use of the financial facilities of the United States and trade between Japan and the United States, in ways harmful to national defense and American interests, to prevent the liquidation in the United States of assets obtained by duress or conquest, and to curb subversive activities in the United States.

At the specific request of Generalissimo Chiang Kai-shek and for the purpose of helping the Chinese Government, the President has, at the same time, extended the freezing control to Chinese assets in the United States. The administration of the licensing system with respect to Chinese assets will be conducted with a view to strengthening the foreign trade and exchange position of the Chinese Government. The inclusion of China in the Executive Order, in accordance with the wishes of the Chinese Government, is a continuation of this Government's policy of assisting China.

July 25, 1941

MEMORANDUM OF POLICY TO BE CARRIED
OUT IN ADMINISTERING THE FREEZING
CONTROL ORDER FOR JAPAN AND CHINA.

1. The proposed press release and the general licenses to be issued in the United States and in the Philippine Islands and in Hawaii are approved.

2. The exportation to Japan of oil, gas, and petroleum products will be a matter to be dealt with on specific licenses. There will be no public announcement as to what action will be taken on such applications although for the time being such licenses will be automatically granted.

3. (a) Imports from Japan. All importations of silk, including silk which is now enroute to the United States, should be treated on a specific application basis and applications should simply be held by the Treasury Department and no action taken. The silk which actually comes here should be held in Customs' custody and not permitted either entry or withdrawal from the United States. Where, prior to the date of the Order, an American has paid for silk, specific consideration will be given to the matter.

Other imports from Japan that will produce substantial foreign exchange for Japan should be held up even though the exchange is paid into a blocked account. Imports involving trifling amounts may be licensed. Any item which is of strategic

- 2 -

importance to the United States may be licensed. (The War Department has advised the State Department that there is no military need for Japanese silk imports.)

(b) Exports. So long as we are prepared to give specific licenses for the exportation of oil, we should similarly give specific licenses for the exportation of cotton and any other exports to Japan subject, of course, to the activities of Export Control.

Where licenses are granted for exports to Japan, Treasury may also license the debiting of blocked accounts belonging to Japan to pay for such exports.

4. Bank examiners from the office of the Comptroller of the Currency will be placed in all of the agencies of the United States of Japanese banks for the purpose of determining that the freezing control order is not being violated. Transactions by United States agencies of Japanese banks will be dealt with on a specific application basis except that where such agencies receive local deposits a general license will be issued and bank examiners placed in the banks.

5. Nothing will be done to prevent Japanese boats now in this country from departing.

The foregoing was discussed in detail and approved at a conference held in the office of Acting Secretary of State Welles and attended by Messrs. Welles, Acheson, D.W. Bell, Foley and Bernstein.

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July 25, 1941

AMERICAN EMBASSY,
CHUNGKING, CHINA.

For Fox from Treasury Department.

The State Department is informing the Ambassador and the Treasury is informing you that Freezing Control will be extended to China and Japan effective Saturday, July 26th, 9 A.M.E.S.T. China is included in accordance with the previously indicated wishes of Generalissimo Chiang Kai-shek. It would be desirable for the Ambassador and you to get in touch with the Generalissimo at once and assure of him of our purpose. Explain we are eager to have close cooperation of the Chinese National Government and our Government in making the order effective to serve our mutual interests.

You will note from the General Licenses that will be forwarded immediately that every effort is made to minimize interruptions of Chinese trade and interferences with transactions in the interest of the Chinese National Government. General Licenses will be issued permitting

- 2 -

freedom of action for the Chinese National Government and for Chinese governmental banks and also permitting private Chinese to transfer their funds to the Chinese Government and the Chinese Central Bank. Other General Licenses will facilitate other necessary transactions and trade without undue delay or restrictions. We will shortly cable you a digest of the General Licenses.

The various measures taken are subject to modification as the situation develops. Administration will be directed towards safeguarding the interests of the United States and China. Please ascertain and keep us informed of changes in administration or policy with respect to the granting of licenses on Chinese or Japanese funds which appear to be desirable so that we may give them careful consideration.

We are depending upon you to secure the full cooperation of the Chinese Stabilization Fund.

Simultaneously with the issuance of the Freezing Order the White House issued the following press release.

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PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China, via N.R.

DATE: July 25, 1941, 7 p.m.

NO. : 165

RUSH

THE FOLLOWING IS A PARAPHRASE OF A MESSAGE FROM THE
TREASURY DEPARTMENT FOR FOX.

(In paraphrase.) The Department of State is informing
Ambassador Gauss and you are hereby accordingly informed
that effective 9:00 a.m. (Eastern Standard Time) on Saturday,
July 26, 1941, the Freezing Control will be extended to China
and Japan. The extension to China is undertaken pursuant
to the wishes of General Chiang Kai-Shek; as was previously
indicated to the Government of the United States.

It is suggested that it might prove desirable for you
and the Ambassador to get in touch immediately with General
Chiang. Furthermore, it is suggested that you assure him
of this Government's purpose and explain to him that the
United States Government is very desirous of securing the
close cooperation of the Chinese Government with a view to
effectuating the order so that the mutual interests of our
Governments will be served thereby.

General licenses will be forwarded immediately. It
will be noted from these licenses that this Government is
undertaking all possible effort to minimize interruptions
of Chinese trade and interference with transactions in the
interests of the Chinese Government.

-2-

Freedom of action for the Chinese Government and its banks and permission for the transferring of their funds by private Chinese citizens to the National Government and the Central Bank of China will be provided for by the issuance of General Licenses for such. Trade and other transactions which may be necessary will be facilitated without undue restrictions or delay by other general licenses. You will receive shortly by telegraph a digest of the General Licenses.

There may be modification of the various measures which are taken as developments occur in the situation. The objective of the administration of the various measures taken will be the safeguarding of the interests of China and of the United States.

In regard to the granting of licenses on Japanese or Chinese funds, the Department would appreciate it if you would ascertain such changes as may seem desirable in policy or administration and keeping it informed of such in order that careful consideration might be given to your recommendations in regard to this. It is desirable that the full cooperation of the Chinese Stabilization Fund be obtained. We are depending upon you to secure such.

The White House, at the time of the issuance of the Freezing Order, is issuing a press release in regard to the above. The text of this release will be sent to you in a separate telegram in the near future. (End Paraphrase).

The Following is for the Ambassador.

The foregoing is for your guidance and confidential information as well.

WELLES, ACTING
(MMH)

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For Miss Chauncey
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE July 25, 1941.

TO Secretary Morgenthau
FROM Mr. Dietrich

Mr. Lang, of the New York Federal Reserve Bank, telephoned at 10:45 a.m. to report that Mr. Mulligan, an employee of the New York Agency of the Yokohama Specie Bank, withdrew \$50,000 in United States currency from the Chase National Bank by cashing a check drawn to his order. The currency was taken in \$100 bills.

Mr. Lang stated that the Yokohama Agency also withdrew \$50,000 in \$100 bills from the Irving Trust Company, according to a report received from the latter bank this morning.

The above operations raise the total amount of cash withdrawn by the Agency during the past four days to \$600,000.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 25, 1941.

TO *For Miss Chauveney*
Secretary Morgenthau

FROM Mr. Dietrich

Subject: The Japanese are attempting
to pay \$5,000,000 to Indo-
China.

At 11:35 a.m., Mr. Cameron, of the New York Federal Reserve Bank, telephoned to transmit the following information which the Federal had just received from the Guaranty Trust Company:

The French-American Banking Corporation, New York, has just deposited a \$5,000,000 check with the Guaranty Trust Company, the check having been drawn by the New York Agency of the Yokohama Specie Bank on an un-named New York bank to the order of the French-American Banking Corporation.

The French-American informed the Guaranty that the Yokohama Agency had drawn this check to their order and delivered it to them for account of the Bank of Indo-China.

Upon routine investigation, the Guaranty discovered that this check was drawn against uncollected funds. The Guaranty accordingly returned the check for certification.

In short, Mr. Cameron stated, the Yokohama Specie Bank is trying to pay \$5,000,000 over to the Bank of Indo-China.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 25, 1941.

TO Secretary Morgenthau
FROM Mr. Dietrich

for
Miss Chauncey

In addition to the cash withdrawal, by the Yokohama Specie Bank's New York Agency, of \$50,000 from the Chase and a like amount from the Irving, as reported in an earlier memorandum today, Mr. Lang of the New York Federal Reserve Bank reported at 1:20 p.m. that the Agency has also withdrawn \$150,000 in \$100 bills from the Guaranty Trust Company.

Since July 22, when the first cash withdrawal was reported, the Agency has taken \$750,000, of which \$350,000 was obtained from Guaranty, \$300,000 from Chase, and \$100,000 from Irving.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 25, 1941.

TO *For Miss Chauncey*
Secretary Morgenthau
FROM Mr. Dietrich

At 1:45 p.m., Mr. Lang of the New York Federal Reserve Bank reported that the Imperial Japanese Navy withdrew \$50,000 in \$1,000 bills from the Irving Trust Company's branch at Twenty-first Street, New York City.



EXECUTIVE ORDER

ESTABLISHING THE ECONOMIC DEFENSE BOARD

By virtue of the authority vested in me by the Constitution and statutes of the United States, by virtue of the existence of an unlimited national emergency, and for the purpose of developing and coordinating policies, plans, and programs designed to protect and strengthen the inter-national economic relations of the United States in the interest of national defense, it is hereby ordered as follows:

1. The term "economic defense," whenever used in this Order, means the conduct, in the interest of national defense, of international economic activities including those relating to exports, imports, the acquisition and disposition of materials and commodities from foreign countries, including preclusive buying, transactions in foreign exchange or foreign-controlled property, international investments, and extensions of credit, shipping and transportation of

- 2 -

goods among countries, the international aspects of patents, international communications pertaining to commerce, and other foreign economic matters.

2. There is hereby established an Economic Defense Board (hereinafter referred to as the "Board"). The Board shall consist of the Vice President of the United States, who shall serve as Chairman, the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Attorney General, the Secretary of the Navy, the Secretary of Agriculture, and the Secretary of Commerce. The Chairman may, with the approval of the President, appoint additional members to the Board. Each member of the Board, other than the Chairman, may designate an alternate from among the officials of his Department, subject to the continuing approval of the Chairman, and such alternate may act for such member in all matters relating to the Board.

3. In furtherance of such policies and objectives, as the President may from time to time determine, the Board shall perform the following functions and duties:

- 3 -

- a. Advise the President as to economic defense measures to be taken or functions to be performed which are essential to the effective defense of the Nation.
- b. Coordinate the policies and actions of the several departments and agencies carrying on activities relating to economic defense in order to assure unity and balance in the application of such measures.
- c. Develop integrated economic defense plans and programs for coordinated action by the departments and agencies concerned and use all appropriate means to assure that such plans and programs are carried into effect by such departments and agencies.
- d. Make investigations and advise the President on the relationship of economic defense (as defined in paragraph 1) measures to post-war economic reconstruction and on the steps to be taken to protect the trade position of the United States and to expedite the

- 4 -

establishment of sound, peacetime international economic relationships.

- e. Review proposed or existing legislation relating to or affecting economic defense and, with the approval of the President, recommend such additional legislation as may be necessary or desirable.

4. The administration of the various activities relating to economic defense shall remain with the several departments and agencies now charged with such duties but such administration shall conform to the policies formulated or approved by the Board.

5. In the study of problems and in the formulation of programs, it shall be the policy of the Board to collaborate with existing departments and agencies which perform functions and activities pertaining to economic defense and to utilize their services and facilities to the maximum. Such departments and agencies shall cooperate with the Board in clearing proposed policies and measures involving economic defense considerations and shall supply such information and data

as the Board may require in performing its functions. The Board may arrange for the establishment of committees or groups of advisers, representing two or more departments and agencies as the case may require, to study and develop economic defense plans and programs in respect to particular commodities or services, geographical areas, types of measures that might be exercised, and other related matters.

6. To facilitate unity of action and the maximum use of existing services and facilities, each of the following departments and agencies, in addition to the departments and agencies represented on the Board, shall designate a responsible officer or officers, subject to the approval of the Chairman, to represent the department or agency in its continuing relationships with the Board: The Departments of the Post Office, the Interior, and Labor, the Federal Loan Agency, the United States Maritime Commission, the United States Tariff Commission, the Federal Trade Commission, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, the National

- 6 -

Resources Planning Board, the Defense Communications Board, the Office of Production Management, the Office of Price Administration and Civilian Supply, the Office for Coordination of Commercial and Cultural Relations Between the American Republics, the Permanent Joint Board on Defense, the Administrator of Export Control, the Division of Defense Aid Reports, the Coordinator of Information, and such additional departments and agencies as the Chairman may from time to time determine. The Chairman shall provide for the systematic conduct of business with the foregoing departments and agencies.

7. The Chairman is authorized to make all necessary arrangements, with the advice and assistance of the Board, for discharging and performing the responsibilities and duties required to carry out the functions and authorities set forth in this Order, and to make final decisions when necessary to expedite the work of the Board. He is further authorized, within the limits of such funds as may be allocated to the Board by the President, to employ necessary personnel

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and make provision for the necessary supplies, facilities, and services. The Chairman may, with the approval of the President, appoint an Executive Director.

THE WHITE HOUSE,

July , 1941.



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT
WASHINGTON

JUL 25 1941

MEMORANDUM FOR THE SECRETARY:

By letter dated June 27, 1941, you advised the Secretary of the Navy of the nature of the recommendations made by the examining officers following an investigation of the liability of the Falk Corporation of Milwaukee, Wisconsin, under the Vinson Act, for the years 1935 to 1938, inclusive. The purpose of this memorandum is to advise you of the further developments and progress in respect of this case.

In this connection it is to be noted that the contractor's report was not filed until March 15, 1939. Thereafter, arrangements were made for an immediate investigation as soon as certain expiring cases could be disposed of. Upon beginning the investigation the examining officers found that the corporation was under investigation by the Federal Bureau of Investigation and that its agents were then at the taxpayer's office. Our investigation was suspended for a short time until the agent in charge could be advised that the Federal

- 2 -

To: Secretary
From: Commissioner
Re: Falk Corporation

Bureau of Investigation agents were investigating another matter and that he could proceed. However, by this time the corporation had learned that the investigation involved irregularities as to labor charges and consequently employed a firm of certified public accountants to make an investigation, whereupon it requested the examining officers to suspend their examination until the accountants had rendered a report which would be made available to the examining officers. This request was granted as being to the advantage of the examining officers. When the accountants' report was received, the investigation was continued by representatives of the internal revenue agent in charge and the Intelligence Unit. Such investigation required 246 days, and a report thereon was made on February 7, 1941.

The taxpayer was then given an opportunity to file a protest to the findings of the examining officers, which protest was filed on May 10, 1941; and a taxpayer's conference was held on June 17 and 18, 1941.

- 3 -

To: Secretary
From: Commissioner
Re: Falk Corporation

At the conference the corporation offered to agree to all adjustments made by the examining officers in determining its excess profit liability, provided the 50 percent fraud penalty be eliminated and the negligence penalty of 5 percent be imposed in lieu thereof.

On July 16, 1941 the case was received in Washington with the recommendation of the field representatives of the Intelligence Unit (concurrent in by the internal revenue agent) that the corporation's offer of settlement be accepted. In connection with the recommended elimination of the fraud penalty, it should be noted that the special agent who made the investigation and recommended the fraud penalty now states that the corporation's argument was to the effect that both the management and the cost department had been very negligent in not discovering the incorrect charges, but that there was no fraud inasmuch as no instructions were given by the officials of the corporation relative thereto and, therefore, there could be no willful intent. Apparently, in view of this argument and the fact that

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To: Secretary
From: Commissioner
Re: Falk Corporation

the corporation conceded all adjustments made in computing its excess profit liability, it was decided in the field to recommend substitution of the negligence penalty for the fraud penalty.

The case has now been transmitted to the Office of the Chief Counsel for thorough consideration as to whether a fraud penalty should be asserted and also whether any criminal action should be taken. The Income Tax Unit is working jointly with the Office of the Chief Counsel, and it will thoroughly review the various technical adjustments as soon as consideration of the fraud questions will permit.


Commissioner.

*See letter of 7/25/41
from Kuhn to Stamps -*

July 25, 1941

MEMORANDUM FOR: MR. HAROLD GRAVES ✓
MR. KUHN
MR. ODEGARD
MR. CALLAHAN

FROM: THE SECRETARY

I suggest on the Treasury Hour Wednesdays we do:

(1) The Life of George Gershwin, Oscar Levant to be interlocutor, and play "Rhapsodie in Blue", excerpts to fit his life from "Lady Be Good", "Strike up the Band", "Porgy", etc.

(2) The life and works of John Philip Sousa, treated similarly to Irving Berlin program.

At an appropriate hour - preferably the Treasury Hour, we have Menuhin do the Mendelssohn violin concerto -- someone to state that both artist and composer are "Verboten" in dictator countries today and could not be heard.

That we get Ira Gershwin to write words for another Treasury Bond song and get suggestions from him who could write music to them, possibly Cole Porter?

That on Tuesday evening, NBC, 7th Symphony of Beethoven. Archibald MacLeish to explain V Symbol. This to be played soon.

That Busch (violinist) and Serkin, pianist, be used on a Sunday program.

Please write me your reaction. I want ACTION!

July 25, 1941

TWIN PONDS CAMP
MALONE
(FRANKLIN COUNTY)
NEW YORK

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Memo for Harold Graves

F. Kuhner & P. Odegard, V. Calahan

I suggest on the Treasury Hour
Wednesdays we do

The Life of George Gershwin
Oscar Levant to be interlocutor
& play "Rhapsodie in Blue"
Excerpts to fit his life from
"Lady Be Good" "Strike up the
Band" "Foggy" etc -

2. The Life & works of John Philip
Sousa, treated similarly to Irving
Berlin program

At an appropriate hour - preferably
the Treasury Hour we have
Menehine do the Mendelssohn
Violin concerto - someone to state
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get suggestions from him
who could write music to them
possibly Cole Porter?

That on Times are N. B. C. A.
V = Symphony of Beethoven
Arch. bald Mac Leish to explain
V symbol - This to be played
soon

That Busch (violinist) & Serkin
pianist be used on a Sunday
program.

Henry Myrthan Jr.

Please write me your
reaction I want action!

July 28, 1941

Dear Mr. Secretary:

This is a first report on what has been done to carry out the radio suggestions you made on July 25. Graves, Odegard, Callahan and I think that most of them are good suggestions. At least four out of the six can be put into effect easily, and two of them are already "in the works". Perhaps I had better number my items as you did.

- (1) The Life of George Gershwin, with "Rhapsody in Blue" and other excerpts from Gershwin music, will be a part of the Treasury Hour on August 27.
- (2) The John Philip Sousa number is now being prepared by the Treasury Hour people in New York, and should be produced early in September.
- (3) Paul Munros is a close friend of Ira Gershwin, and is going to take up with him the matter of a new Treasury Bond song, perhaps with Cole Porter as collaborator.
- (4) Adolf Busch has already promised to play for us on one of our Sunday musical programs, and as Serkin often accompanies him, there should be no difficulty in getting both of them for a single occasion.
- (5) Yehudi Menuhin has also agreed tentatively to play for us one Sunday in the near future. The Mendelssohn violin concerto is out of the question, as it lasts for approximately thirty minutes, and, what is more, we have no symphony orchestra at our disposal. The same purpose might just as well be served, however, by asking Yehudi to play one of the Mendelssohn violin and piano sonatas. We could easily point out that this music is "verboten" in Germany. We also are thinking of a German program in connection with the "Songs of America" on the Treasury Hour, a program

- 2 -

reminding people of the old, romantic Germany of pre-Nazi days. We might have the chorus sing the Lorelei by Heine, whose poems are likewise "verboten".

(6) The Beethoven Fifth Symphony is the only one of your six suggestions that is going to be difficult and expensive. For one thing, we have no program on which a big symphony lasting approximately fifty-five minutes could be played. We would have to arrange a special broadcast for it. The practical difficulty is that we have no symphony orchestra at our disposal. Al Goodman has about twenty musicians in the Treasury Hour; Frank Black has forty-four in the N. B. C. program, but they constitute a "band" rather than a real orchestra, and they probably would murder Beethoven. Moreover, the N. B. C. half-hour on Tuesday evenings is devoted to American songs exclusively, and the Beethoven Fifth would be entirely out of place.

A symphony orchestra of sixty pieces, the minimum number that could do justice to Beethoven, would cost at least \$3,000 for a single performance. If we want to bear this expense, we might call on Mrs. Hull, our vice-chairman in New York, who is also prominent on the board of the New York Philharmonic. She might get the Philharmonic to appear for us, but as the orchestra already operates at a huge deficit, I don't see how we could ask the Philharmonic to contribute. The musicians themselves are unionized and would have to be paid by someone.

My other suggestion, which seems more practicable, is to wait until the Fall when both the New York Philharmonic and the N. B. C. Symphony orchestra will be playing regularly on the radio. It would be an easy matter to get either of these organizations to dedicate one of their programs to Defense Savings, and to play the Beethoven Fifth, perhaps with Mr. MacLeish as narrator.

Greetings from all of us here.

(Signed) Ferdinand Kuhn, Jr.

Hon. Henry Morgenthau, Jr.
c/o Mr. Sam Lewishon,
Twin Ponds,
Malone, New York.

TO:

7/29/41

Miss Chauncey

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Mr. Kuhn thought you might like to
keep this for your files.

MR. KUHN



DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT

WASHINGTON

July 25, 1941

TO: Mr. Kuhn
FROM: Mr. Gilohrest

Secretary Morgenthau requested that Hildegarde, the singer, be used on one of our programs.

I have contacted her in the interests of the Tuesday night NBC series. She will appear. However, I cannot get the exact date of her broadcast for us at this time because I don't want to conflict with her business. Since she is opening in a Saratoga Gambling House shortly we won't be able to get a definite date for her until early in August. At that time she will know the length of her stay in Saratoga. Her broadcast will follow that engagement.

Gil



TREASURY DEPARTMENT

WASHINGTON

July 25, 1941

Memorandum for THE SECRETARY:

The following report is made of Stamp sales
at "Treasury House":

| | |
|-----------|-----------------|
| July 1-23 | \$12,858.60 |
| July 24 | <u>5,545.50</u> |
| Total | \$18,504.10 |

GRAVES



TREASURY DEPARTMENT
WASHINGTON

July 25, 1941

Memorandum for THE SECRETARY

The following report is made of requests received for "Any Bonds Today?" from the experimental mailing of 10,000 cards:

| | <u>No. Requests</u> | <u>No. Copies</u> |
|-------------|---------------------|-------------------|
| July 1 - 23 | 1036 | 5885 |
| July 24 | <u>24</u> | <u>125</u> |
| Total | 1060 | 6010 |

GRAVES

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales in July Compared with June, 1941
On Basis of Issue PriceFirst Twenty Business Days
(June 1-24, July 1-24)

(Amounts in thousands of dollars)

| Item | Sales | | Increase or Decrease (-) in July Compared with June | |
|-------------------------|------------------|------------------|--|-------------|
| | July | June | Amount | Percent |
| Series E - Post Offices | \$ 40,323 | \$ 32,410 | \$ 7,913 | 24.4% |
| Series E - Banks | <u>73,914</u> | <u>49,469</u> | <u>24,445</u> | <u>49.4</u> |
| Series E - Total | 114,237 | 81,879 | 32,358 | 39.5 |
| Series F - Banks | 20,089 | 24,101 | - 4,012 | - 16.6 |
| Series G - Banks | <u>127,430</u> | <u>152,681</u> | - 25,251 | - 16.5 |
| Total | <u>\$261,756</u> | <u>\$258,660</u> | \$ <u>3,096</u> | <u>1.2%</u> |

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

July 25, 1941.

Source: All figures are deposits with the Treasurer of the United States
on account of proceeds of sales of United States Savings Bonds.Note: Figures have been rounded to nearest thousand and will not
necessarily add to totals.

UNITED STATES SAVINGS BONDS

CONFIDENTIAL

Daily Sales - July 1941
 On Basis of Issue Price
 (In thousands of dollars)

| Date | All Bond Sales | | | | Post Office Bond Sales | Bank Bond Sales | | | | |
|-----------|----------------|-----------|-----------|-----------|---------------------------|-----------------|-----------|-----------|-----------|----------|
| | Total | Series E | Series F | Series G | | Series E | Total | Series E | Series F | Series G |
| July 1941 | | | | | | | | | | |
| 1 | \$ 9,505 | \$ 2,387 | \$ 957 | \$ 6,160 | \$ 595 | \$ 8,910 | \$ 1,793 | \$ 957 | \$ 6,160 | |
| 2 | 11,612 | 4,066 | 845 | 6,701 | 1,735 | 9,877 | 2,331 | 845 | 6,701 | |
| 3 | 15,045 | 4,903 | 843 | 9,299 | 2,077 | 12,969 | 2,827 | 843 | 9,299 | |
| 5 | 22,900 | 9,589 | 2,437 | 10,875 | 3,191 | 19,709 | 6,397 | 2,437 | 10,875 | |
| 7 | 11,028 | 6,315 | 472 | 4,242 | 3,908 | 7,120 | 2,407 | 472 | 4,242 | |
| 8 | 11,226 | 4,867 | 1,197 | 5,162 | 1,346 | 9,881 | 3,522 | 1,197 | 5,162 | |
| 9 | 16,570 | 6,277 | 880 | 9,413 | 2,229 | 14,341 | 4,048 | 880 | 9,413 | |
| 10 | 11,430 | 6,018 | 605 | 4,808 | 2,459 | 8,972 | 3,559 | 605 | 4,808 | |
| 11 | 16,311 | 8,504 | 1,197 | 6,610 | 2,405 | 13,905 | 6,098 | 1,197 | 6,610 | |
| 12 | 12,689 | 4,482 | 860 | 7,347 | 1,672 | 11,017 | 2,810 | 860 | 7,347 | |
| 14 | 13,435 | 7,754 | 1,046 | 4,636 | 3,060 | 10,375 | 4,693 | 1,046 | 4,636 | |
| 15 | 10,083 | 4,754 | 602 | 4,728 | 1,458 | 8,625 | 3,296 | 602 | 4,728 | |
| 16 | 11,994 | 5,541 | 808 | 5,645 | 1,645 | 10,349 | 3,896 | 808 | 5,645 | |
| 17 | 15,332 | 6,213 | 1,189 | 7,930 | 1,799 | 13,533 | 4,414 | 1,189 | 7,930 | |
| 18 | 12,404 | 6,730 | 836 | 4,837 | 2,042 | 10,362 | 4,689 | 836 | 4,837 | |
| 19 | 7,553 | 4,513 | 926 | 2,114 | 1,505 | 6,048 | 3,007 | 926 | 2,114 | |
| 21 | 14,136 | 7,105 | 1,015 | 6,016 | 3,060 | 11,076 | 4,046 | 1,015 | 6,016 | |
| 22 | 12,191 | 3,820 | 1,208 | 7,164 | 1,001 | 11,191 | 2,819 | 1,208 | 7,164 | |
| 23 | 14,677 | 5,018 | 1,208 | 8,451 | 1,514 | 13,163 | 3,505 | 1,208 | 8,451 | |
| 24 | 11,634 | 5,382 | 959 | 5,293 | 1,623 | 10,011 | 3,759 | 959 | 5,293 | |
| Total | \$261,756 | \$114,237 | \$ 20,089 | \$127,430 | \$ 40,323 | \$221,434 | \$ 73,914 | \$ 20,089 | \$127,430 | |

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

July 25, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Regrated Unclassified

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 25, 1941.

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|---------|
| Sold to commercial concerns | £42,000 |
| Purchased from commercial concerns | £36,000 |

Open market sterling was quoted at 4.03-3/4. The only reported transaction consisted of £4,000 purchased from a commercial concern.

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

| | |
|--------------------------|------------------|
| Canadian dollar | 11-5/8% discount |
| Argentine peso (free) | .2380 |
| Brazilian milreis (free) | .0505 |
| Uruguayan peso (free) | .4380 |
| Colombian peso | .5800 |
| Mexican peso | .2070 |
| Cuban peso | 1-1/4% discount |
| Japanese yen | .2358 |

In Shanghai, the yuan was again quoted at 5-11/32¢, and sterling remained at 3.94-1/2.

There were no gold transactions consummated by us today.

The State Department forwarded a cable to us reporting that the Swiss Bank Corporation, London, shipped \$19,000 in gold from England to its New York Agency, for sale to the New York Assay Office.

The Chase National Bank reported that it had received gold and silver quotations from Bombay this morning. Gold in that center was priced at the equivalent of \$34.10, or 5¢ higher than the price a week ago. The silver quotation was equivalent to 44.76¢, showing little change from the quotation of July 12. The Chase, however, reported that there was a heavy demand for silver in evidence today, probably as a result of the Far Eastern political situation. To meet this demand, the Reserve Bank of India was reported to have supplied the Bombay market with 3,000,000 ounces of silver.

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In London, spot and forward silver were fixed 1/16d lower at 23-7/16d, equivalent to 42.55¢.

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 purchased 175,000 ounces of silver from the Bank of Canada today. So far this month, we have bought 975,000 ounces from that source, under our regular monthly agreement to purchase up to 1,200,000 ounces.



CONFIDENTIAL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE JUL 25 1941

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of June, 1941.

Attachment

S-12

SUMMARY REPORT ON STUDIES OR PROJECTS IN
THE OFFICE OF THE GENERAL COUNSEL -
JUNE 1941

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

1. Study of legislation to prevent certain tax avoidance. Consideration is being given to legislation to prevent the avoidance of taxes by employers not directly paying their officers the full amount due them as salaries but paying a substantial portion thereof into a pension trust for the benefit of such officers. The officers thereby escape large surtaxes as such amounts will not be actually received until after they retire and then in small annual payments. Such payments to the trust are claimed as expense deductions by the employer but are not taxable to the trusts because they are contributions to and not income of the trust. If the trust is taxable, the income from the investment of such funds is taxable, but, as is often the case, the trust may be exempt from all taxation under section 165 of the Internal Revenue Code. The purpose of that section is to encourage the establishment of trusts to carry out bona fide pension plans. It is believed, generally, that a

- 2 -

bona fide pension trust should cover substantially all of the employees.

2. Exchanges and distributions of stock or securities in obedience to orders of Securities and Exchange Commission. Study is being given to a suggestion urged by the Securities and Exchange Commission that Supplement R of the Internal Revenue Code be extended so as to apply in a revised form to current and future utility integration proceedings. The Supplement as it stands at present operates to afford nonrecognition of gain or loss and, to some extent, a continuation of the old basis with respect to property interests involved in transactions undertaken pursuant to the order of the Commission. Its provisions are limited by their terms to orders entered prior to January 1, 1941. It is now proposed to provide a later closing date. It is further proposed that the nonrecognition provisions shall be further extended so as to apply to integration transactions taking the form of a sale of stock, securities, or other property, providing certain specified applications are made with respect to cash or other property received in the transactions.

- 3 -

3. Surtaxes on joint income. There is now actively under consideration before the Ways and Means Committee the problem of taxing the income of spouses in such a manner that the revenue will stand subject to the same surtax rates regardless of the election of the spouses with respect to the form of their return, whether joint or separate. The Committee has tentatively accepted the principle that the tax should be imposed at rates fixed by reference to the aggregate income of the two spouses. Difficult problems arise with respect to a possible apportionment of the aggregate tax liability between the two. These difficulties are attributable primarily to such statutory provisions as the capital gains and loss provisions, the earned income provisions, the provision subjecting certain types of income to the surtax notwithstanding its exemption from the normal tax, and the like.

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

The following work was done under the supervision of Assistant General Counsel Cairns:

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4. Exclusion from United States of German film "Bismarck". An opinion addressed to Mr. Gaston, which was prepared by Mr. Feidler, and signed on June 20, 1941, concludes that authority to exclude this film exists under section 3(c) of the Trading with the Enemy Act, 40 Stat. 42, forbidding communications outside the mail, and also under the President's Proclamation of May 27, 1941, declaring an unlimited national emergency to exist.

5. Assistance to United States Attorney at Chicago. Mr. Harrison, Chief Counsel, Coast Guard, and Mr. Feidler, Head of the Opinions Section, assisted the United States Attorney at Chicago in the case of McDonald v. Phillips, Captain of the Port of Chicago, in a suit seeking to enjoin the Captain of the Port from prohibiting the yacht MIZPAH from occupying space in Anchorage D of Chicago Harbor. The bill of complaint was dismissed on June 23, 1941, by reason of the amendment of June 23, 1941, to the regulations governing the anchorage and movements of vessels in territorial waters. That amendment clarified the authority of captains of the port and served as the

- 5 -

basis for the issuance of a new order by the Captain of the Port affecting the plaintiff's yacht MIZPAH.

6. Seizure and forfeiture of sabotaged vessels. Mr. Harrison is studying a number of procedural questions in connection with the seizure and forfeiture of sabotaged vessels for violations of the Espionage Act of June 15, 1917.

The following work was handled under the supervision of Assistant General Counsel Bernard:

7. Fidelity Bond Bill (formerly identified as "Bond Survey") (for description see original report, item 10). Mr. Bernard and Mr. Spingarn called on Congressman Cochran on June 11, 1941, in an effort to induce him to sponsor this proposed legislation which was finally cleared with the Bureau of the Budget. A copy of the bill, and a statement which could be inserted in the Record at the time the bill is introduced, explaining its background and purpose, prepared by this office, was given to him. Congressman Cochran will, in the near future, let this office know his decision in the matter. This proposed legislation will precipitate a hot congressional battle.

- 5 -

8. Federal Depository System (for description see original report, item 6). After several minor changes were made in this bill to comply with the suggestions of Under Secretary Bell, it was forwarded for initialing. The Legislative Section cooperated with Mr. Tietjens' office in perfecting these changes.
9. Law Committee of Defense Communications Board (for description see November report, item 23). Mr. Spingarn is continuing his work as the Treasury Representative on the Law Committee of the Defense Communications Board.
10. Survey of tax-exempt Federal securities, other than obligations (for description, see February report, item 7). The Legislative Section has completed its work on this project.
11. Administrative procedure bills (for description see April report, item 8). The Legislative Section completed a draft of a detailed memorandum analyzing the impact of the three pending administrative procedure bills (S. 675, S. 674, and S. 918) on all the principal activities of the Department. The Section also completed a draft of a letter for Under Secretary Bell's signature to Senator

- 7 -

Hatch, Chairman of the subcommittee considering these bills. This letter, besides transmitting the detailed memorandum, indicates briefly the position of the Treasury Department on each of the three bills. This position is that the Treasury favors S. 675, the majority bill, with some minor amendments which are set out in the letter, and opposes the enactment of the other two bills. The draft letter and detailed memorandum have been circulated among the principal members of the legal staff with a view to getting legal and administrative clearance from each branch of the Department on the views embodied in these documents, after which they will be sent forward for signature and transmission to Senator Hatch.

12. Payment of claims against the United States (for description see original report, item 11). This office has been engaged in the study and preparation of a preliminary draft of a memorandum to support argument before a congressional committee on our proposed bill relating to the orderly payment of claims against the United States. It is intended that the bill be submitted to Congress by the Treasury Department.

- 8 -

The following matters were worked on under the direction of Assistant General Counsel Bernstein:

13. Foreign Funds Control. Freezing control was extended to all the countries on the continent of Europe which had not been blocked heretofore. Incidental to the extension of the control it was necessary to revise most of our documentation. This involved, in addition to the Executive Order, regulations and instructions, amending 19 general licenses, the issuance of 12 new general licenses and the amendment of 2 general rulings. Steps are being taken to have an entirely new pamphlet issued which will integrate all the changes. The entire staff worked on these problems.

With the cooperation of Monetary Research, this office is preparing a census report Form TFR-300. There will be several types of report forms and a circular of instructions respecting their use. Special men have been assigned to devote most of their time to the problem of reports. Messrs. Bernstein, Reeves, Murphy, Arnold, Aarons and Luxford worked on this matter.

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The problem of special freezing is now receiving extended consideration. A special group have been assigned to devote their full time to this problem. Messrs. Sherbondy, Bernstein, and Hexter worked on this.

The problem of effectively regulating business enterprises that are blocked nationals under the Order similarly is requiring special treatment, particularly to see that the operations of such firms are consistent with the national defense. A special unit is being formed to work on these problems. Messrs. Bernstein and Lawler worked on this matter.

The problem of patents is being canvassed and consideration is being given to the approach that this Department should adopt. Here too a special unit has been established. Messrs. Bernstein, Aarons and Murphy worked on this problem.

In the field of foreign trade, freezing control has now assumed far reaching proportions subjecting practically all Latin American trade and all European trade to the provisions of the Order. Much has been done in the way of general authorizations to facilitate legitimate

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trade in these areas. A general license is now under active consideration with respect to Latin American trade. A special unit has been set up to canvass the type of control best suited to our needs. Messrs. Bernstein, DuBois, Luxford, Smith, Rains, and Golding worked on this matter.

This office participated in the issuance of a public "black list". The functions of the list have been integrated into freezing control operations. Messrs. Bernstein, DuBois, Luxford, and Sherbondy worked on this matter.

An educational program in the field of freezing control is in the process of formulation. In this connection a two-day conference was held with representatives of all the Federal Reserve Banks, together with the chief bank examiners in each district, at which time the problems of freezing control were discussed and our views expressed. The minutes of such conference are now in the process of being edited and it is anticipated that the circulation of such minutes among the Federal Reserve Banks and among all the men working

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on freezing control problems in Washington will be of valuable assistance in educating our staff and coordinating views. In this same field an article has been furnished to the magazine "Banking", published by the American Bankers Association, for use in their August issue. Such article deals with a number of questions of interest to banks in the field of freezing control. Certain other steps of a similar character have been initiated for further educating the banks as to their duties and responsibilities under the Order. Messrs. Bernstein, DuBois and Luxford worked on this matter.

14. Stabilization Agreements. This office drafted supplemental agreements extending for one year the obligation of the Secretary of the Treasury to purchase Chinese yuan and Argentine pesos under the Stabilization Agreements with China and Argentina, respectively. Mr. Bernstein worked on these matters.

15. Extension of stabilization fund and dollar devaluation powers. We participated in the preparation of the Secretary's testimony and other material used in the Congressional hearings and debates relative to the extension of the stabilization fund and dollar devaluation

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powers. Mr. Bernstein worked on this matter.

16. Lend-Lease Agreement. The State Department draft British Lend-Lease Agreement was studied by this office and taken up with Mr. Acheson. In addition, the office prepared a memorandum for the President covering all phases of the problem, and also prepared a further draft of agreement. Mr. Bernstein worked on this matter.

17. Alaska-Juneau case. On June 2 the Court of Claims issued a decision in the Government's favor in this case involving a suit by a mining company which delivered gold to us in 1933 and was paid \$20.67 an ounce and claimed it was entitled to more. The suit was for approximately \$350,000. The court's opinion was along lines indicated in our arguments and it is expected that the Supreme Court will deny certiorari in this case. Mr. Bernstein worked on this matter.

18. Inter-American Bank. At the request of the State Department we prepared a memorandum for Senator Green explaining the inconsistency between the tax provision of the convention of the Inter-American Bank and the Treasury's policies on the elimination of the tax provision. Mr. Bernstein worked on this matter.

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YDEPARTMENT OF STATE
WashingtonIn reply refer to
FE 893.51,7246

July 25, 1941

My dear Mr. Secretary:

Reference is made to the Department's communication to you of date July 15, 1941 with which there was enclosed a copy of a note of July 3 from the Chinese Ambassador in regard to certain matters in connection with the Agreement of date June 30 between the Chinese Government, the Central Bank of China and the Secretary of the Treasury of the United States.

With further reference to this matter there is enclosed a copy of a communication of July 22 from the Chinese Ambassador and its enclosure, a copy of a communication from Dr. H. H. Kung, Vice President of the Executive Yuan and concurrently Minister of Finance.

The Department is of the opinion that the statements made by the Chinese Ambassador in his note of July 3, supplemented by the telegram transmitted with the Ambassador's communication of July 22, may be accepted as authoritative official assurance that the proposed agreement has been approved in advance of its conclusion by the competent authorities of China; that Dr. T. V. Soong is duly authorized to sign the Agreement on behalf of the National Government of the Republic of China; that Dr. Kan Lee is duly authorized by
the

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

the Board of Directors of the Central Bank of China and by the National Government of the Republic of China to sign the Agreement on behalf of the Central Bank of China; and that when the Agreement shall have been signed by Dr. T. V. Soong and Dr. Kan Lee and the Secretary of the Treasury of the United States it will be internationally valid and binding.

Sincerely yours,

(Signed) Sumner Welles

Acting Secretary

Enclosure:

From Chinese Ambassador,
July 22, with enclosure.

Copy:lg 7/28/41

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The Chinese Ambassador presents his compliments to the Secretary of State, and in reference to his note of July 3rd, 1941 relating to the agreement dated June 30th, 1941 between the Chinese Government, the Central Bank of China, and the Secretary of the Treasury of the United States, and in compliance with the telephonic request of the Department of State, has the honor to enclose herewith a copy of the telegram from the Chinese Minister of Finance in connection with the signing of the agreement.

Chinese Embassy,

Washington, July 22nd, 1941.

Copy:lg 7/28/41

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Translation of telegram from Dr. H.H. Kung, Vice-President of the Executive Yuan and concurrently Minister of Finance, dated Chungking, July 9th, 1941.

"In connection with the extension of the Stabilization Fund Agreement between China and the United States, please inform the American Government that Dr. T.V. Soong and Dr. Kan Lee, who signed the original agreement, are hereby again authorized to sign respectively, on behalf of the National Government and the Central Bank of China."

H.H. Kung

Copy:lg 7/28/41

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BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

July 25th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Wavell Butler

The Honourable,
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

NAVAL. July 23rd.

"Manchester" and "Fire Drake" during operations in Mediterranean damaged by air attack are returning to harbour. Fearless sunk. One merchant vessel torpedoed but proceeding to harbour ten knots. Italian communique of July 24th is false.

2. Royal Air Force. Night of July 22nd/23rd. Medium weight attack on Frankfurt and light attack on Mannheim. Look at Dunkerque also bombed.

3. Night of July 23rd/24th large force of bombers attacked Mannheim, Frankfurt, Ostend and Havre and all returned.

4. In sweeps over France July 23rd fighters supported our bombers attacks on shipping. 10 enemy fighters shot down certain, 2 probably, 11 damaged 14 fighters lost (6 pilots safe) and 7 bombers.

5. 3 separate air attacks on Scharnhorst at La Pallice; first 2300 July 23rd, second and third during night. One hit on stern with heavy bomb claimed during first attack other results unobserved. One bomber attacked by 3 M.E. 109's shot down 2.

6. Afternoon of July 22nd 4 Blenheims attacked enemy convey of 4 medium merchant vessels and 5 destroyers south-bound off Pantellaria. 2 ships

estimated/

estimated 6000 and 7000 tons respectively received 2 hits each. Third ship believed ammunition carrier 3 hits and blew up. Later reconnaissance showed 7,000 tons ship sunk with stern showing. Later attack by 5 Swordfish resulted 7,000 ton tanker hit with two torpedoes claimed total loss. One destroyer hit aft.

7. German Air Force. Night of July 23rd/24th about 40 enemy aircraft operated majority made light attacks on Liverpool area, Scotland and Yorkshire. 2 destroyed.

8. Military. Tobruk.

Further successful patrol activity night of July 21st, 22nd.

9. Suez Canal. 6 aircraft raided canal area ineffectively.

10. Russia. No big claims either side. Germans reported having some success North East of Ladoga and East of Mogilev-Podolsk. Moscow raids done little material or moral damage.

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BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and
Secret

July 25th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

W. A. Butler

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

NAVAL. July 23rd.

Scharnhorst and four destroyers located at La Pallice.

2. Coastal convoy attacked by enemy aircraft night of July 22nd/23rd undamaged but His Majesty's ship Garth slightly damaged by near miss.

3. A.M. July 23rd Focke Wulf aircraft attacking outward convoy west Ireland shot down by Hudson aircraft.

4. Night of July 21/22nd five enemy aircraft raided Eues Canal area. Kabret aerodrome main objective. Four bombs dropped on Ismailia. Canal not affected but naval camp at Kabret slightly damaged.

5. Royal Air Force. July 22nd.

Blenheim with fighter escort attacked shipyard at Le Trait (Seine) hitting sheds and slipways. Fighters destroyed 4 Messerschmitts 109 plus one probable. Three spitfires lost.

6. Night of July 22nd/23rd. Aircraft despatched to Frankfurt, Mannheim, Dunkirk. Havoc bombed aerodromes in Northern France. All returned safely.

7. Benghazi bombed night of July 20th/21st by Wellingtons.

8. Italy. Night of July 20th/21st.

Seven and a half tons of high explosives and many incendiaries dropped on railway sidings near Naples, harbour causing very large fires.

Military/

9. Military.

Tobruk. Enemy casualties night of July 17th/18th 50 killed 100 wounded. Ours 19th.

10. Russia.

Some enemy advance Finnish front where they claim Pitkaranta. Local Russian withdrawals on Dniester. Elsewhere enemy progress advanced slowly.

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, July 25, 1941

TENTATIVE LESSONS BULLETIN
No. 136
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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COMPOSITION OF GERMAN-ITALIAN EXPEDITIONARY
FORCES IN LIBYASOURCE

This bulletin is based upon information submitted on May 27, 1941, by an American official observer in Vichy, France.

CONTENTS

1. GENERAL
2. PRESENT COMPOSITION OF 15TH ARMORED DIVISION
3. COMMENT OF AMERICAN OFFICIAL OBSERVER

CONFIDENTIAL

CONFIDENTIALCOMPOSITION OF GERMAN-ITALIAN EXPEDITIONARY
FORCES IN LIBYA1. GENERAL

The composition of the German-Italian Expeditionary Forces in Libya is as follows:

a. German Africa Expeditionary Corps

This Corps, which is probably in Cyrenaica, is under the command of Rommel. It consists of the following:

5th Armored Colonial Division;
5th Motorized Colonial Division;
15th Armored Division;*
1 Mobile Group whose composition is similar to that of the former light divisions.

b. Italian Forces

The following Italian forces are in Libya:

(1) In Cyrenaica - In this sector the Italian forces include:

132nd Armored Division Ariete - in liaison with the German Corps;
102nd Motorized Division Trento;

Tenth Army, comprising,

X Army Corps, which consists of

17th Infantry Division Pavia;
25th Infantry Division Bologna;¹
27th Infantry Division Brescia;
Probably the 55th Infantry Division Savona.

* This division is the reorganized and re-equipped 33rd Infantry Division which was originally stationed in the region of Kaiserlautern. The 33rd was included in the Second Army under General Oberst Weighs and was a part of the 39th Army Corps under von Geyer. The 39th Corps also included:

17th Armored Division;
10th Division;
25th Motorized Division;
36th Division.

1. The 25th Infantry Division is probably still in Tripolitania, rather than in Cyrenaica. G-2.

CONFIDENTIAL

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(2) In Tripolitania - The Italian forces in Tripolitania consist of the Fifth Army, which is composed of the following elements:¹

XX Army Corps - this includes only the 60th Infantry Division which is being reorganized;
Saharan Forces;
Fortress Troops;

2. PRESENT COMPOSITION OF 15TH ARMORED DIVISION

The following is the composition of the 15th Armored Division:

Staff of the Division;²
8th Tank Regiment, consisting of
2 battalions;
15th Motorized Infantry Brigade, comprising
104th Infantry Regiment;²
115th Infantry Regiment;
33rd Motorcycle Battalion;²
33rd Artillery Regiment, comprising
2 battalions of 3 batteries of 105-mm. Howitzers;
1 heavy battalion of 3 batteries of 150-mm. Howitzers;
1 signal section;
1 meteorological section;
1 observation section;
15th Engineer Battalion, comprising
2 light companies of engineers;
1 heavy company of engineers, including
2 demolition sections;
2 bridge sections;
1 bridge train;
1 light engineer column;
66th Light Antiaircraft Battalion, comprising
2 light batteries of six 20-mm. guns each;
1 battery of six 37-mm. guns;
40th Antiaircraft Battalion, comprising
2 medium batteries of six 37-mm. guns each;
3 heavy batteries of four 88-mm. guns each;

-
1. In addition to the elements listed, probably the 1st and 2d Black Shirt Divisions and possibly the 10th, 20th, and 26th Infantry Divisions, are now in Tripolitania.
 2. See Appendix for detailed organization.

CONFIDENTIAL

CONFIDENTIAL

15th Divisional Reconnaissance Battalion;*
 33rd Signal Battalion;*
 33rd Antitank Battalion, comprising
 3 companies, each composed of
 3 sections of four 37-mm. guns;
 3 sections of 2 automatic rifles;
 15th Reconnaissance Aviation Squadron, consisting of
 9 airplanes;
 Services - Combat Train, comprising
 3 light columns for fuel supply;
 7 light columns for miscellaneous supply - ration, etc.;
 Military police;
 Postal service;
 Quartermaster, composed of
 Bakery section;
 Butcher section;
 Other supply section;
 1 train company;
 3 repair shop companies.

3. COMMENT OF AMERICAN OFFICIAL OBSERVER

It is of particular interest to note that in the reorganization of the 33rd Infantry Division to form the 15th Armored Division for service in Libya, particular emphasis has been placed on the motorized infantry elements. Also worthy of note is the strength of the anti-aircraft protection which forms an integral part of this latter division.

* See Appendix for detailed organization.

CONFIDENTIAL

CONFIDENTIALAPPENDIX

Staff of the Division:

1 section of motorcyclists;
 1 map section;
 1 section of automatic riflemen;

1st Section of General Staff:

Operations - 1 Captain (Chief of Staff and G-3);
 1 Lieutenant;
 1 Lieutenant;

Intelligence - 1 Captain (G-2);
 1 Captain;

2nd Section of General Staff:

1 Captain (G-4);
 1 Doctor-Captain;
 Combat Train
 1 Major
 Armament and materiel
 1 Captain
 1 Ordnance Engineer;
 1 Quartermaster;

3rd Section of General Staff:

1 Captain (G-1);
 Commander of Headquarters
 1 Major.

Infantry Regiment:

1 heavy company;
 1 mortar company;
 2 battalions, each composed of
 1 heavy company, consisting of
 1 section of pioneers;
 1 section of two 81-mm. mortars;
 1 antitank section of three 37-mm. guns;
 1 machine gun company, consisting of
 2 sections of 4 machine guns;
 2 sections of six 81-mm. mortars;
 3 companies of riflemen, each consisting of
 4 sections of riflemen;
 1 section of 2 machine guns;
 1 section of 3 light mortars - 50-mm.
 1 light infantry column.

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Motorcycle Battalion:

- 3 companies of riflemen;
- 1 machine gun company, composed of
 - 2 sections of 4 machine guns each;
 - 2 sections of three 81-mm. mortars;
- 1 heavy company.

Divisional Reconnaissance Battalion:

- 1 section of pioneers;
- 1 antitank section of three 37-mm. guns;
- 1 motorcycle section - liaison;
- 1 signal section;
- 1 armored car company, probably composed of
 - 18 light cars;
 - 18 heavy cars;
- 1 motorcycle company;
- 1 heavy company;
- 1 light column.

33rd Signal Battalion:

- 1 signal company, comprising
 - 1st Section, composed of
 - 6 armored radio cars - type B;
 - 2 armored radio cars - type A;
 - 2nd Section, composed of
 - 8 large armored radio cars - type B;
 - 3rd Section, composed of
 - Communications of the infantry brigade;
 - 4 small armored cars;
 - 2 medium armored cars;
- 1 radio company, comprising
 - 1st Section, composed of
 - 8 medium armored cars;
 - 2nd Section composed of
 - 8 small armored cars - type D;
 - 2 small armored cars - type C;
 - 3rd Section, composed of
 - 5 armored cars - type 267;
 - 2 armored cars - type 268;
 - Replacement crew;
 - 2 protection armored cars Type FU 6-FUD.

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RESTRICTED

G-2/2657-220; No. 450

M. I. D., W. D.

12:00 M., July 25, 1941.

SITUATION REPORT

I. Eastern Theater.

Ground: German advance checked in Leningrad-Smolensk sectors. Very hard fighting continuing in the Smolensk sector.

Heavy fighting in zone near Zhitomir west of Kiev, in rear of German advance.

The Hungarians are on the line of the Bug River south of Winnica.

Air: General situation unchanged. Odessa has been subjected to heavy strategic bombing.

II. Western Theater.

Air: German. No offensive activity reported.

British. Strenuous air fighting resulted from daylight operations, which included an attack on the battle cruiser GNEISENAU at Brest. Night raids were normal in scale but were widely dispersed, with several attacks on coastal points.

III. Mediterranean Theater.

No important developments.

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China
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