

November 17, 1941
2:30 p.m.

HWJr: Hello.

Operator: Senator Byrd.

HWJr: Hello. Hello.

Operator: Just a minute.

Senator
Byrd: Hello.

HWJr: Hello, Harry?

S: Yeah. Harry, I'm glad you called me. Cannon and those fellows can't come over tomorrow. They've got a very important meeting with General Marshall.

HWJr: I see.

S: and Senator George is away. All that I thought we would do would be to try to arrange the hearings for the following week. We want to start on Tuesday and go through it, and then ask the committee members whether they want any further information that they haven't got.

HWJr: Oh.

S: So if it isn't convenient for you to come, I'll assure you that nothing will be done except that.

HWJr: No, I guess they didn't - you didn't get my message straight. I can come.

S: Uh huh.

HWJr: But I said did you want me to bring Bell and Heffelfinger with me.

S: Well, it's always a pleasure to have them. It would be just a question whether it would be worth their while.

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HMJr: Well, do you need me?

B: Yeah. Well, we'd be glad to have you; or if you're too busy, if you would just say that it would be all right to start the meeting next Tuesday - that's Tuesday week - and that's about all that we can do tomorrow; and then I want to ask the other members whether they need any further information from any source that they haven't already got. But I'm confident that we're not going to have a quorum. Senator Glass is away and Senator George is away.

HMJr: How do you feel, for instance, on a thing like that tomorrow, having Bell come as my alternate? Or wouldn't you?

B: If Bell what?

HMJr: If Bell came as my alternate.

B: That would be all right. Of course, he couldn't do that on the voting part of it.

HMJr: No.

B: Be very glad for you to do that. I know how busy you are, and I'll guarantee that nothing - no action will be taken and no statements made or anything.

HMJr: Well, I could come. I mean.....

B: Yeah. Well, I know you're terribly busy, and I really don't think it will be.....

HMJr: Well, would it be agreeable tomorrow if I let Bell come?

B: Sure, you bet. Absolutely.

HMJr: In my place.

B: Yeah. At any of these meetings, Henry, that you want him to come, we'd be delighted to have him, or anybody else you want to bring.

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HMJr: Well, if that's the case, then tomorrow I think I'll let him go in my place.

B: All right.

HMJr: But I just want you to know whenever there's a meeting that you're going to do something, I want to be there.

B: That's right. Well, we'll start next week. I thought your statement got off fine.

HMJr: I thought it did. I thought.....

B: Got a lot of good publicity. I noticed editorials.

HMJr: I read the editorials. I didn't see any criticism.

B: Not a bit.

HMJr: No.

B: I've gotten some letters criticizing it this morning.

HMJr: You have.

B: They're just from these special groups you see.

HMJr: Criticizing it, yes.

B: Criticizing these reductions, yes. But they're from special groups that were affected by it.

HMJr: I don't think that the people understood also what Senator McKellar said. I think that that was.....

B: No, he - don't you know, the funniest thing - he called me on the phone, Henry, and read me a statement in which he approved it.

HMJr: I'll be damned.

B: And asked me whether or not he should give it out. And I said, "Fine, Mac, go ahead and give it out."

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HMJr: Yeah.

B: And then it came out in the paper entirely differently. I tried to see him today and ask him.....

HMJr: Well, as far as I'm concerned, I want to come any time you're going to do anything or any time I can be of service.

B: I'll keep you posted, but I know how busy you are and.....

HMJr: Well, for this just sort of organization, I think I'll let Bell come.

B: Yeah. That'll be find. It may be that we won't have enough there to do anything at all; but in any event, we'll just be there and consider the procedure for next week.

HMJr: Thank you.

B: All right, Henry.

HMJr: Good-bye.

B: Good-bye.

November 17, 1941.

My dear Mr. President:

On November 14th you sent me a memorandum asking me to study certain Supreme Court decisions which bear upon the Government's long term tax immunity program.

I was very glad to look into this and believe that you will be interested in seeing the enclosed memorandum prepared for me by the General Counsel of the Treasury.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Enclosure.

Handwritten signature
H. M. C.

GEJ/dbs

November 17, 1941.

My dear Mr. Attorney General:

It occurs to me that you will be interested to see a copy of a memorandum which the President sent me on November 14th, together with a memorandum prepared by the General Counsel of the Treasury, which I am transmitting to the President today. Photostats of both these documents are enclosed.

Sincerely,

(Signed) H. Sargentan, Jr.

Honorable Francis Biddle,
Attorney General of the United States,
Washington, D. C.

Enclosures.

GEF/abs

cc-n.m.c.
By Messenger *Sheg* 9:05
11/16/41

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(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy,
Washington, D. C.

Enclosure.

GEV/2be

62-71111-C

By Messenger

They 7:05
11/17/41

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Sincerely,

(Signed) E. Morgenthau, Jr.

Honorable Henry L. Stimson,
Secretary of War,
Washington, D. C.

Enclosures.

GEV/dbs

cc H.M.C.

By Messenger 9:05 *Shey*
11/18/41

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Nov. 14, 1941

Copies to:

Mr. Foley
Mr. Sullivan
Mr. Morris

From the Secretary

THE WHITE HOUSE
WASHINGTON

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November 14, 1941.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Please study the Supreme Court decisions just handed down in Alabama v. King and Boozer, and Panhandle Oil Co. v. Knox, 277 U.S. 218, and related cases. The Attorney General writes me that the Alabama case represents a major victory in the Government's long term tax immunity program, and a defeat with respect to the particular immunity of the cost-plus contractor. He adds "the question may now appropriately be placed before Congress".

See also Federal Land Bank v. Bismarck Lumber Company, and Gurry v. United States, decided last Monday.

F. D. R.

FDR

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE NOV 17 1941

TO Secretary Morgenthau

FROM Mr. Foley

State Taxation of Defense Activities

The Supreme Court has vindicated the position which you took last spring at several Cabinet meetings on state taxation of defense contractors.

You will recall that Secretary Stimson was going to issue a press release to the effect that War Department contractors working on a cost-plus-a-fixed-fee basis should not have to pay state sales taxes and urging legislation forbidding state taxation.

On March 17, 1941 you wrote a letter to the President in which you strongly recommended against legislation immunizing cost-plus contractors from state taxation and called attention to the close analogy between the taxability of state and municipal bondholders upon the interest they receive and the taxability of articles purchased by a federal contractor. You said:

"In both cases the expenses of the Government might be lessened if an exemption were granted, but this is not an adequate basis for asserting immunity. The sound test is whether the taxing statute discriminates against the Federal Government or against a Federal contractor in favor of other taxpayers."

Subsequently, the War Department tried unsuccessfully to get Congress to enact the immunizing legislation but did prevail on Jackson to institute litigation with a view to invalidating the taxes. This was all over the protests of the Treasury, as well as the Tax Division of the Department of Justice.

Last Monday, November 10, the Supreme Court unanimously decided that the Alabama sales tax applied to lumber sold to cost-plus-a-fixed-fee contractors for use in building an Army camp, and that the tax did not infringe the constitutional immunity of the Federal Government from state taxation, even though economic burden of the tax would have to be borne by the Government. Speaking for the Court, Chief Justice Stone said:

"* * * So far as such a nondiscriminatory state tax upon the contractor enters into the cost of the materials to the Government, that is but a normal incident of the organization within the same territory of two independent taxing sovereignties. The asserted right of the one to be free of taxation by the other does not spell immunity from paying the added costs, attributable to the taxation of those who furnish supplies to the Government and who have been granted no tax immunity. * * *"

The decision is no doubt something of a shock to Col. Greenbaum and the War Department officials since the language of the opinion is so similar to that in your letter.

It is important to note, moreover, that the reasoning of the Court applies equally to federal taxes imposed upon persons dealing with state or municipal governments, such as state and municipal bondholders. In this way, the Court has strengthened (so far as the constitutional aspects are concerned) the Treasury's income tax cases against bondholders of the Port of New York Authority and the Triborough Bridge Authority now pending before the Board of Tax Appeals.

F. H. L.

TO:

MISS CHAUNCEY

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Mr. Foley will carry the original
to Secy's 2:30 group meeting today.

11/17/41.

MR. FOLEY

Secretary Morgenthau

NOV 17 1941

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(Initialed) E. H. F., Jr.

CLK:it
11-14-41

November 17, 1941
2:30 p.m.

GROUP MEETING

Present: Mr. Schwarz
Mr. White
Mr. Viner
Mr. Gaston
Mrs. Klotz
Mr. Sullivan
Mr. Barnard
Mr. Ruffington
Mr. Morris
Mr. Blough
Mr. Thompson
Mr. Graves
Mr. Kuhn
Mr. Bell
Mr. Foley

H.M.Jr: Has Graves got his meat butchers lined up?

Graves: Three o'clock.

H.M.Jr: Do I get a steak out of it?

Sullivan and Schwarz, I am terribly worried that somewhere in the Treasury, somebody, particularly the Wall Street Journal, has got a pipeline into the Treasury.

Schwarz: I can tell one Administration source that has been talking a lot, which is Lauch Currie. Whether in the Treasury or not there is anything beyond that, I haven't been able to pin it down.

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H.M.Jr: Can you prove that?

Schwarz: The boys have told me.

H.M.Jr: Hello, Dr. Viner.

Schwarz: They have told me things which they have attributed to Currie directly.

H.M.Jr: Well, there is definitely - now, for instance this thing in the Philadelphia Ledger, hundreds of letters pouring into the Treasury Department on mop-up fifteen per cent tax. Now, how does anybody know that?

Schwarz: That obviously came from within the Treasury.

H.M.Jr: I mean, how does anybody know I am getting hundreds of letters on that?

Schwarz: There is somebody right in the Treasury that is seeing those things.

H.M.Jr: Well, you know to say a thing like "Lauch Currie is doing it," without proof, is --

Schwarz: The proof is the citation from three or four of the boys who have quoted him as talking.

H.M.Jr: Well, that is unpleasant. And then the other thing is, Gaston and White and Schwarz on your Spanish oil.

Gaston: Yes.

H.M.Jr: What do I say at four o'clock?

Gaston: Well, this --

H.M.Jr: I know my Spanish onions, but I don't know my Spanish oil.

Gaston: This thing is very simple about this one particular report he talks about of aviation

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lubricating oil shipped on - in the week ending November 8th. It was not aviation lubricating oil. It was the lowest grade of lubricating oil and he did see our weekly report, and our weekly report did say aviation lubricating oil --

H.M.Jr: Excuse me, who saw it?

Gaston: Stone of PM.

H.M.Jr: How did he see it?

Gaston: He won't tell me, but I think he saw it over in Interior, because he made some statement about the things he learned in Interior. I think that is where he saw it. Our report was in error. The Collector at our - the Collector at Port Arthur simply telegraphed the wrong information. He said that it was classification A, which is the classification we had used, our own designation, for the highest grade of lubricating oil. Instead of that, it was Export Control classification R, which is the lowest grade. I have the telegram from the Collector at Port Arthur in which he says, "Re your teletype today. Luboil taken Campero and Campeche covered by classification R. Regret error."

H.M.Jr: I have got Friday's. In Sunday's PM they quote Assistant Secretary Herbert Gaston as saying that it is high-grade.

Gaston: No, pardon me, that isn't exactly what he says. He says that I confirmed that our record showed that. What I told him was that I was looking up to see what the discrepancy was. He had seen our report. He knew what it said and told me what it said, correctly, and he had been over at the State Department and they had showed him the

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licenses and showed him those licenses covered the low-grade stuff. I said, "I can't tell you anything more about it until I check back with Port Arthur and find out what those licenses actually show. When I got the report back I let him know just as soon as I could, but that was after he had written his Sunday story on this. It was late Saturday afternoon, before I got that report.

H.M.Jr: Well, certainly reading the Sunday story, you would think that you were confirming his Friday story.

Gaston: That is the impression he gave.

H.M.Jr: I wonder what he did today, do you know?

Gaston: I don't know what he did say.

H.M.Jr: Schwarz, look it up.

Schwarz: I can send for it now.

H.M.Jr: No, but I want it before four o'clock.

Schwarz: Right.

Gaston: I had told him around noon. He promised to call me back before noon. I got him a little after noon on Saturday and said that I had checked back on the license numbers and that those license numbers were for low-grade lubricating oil. They were not for aviation lubricating oil. He knew that around noon on Saturday. I said I hadn't yet heard from Port Arthur as to what actual material was shipped.

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- H.M. Jr: The fellow that ought to be sore is the State Department.
- Gaston: The State Department, and I wouldn't blame them for being.
- H.M. Jr: Is it correct to say that we haven't given out any figures? Can I say that at four o'clock?
- Gaston: We haven't given out any figures. We haven't given out anything. He told me he had seen our report. I didn't show him a thing. He told me he had seen our report that said aviation gasoline. I didn't deny that our report showed aviation gasoline. I told him I was trying to find out what was the discrepancy and I was wiring Port Arthur, but then I called him later and told him that I had looked up the export control license numbers as shown on the telegram to Coast Guard, and that those numbers had been compared to the application numbers over in the State Department, and those were for low-grade oil only.
- H.M. Jr: Well now, I asked White to speak to Miss Chauncey. These reports I get, do they come from you or do they come from --
- White: Mr. Gaston was able to answer that question, so I didn't speak to Miss Chauncey.
- Gaston: Well, you remember a year ago last July you instituted this system. It is this, that the - that George Haas's division, Research and Statistics, gets these daily reports which I also get from Merchant Ship Control, showing shipments, departures and vessels carrying steel, scrap iron, steel and petroleum to various countries, and the information on those daily reports is taken exclusively from the telegraphic requests for departure permits

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and George's office compiles the information on those daily reports into a weekly report, which my office has been mailing out to a number of people, including the President, the Secretaries of State, War and Navy, and Leon Henderson. But the thing is, in its present form, I think, next door to valueless. We should either consider dropping it or revising the form.

- H.M.Jr: For the time being, I would drop it until we catch our breath.
- Gaston: Another thing is, I think we can get a more error-proof system for handling it.
- H.M.Jr: What are we going to do for Ickes? He is out on the end of a limb. He called me up Thursday forenoon and said, "Send me over a list," and I told White to send it over to him. He got it about one o'clock Thursday.
- Gaston: Is that so?
- H.M.Jr: Sure.
- White: Didn't Ickes get one of those weekly statements?
- Gaston: Yes.
- H.M.Jr: But whenever he wants it he calls me on the phone. I sent it to him, and it got over there about one o'clock Thursday.
- Gaston: Well, he gets this thing regularly.
- H.M.Jr: And Friday the story came out.
- Well, he never gets it, because whenever he wants to know he always calls me. I never argue and say, "Harold, you know you get it."

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- Gaston: That is pretty good circumstantial evidence that is where Stone got his story.
- H.M.Jr: Don't you think we owe an explanation that Customs is wrong?
- Gaston: To him?
- H.V.Jr: Yes. Oughtn't we to send him a corrected list?
- Gaston: Oh, yes, I think we have got to get out a correction statement, both for this November 8th report and for -- I think there was an error in another report, or at least this man Stone says that aviation gasoline was shown in another report, and I don't think there was any aviation gasoline.
- H.M.Jr: Would you mind seeing that before sunset today that a letter be gotten out and sent to everybody who gets this other list?
- Gaston: I will see that the letter is gotten out to send to all those, but I don't think they can check back on all the reports in time to get it out today.
- H.M.Jr: On the November 8th they can.
- Gaston: On November 8th they can, yes.
- H.M.Jr: Will you please, and say that Customs was in error and made a mistake.
- Gaston: Yes.
- H.M.Jr: And will you please send a telegram to this Collector, wherever he was, that gave the mistake and give him - call him down?

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Gaston: Yes. He is the man we commended for his promptness in getting this information about Spanish shipments of oil once before.

H.M.Jr: Well, if I was Ickes I would be pretty sore, but I think we ought to get it over to him.

Gaston: There are two sides to that Ickes. He has been giving out information that he has no business to be giving out.

H.M.Jr: Well, I wouldn't send out any more information, Herbert.

Gaston: I don't think that report ought to be sent out.

H.M.Jr: Well, why not simply send out a letter and simply say that we want to correct this report, but from now on we are not going to send out any more?

Gaston: Yes.

H.M.Jr: Sign it "Assistant Secretary Herbert Gaston." Will you do it before you go home?

Gaston: Yes, I will do that.

H.M.Jr: Please.

Gaston: Yes.

H.M.Jr: One other thing that I have got here. I get a very nice cable from Winant, "Thank you for the forward-looking and constructive address you made at Worcester, Massachusetts today." Did we mail it to him or send it to him? Did you (White) send it to your man?

White: I think so. Was that the farm speech?

Kuhn: It was picked up in the British press, Mr. Secretary.

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White: I don't think we did.

Kuhn: It may have been cabled over.

White: I will investigate, but I don't think so.

Kuhn: It was certainly sent out by radio through Sherwood.

H.M.Jr: Was it?

Kuhn: Well, that was the arrangement.

H.M.Jr: Will you check it? Check it, will you?

Kuhn: And I will also see whether it was picked up by the British cables.

H.M.Jr: Evidently it hit a bullseye over there.

Kuhn: It got front-page publicity in the west, Detroit, Cincinnati, a column in St. Louis, the front page in Baltimore.

Schwarz: The farmer is given a lot of attention.

H.M.Jr: Herbert?

Gaston: I wrote a memorandum on that oil thing. It is substantially what I have told you.

H.M.Jr: All right.

Gaston: Here is the final report on the Jeidels investigation.

H.M.Jr: Yes.

Gaston: You asked about this matter of military aircraft coming in with passengers.

H.M.Jr: Yes.

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Gaston: Well, Customs has had an arrangement with the Army as to arrivals here and as to arrivals in Florida, Maine, Montana, where the local Army command undertakes to notify Customs when one of these planes is coming in, and a Customs man goes to make the inspections, even if they have free entry.

H.M.Jr: What happened about it?

Gaston: Did he come here?

H.M.Jr: I don't know. I told Chauncey to send you the letter.

Gaston: I haven't seen the letter. We have a record of Averill Harriman arriving here on an Army bomber on August 1st, which of course was not his latest trip, wherein he declared souvenirs valued at eighty dollars, but no furs. We have no record of his arrival more recently here.

H.M.Jr: That proves my point.

Gaston: It proves if he arrived here in Washington that the Army didn't keep their word to let us know when those bombers were coming in.

H.M.Jr: Well, Herbert, will you take care of it?

Gaston: You bet.

H.M.Jr: And so nobody misunderstands, Mr. Harriman writes me a letter that he brought in several hundred dollars' worth of furs, and if he is not entitled to free entry, he wants to pay the duty. I don't want any misunderstanding. He wrote to me. So I say, "Well, why don't we have somebody to examine him when he comes in?"

Gaston: Well, we have such an arrangement and they just didn't --

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H.M.Jr: Well, maybe they did and maybe Customs wasn't there.

Gaston: Well, I will find out about that. I don't know - this thing here, I don't know whether you want to say anything on that.

H.M.Jr: And I will give you this follow-up on Peter Josten:

Gaston: Do you want anything on this subject now?

H.M.Jr: No, just as long as it is in hand, and if you will let me know.

Gaston: Well, I have made an arrangement with Harry Durning.

H.M.Jr: Could you give me a little something in writing on it?

Gaston: I gave Mrs. Klotz a little memorandum on it.

H.M.Jr: Yes, but have you written Peter Josten?

Gaston: I haven't, no.

H.M.Jr: Will you?

Gaston: Yes, I will do that.

H.M.Jr: I saw the memo you gave Mrs. Klotz.

Gaston: You saw that memo?

H.M.Jr: Yes. Would you write to Peter Josten?

Gaston: Yes.

H.M.Jr: I have taken up more than my share of the time of myself and others - I mean, I have done

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Gaston: Yes.

H.M.Jr: I have taken up more than my share of the time of myself and others - I mean, I have done

- 12 -

more talking than anybody else.

Gaston:

All right.

H.M.Jr:

We will have to just do the important things.

Foley:

The Swedish Minister called on Dean Acheson last Thursday and Dean put in my hands on Friday a note that the Swedish Minister left with him. He told Dean that he wanted to talk to you about the matter, although Dean put before him the Foreign Funds --

H.M.Jr:

Ed, be here and I will listen.

Foley:

All right.

H.M.Jr:

Three fifteen.

Foley:

Right.

H.M.Jr:

We can't keep those meat choppers waiting.

Foley:

All right. I have got some other things.

H.M.Jr:

Foley will be here. We will have more time than I figured on tomorrow. I talked to one Harry Byrd and tomorrow's meeting, he doesn't even know whether he is going to have a quorum. He is just arranging for hearings, so he said it would be entirely agreeable for you (Bell) to come up as my alternate. There may not be any business so would you please go, just you?

Bell:

You are not going to go?

H.M.Jr:

I am not going to go.

Bell:

Ten o'clock?

H.M.Jr:

Ten o'clock. That leaves me free to go on with my taxes tomorrow.

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Bell: Where do they meet, in the Finance?

H.M.Jr: Finance.

Bell: All right.

H.M.Jr: He said it was entirely agreeable to him.

Bell: All right.

H.M.Jr: Please.

Foley: I have got a couple of memos here I would like to give you.

H.M.Jr: So I will start at ten tomorrow on taxes.

Foley: The President said that the Attorney General had told him they had a great win in the Supreme Court on that Alabama sales tax case. Well, he lost the case in the Court and the Court agreed with the Treasury. We objected to his proceeding that way, but Bob Jackson, when he was Attorney General, wouldn't agree with me, and the Court unanimously held that where a cost plus a fixed fee contractor had to pay a sales tax on lumber, that he purchased to construct an Army camp, that that was not a burden on the Federal Government within the constitutional sense, and it strengthens our case, in so far as the elimination of exemptions of interest on future issues.

H.M.Jr: Well now, could you write on --

Foley: For him to claim credit I think is --

H.M.Jr: For who?

Foley: For the Attorney General to say it was a great win.

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H.M.Jr: When did you come to Washington, Ed?

Foley: I know (laughter). I had the memorandum written before I got this note from the President, which made me laugh.

H.M.Jr: Can I send it like this?

Foley: Yes.

H.M.Jr: Is that in form for the President?

Foley: Sure. It wasn't written in the light of this. I had this written before I told you about it.

H.M.Jr: But like this?

Foley: Sure, if you want to. You had better read it first. He says Justice's face is pretty red and so is Mr. Stimson's.

H.M.Jr: When we send it, a copy will go to the Attorney General and Mr. Stimson. That is right to the President, and a copy to Stimson and Knox (speaking to Mrs. Klotz).

Foley: There is a memorandum on this informal meeting that was held in Frank Walker's office last Friday. Herbert and Huntington Cairns were there.

H.M.Jr: You gave me a memo.

Foley: Well, this is a memorandum as a result of that meeting. That was before the meeting. This is after.

H.M.Jr: Oh, all right.

Foley: When do you want me to tell you about Mrs. Geux?

H.M.Jr: Ask Fitz, will you please?

John?

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Sullivan: Last Tuesday night you asked for a comparison of the two versions of the "My dear Bob" letter.

H.M.Jr: Yes.

Sullivan: I telephoned him Friday and again Saturday, and it got over early Saturday afternoon.

H.M.Jr: Oh. Well, let me do it this way, if you don't mind, in order to same time. Anybody who wants a copy of Leon Henderson's memo, "How fiscal policy can aid the work of SPAB," ask Sullivan, and he will furnish him with a copy, and you will also furnish me with a copy.

Sullivan: You may have that. I have already had it photostated.

H.M.Jr: Anybody that wants one, ask Sullivan.

Sullivan: We are in trouble with the Army.

They are having Pan American Airways, through a subsidiary corporation, develop airports in South America.

They have asked for a closing agreement based on a contract the War Department has executed with Pan American Airways, in which the War Department agrees to indemnify the Airlines company, in the event there is any increase in corporation taxes due from Pan American Airways as a result of this activity, and we can't do that, sir.

In 1938, when you were granted the authority to execute closing agreements --

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- H.M.Jr: I know enough about it. He can't guarantee anybody.
- Sullivan: That is right.
- Foley: Well, one agency of the Government ought not to guarantee a private corporation against indemnity in the event they have to pay more taxes to the Treasury.
- H.M.Jr: You can write just as stiff a letter to Mr. Stimson as you want to and I will sign it. I don't care how stiff it is because he ought to know better.
- Sullivan: There is no necessity of having a letter unless you want it as a matter of record.
- H.M.Jr: I would like to have it as a matter of record because Stimson is always fighting us on this stuff and talks about it, and he goes ahead and spends three hundred million dollars more than estimated on his cantonments and - well, I don't want to get started. I am talking too much. But I would like to make it a matter of record.
- Sullivan: Yes, sir.
- Now, the State Department has requested that it be done this way, and I don't know whether you want to - I have got a copy of a secret letter from Sumner Welles to the Secretary of War, in case you wanted to read that.
- H.M.Jr: I will leave it to you. You read it, and if you want the General Counsel to look it over as General Counsel of the Treasury.
- Foley: We are in on it. We raised it with them.
- H.M.Jr: All right then, let the firm of Sullivan and

Foley and--

Foley: Kades is in on this one.

H.M.Jr: ... and Kades.

All right. And Gebrilovitz. You have got to have a Gebrilovitz in there somewhere to make it good.

Sullivan: This meeting tonight is on taxes, I suppose?

H.M.Jr: This meeting tonight is on taxes.

Sullivan: The whole general problem?

H.M.Jr: The whole general problem.

Gaston: Here?

H.M.Jr: No, at the house at eight-thirty.

Gaston: Can I come?

H.M.Jr: You are invited. You are on the list.

Klotz: I was a little delayed in getting to you, Mr. Gaston.

H.M.Jr: So is Viner on the list.

Klotz: Tonight at eight-thirty at the Secretary's house.

Viner: Will you tell me the address?

H.M.Jr: 2434 Belmont Avenue.

Klotz: Road.

H.M.Jr: Road.

All right?

Sullivan: Yes, sir.

Morris: You wanted a schedule of maturities.

H.M.Jr: I just want to say that I am pleased to announce that Dave Morris is going to be with us on a permanent basis, so from now on he is really going to work. (Laughter)

Viner: We won't have to be polite to him any more?

H.M.Jr: What did you say, Jake?

Viner: I didn't say anything.

Klotz: Yes you did.

H.M.Jr: What did he say?

Gaston: He said we don't have to be polite to him any more.

H.M.Jr: There is a lot of truth in that, Jake. You ought to know.

Sullivan: Is that why he comes in and gets out? (Laughter)

Viner: It took you a long time to find that out, too.

Foley: Immunity.

H.M.Jr: Well, I don't happen to have a guilty conscience, so I can laugh with you.

Viner: That is right.

H.M.Jr: I hope the laugh isn't on Dave.

What else, Dave?

Morris: That is all, sir.

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Blough: You wanted me to read an article in Aviation and report to you.

H.M.Jr: Yes.

Blough: I don't know if you want to bother about that now or not.

H.M.Jr: Not today. I just wondered if somebody wasn't a little foolish in writing that.

Blough: I think so.

H.M.Jr: Harold?

Graves: George being ill, I am giving you the report on the sales of bonds.

H.M.Jr: I had a cartoon out of the Philadelphia Ledger on my taxes. Ferdie, there is a cartoon - I have lost it - in the Philadelphia Ledger - oh, here it is. Give it to Ferdie. That is along the lines you and I were talking about.

Kuhn: George Buffington and I had a long talk about it this morning.

H.M.Jr: That is part of the thing tonight that I am going to talk about.

Schwarz: The Record, Mr. Secretary. It is Dave Stern's paper.

H.M.Jr: Is that the Record?

Schwarz: That is the Record. The editorial was in the Ledger.

Graves: You will recall our meeting tomorrow with the newspaper people.

H.M.Jr: Yes, what time?

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Graves: One-thirty. You are scheduled to come in at three. That is the broadside that has gone out from this Department on that plan. We have about a hundred acceptances of your telegraphic invitation to come to this meeting. It will be a very representative meeting, as well as a very important one.

H.M.Jr: Righto.

Graves: I find that the man who did your little play is B. H. Johnson, and we have asked him to come down on Wednesday.

H.M.Jr: If I understand, there are three men that work for us. What are their names? Johnson, Wouk, and a third man.

Kuhn: Writing this?

H.M.Jr: Yes. Dietz said there were three.

Schwarz: Al Block was one.

Kuhn: Oh, Al Block is the comic writer.

H.M.Jr: Al Block, he said, and Johnson and Wouk, "Well, listen, fellow, Thursday may not be Thanksgiving to you but it is to me."

Graves: Yes, he is coming Wednesday.

H.M.Jr: You said--

Graves: Wednesday. I said that you asked me last Thursday to see that he came some day this week.

H.M.Jr: Oh, let's put it off until next week, what?

Graves: Very good.

H.M.Jr: It is an awfully tight week.

Graves: Yes, sir.

H.M.Jr: Jake, if you are not too busy this afternoon with Bell and David Morris, take a look at what is the matter with the short-term money, will you? Is it the excess reserves, increased borrowing, or are we doing something wrong? Will you? Will you take a look at it and give me a little memo on it, on five years or less?

Viner: Right.

H.M.Jr: I mean, I am just curious. I don't know. You might talk to Murphy about it, too. You can present a paper on it. Five years or less, what is the matter with it.

Bell: You have seen Haas' memorandum on the money market in New York.

H.M.Jr: Yes.

Bell: That is partly responsible.

Viner: I will have to get up on that. I don't know anything about it now.

H.M.Jr: Well, I think Henry Murphy can bring you up as fast as anybody, or Haas. I don't see Haas.

Bell: Haas is sick. Murphy will be in my conference with the Federal Reserve people for about an hour. Maybe an hour and a half beginning at three.

Barnard: This is last week's report.

H.M.Jr: I wrote you another memo. I have got an idea. I may not need you as one telephone president, but I used your name yesterday.

Barnard: I found out about that.

H.M.Jr: Had you heard about it?

Barnard: Oh, yes, I got all the dope.

H.M.Jr: Did they get in touch with you?

Barnard: Oh, yes, before they got in touch with Thompson.

Klotz: I have a memo on it, and I haven't been able to get to you. Thompson wants to talk to you.

H.M.Jr: You haven't been able to get to me? (Laughter)

Barnard: He said we were to meet personally the first thing this morning.

H.M.Jr: There is something wrong up there.

Barnard: Nothing wrong except a human error. They shifted operators in the middle of your talk and the second one made a mistake. A social error, if nothing else.

H.M.Jr: There was no social error.

Barnard: No, they tell me there was no tap on that line.

H.M.Jr: Anyway, if I can go through Beacon to Poughkeepsie, I have got a wonderful service. That went into Beacon. The operator is a nice girl. Then I get hooked on directly to New York. You didn't mind my bringing you into it?

Barnard: No.

H.M.Jr: I really worried. I was talking to White. You heard that woman on that wire when you were talking.

White: Yes, I heard her.

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H.M.Jr: She was no telephone operator, was she?

White: No, no, she wasn't. (Laughter) She didn't have a voice with a smile.

Barnard: I know exactly what happened, and there was no tap on it. It was an operator's error. They switched operators while you were talking and the new girl made a mistake and pulled out a plug and put the wrong one back. There was no conversation on it.

H.M.Jr: Well, the week before somebody got in on a West Point call.

Barnard: There is no guarantee that somebody isn't in. You know the tricks of that trade are very numerous. In the good old days of prohibition, I used to have taps taken off the prohibition agents' line in Newark every single day. We never could catch who was doing it.

H.M.Jr: Taps on the--

Barnard: On the line.

H.M.Jr: "On" or "by"?

Barnard: On the lines.

Viner: Taps on the tappers.

H.M.Jr: Well, of course, my line is checked regularly once a month from my home to Beacon, but it is absolutely useless.

Klotz: That is a waste of effort.

H.M.Jr: If those two gentlemen - let them read Hoover's report on it.

Klotz: Hoover's report on it?

H.M.Jr: Which I brought back from the farm, on Newburgh. I would like them both to read it.

Klotz: Oh!

H.M.Jr: Hoover has been on that now for about two weeks on another situation. Did they tell you about that?

Barnard: No. But Hoover has got some people that know the technique, too. There are plenty of them. The New York Police Department will get you a line without disturbing anybody else in a thousand-wire cable.

H.M.Jr: Do what?

Barnard: Take a cable with a thousand pairs of circuits in it and get the particular one you want. If somebody knows the technique, there is more than one, always. You have just--

H.M.Jr: Once upon a time we used to do that too.

Barnard: I am surprised. (Laughter)

H.M.Jr: I once had twenty-five taps coming into an office in San Francisco on dope runners, Japanese dope paddlers. Remember, Harold?

Graves: Yes, sir.

H.M.Jr: In the good old days.

Graves: Yes, sir.

H.M.Jr: Well, anyway, between you and Norman I ought to get a little service. We haven't put up any wires for over three years, I guess.

Schwarz: I talked to Nick Gregory before receiving your memorandum and pointed out to him the

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defense bonds and tax notes and the increase in appropriations, and he said that he thought he had alluded to that, that he would try to straighten out the record, that he was disturbed after the last tax discussion, and he thought it was pretty late.

H.M.Jr: Yes, but those two things that I asked you--

Schwarz: I have here the appropriations, and I have gone all through the things he said and he never makes any recommendations. As a matter of fact, he quotes you on several things.

H.M.Jr: Bring this in again at four o'clock, Chick.

Schwarz: I think you might want to see what the National Economy League has to say on inflation. They recommend the purchase of defense bonds and higher taxes, both.

H.M.Jr: Bring that into the press conference.

Schwarz: O.K. I would like permission to refuse a request from Mr. Annenberg's Click magazine. They want to make a picture of the Debt Funding Commission's table downstairs.

H.M.Jr: Moe getting out this winter?

Foley: I was afraid he was, but you advised me to the contrary.

H.M.Jr: I just gave you the information. I would like to take credit, but I can't.

Schwarz: They saw Pearson and Allen's piece in Look magazine.

H.M.Jr: I don't know why I should do Moe any favors.

Schwarz: He didn't do us any.

H.M.Jr: He never held up the racing returns for me for a minute. I think he did for Sammy Klaus, but not for me. (Laughter)

Schwarz: That is all.

H.M.Jr: Harry?

I got your memorandum on that thing, and I want to read it. I read it carefully, and I am going to read it once more. Just for your own piece of mind, it isn't a matter of hours, take my word for it. I mean, the crisis was passed ten or fifteen days ago.

White: The crisis has passed, you say?

H.M.Jr: The particular crisis that you think - the information was passed ten or fifteen days ago. If you don't understand, Mrs. Klotz will explain to you. If you don't understand, she will explain it to you.

White: You asked to - you asked me to speak about the weekly reports on exports to certain blocked countries.

H.M.Jr: Yes.

White: Do you want them to go to anybody or don't you?

H.M.Jr: I would like them to go to the President.

White: They should go to Economic Defense and State Department, if they go to anybody.

H.M.Jr: All right. Well, I would send them.

White: That is all I have.

Buffington: I have nothing.

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H.M.Jr: You want to see me before when - well, I will try to work you - when are you going home?

Buffington: Wednesday evening.

H.M.Jr: Well, I will try. If no other way you could ride with me from here to the Naval hospital. Can you do it in ten minutes?

Buffington: Yes, sir.

H.M.Jr: All right. I have got to be over there at five o'clock. Tell Fitz that you are going to ride with me from here to the Naval hospital so he will let you know.

Bell: The Agriculture Committee are considering the Fulmer bill. That is the bill that revamps the whole lending program of the Farm Credit Administration. They asked us for a report. We submitted a draft of a report to the Bureau of the Budget and that Bureau sent a copy of it to the Farm Credit Administration for its comments. They called up this morning and said that they had a few questions about some of our statements and asked for a conference. He came over and conferred with Dave Morris and Haas and his people about our report. We hadn't definitely recommended against the bill, but we had criticized certain sections, certain parts of it. We recommended, or suggested, that the Federal Land Bank bonds all be guaranteed and then the bill only provides for a guarantee of the outstanding. Out of this conference grew two suggestions. When we suggested a guarantee, one was that the Treasury treat these organizations the same as we are now treating all of the organizations that issue guarantees, borrowing the money directly from the Treasury.

H.M.Jr: I am not getting it, Dan.

Bell: Aren't you?

H.M.Jr: No.

Bell: Then maybe we had better take more time.

H.M.Jr: Please.

Bell: Is there any deadline as to when they wanted a decision on it?

Morris: They would like it fairly soon, because they are working on it under a good deal of pressure.

Bell: They are working on a bill.

H.M.Jr: All right, take another crack at me.

Bell: You want me to do it now?

H.M.Jr: Not now.

Bell: O.K.

H.M.Jr: Let's see how we get along tomorrow, will you? I have got no appointments tomorrow morning except for this tax thing. I don't know how long it will run.

Bell: All right. That is all I have.

H.M.Jr: But anything we do now, please make sure that it isn't on these reports, that will conflict with my statement before the Byrd committee you see. You know, any report that goes out. I think I sent you (Foley) one. Was that all right? I asked Miss Chauncey to speak to you about it on Friday.

Foley: Yes.

- Bell: There is nothing in conflict here. I think it carries out the policy you have adopted in connection with the other organizations that are issuing guaranteed securities, except we are going a little higher on the rate.
- H.M.Jr: Well, look, so that I don't hold you up, if you and Dave Morris and anybody else are satisfied, go to town on it and leave me out. Keep it moving, will you?
- Bell: All right. I think it is all right the way we agreed upon it.
- H.M.Jr: If you and Dave agree on it or anybody else that is interested, but keep it moving and leave me out of it.
- Bell: All right, we will make the decision.
- H.M.Jr: You make the decision and I will be satisfied.
- Bell: All right.
- H.M.Jr: And Byrd told me that McKellar read his statement to him over the telephone. He said he came out in favor of my testimony.
- Schwarz: That was Saturday.
- H.M.Jr: Now the newspapers printed it as though it was criticism.
- Barnard: The one I read wasn't critical.
- Schwarz: I sent Chester a copy. It came out on the UP wires Saturday as very favorable.
- Bell: William said he was very favorable. Said he really went to town on it.

H.M.Jr: William.?

Bell: William Heffelfinger.

H.M.Jr: I thought you meant Aubry Williams. Harry is looking after him.

White: That is why he is in the soup.

H.M.Jr: There are all kinds of soups. (Laughter)

All right, Dan?

Bell: All right.

H.M.Jr: You and Dave Morris take care of that.

Thompson: I just want to report on your telephone.

H.M.Jr: Do you want to stay a minute? Would you and Mr. Barnard stay a minute. And Harold, if you get your meat butchers lined up, I will come right downstairs. I will be there in two minutes.

Graves: Yes, sir.

H.M.Jr: Do you (Foley) want to entertain the Swedish Minister while I have my picture taken?

Foley: Sure. Why don't you see him and turn him over to me and I will talk to him.

H.M.Jr: I have got to do the meat butchers. They are more important than the Swedes.

Foley: We are not going to do what he wants, so why don't you shake hands with him and shoo him down the hall?

(Mr. Gaston remained after the conference to tell the Secretary he had been in error when he said he had called the Collector of Customs at Port Arthur Saturday afternoon to tell him the oil designations had been checked, and the oil in question was found to be low grade. Mr. Gaston had actually telephoned that information earlier in the day.)

November 17, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Stories in the newspaper P.M. on Friday and Sunday purport to reveal that shipments of aviation gasoline and aviation lubricating oil have been going to Spain and contain the intimation that the State Department has been concealing the facts. The stories are based on copies of the weekly Treasury summary of exports of petroleum products, scrap iron and scrap steel from the United States to Japan, Russia, Spain and Great Britain as shown by departure permits granted. Our report for the week ended November 8, 1941, shows aviation lubricating oil in the amount of 40,520 barrels as having been shipped to Spain. This is an error. The material actually shipped, which went on two vessels, the CAMPERO and the CAMPECHE, both of which obtained departure permits on November 3, was 40,520 barrels of lubricating oil of Export Control classification "R", which is the very lowest grade of lubricant. The error was made by the office of the Collector of Customs at Port Arthur, Texas, which in its wire to Merchant Ship Control requesting the departure permit classified these shipments as lubricating oil "A". The "A" classification is not used by Export Control, but this designation originated in Treasury Research and Statistics at the time we started this system of reports to designate the highest grade of lubricating oil, that is, aviation lubricating oil and aviation gasoline.

Stone of the Nation and P.M., who wrote the stories, got in contact with me on the telephone last Friday evening. He had already written his first story. He had endeavored to see me Friday morning but I had been unable to keep the engagement having been detained at the Department of Justice. He told me over the telephone that he had written the story, based on one of our reports which he had seen. He would not tell me where he had seen it. I was unable at that time to give him any information about the discrepancy, telling him merely that our reports were based on information received from the Collectors of Customs. He saw me Saturday morning and informed

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me that he had been shown the export licenses at the Department of State and that none of them showed any aviation lubricating oil. All I could tell him at that time was that we were investigating the matter and were telegraphing Port Arthur to check on the information we had received. I called him shortly after noon to say that we had checked the export license numbers given us by Port Arthur at the time the departure permits were granted against the actual licenses at the Department of State and found that the numbers covered only low grade lubricating oil. Late that afternoon Pollio read me a telegram from Port Arthur in which the Assistant Collector (Gunter) admitted that his dispatches had been erroneous and I gave that information to Stone. This, however, was too late to catch his Sunday story.

At the time he was in my office on Friday waiting for me Stone made several telephone calls, one of which was to Dean Acheson in the Department of State. He told Acheson that he had seen a Treasury report listing aviation lubricating oil shipments. In a telephone call to his own office he said that while he did not actually have the Treasury report he would get a copy if he had to steal it.

The Division of Research and Statistics has been compiling these weekly reports since July 29, 1940. They are based on daily reports supplied by the Office of Merchant Ship Control, which in turn are based on the telegraphic applications from Collectors of Customs for departure permits, which in the case of petroleum and steel list the quantities contained in the cargoes and the export license numbers.

Stone admitted to me that he knew that our reports were confidential, that they were not prepared for public circulation and that he was not entitled to see them. He refused to tell me where he had seen this particular report. He said, however, that our reports showed other quantities of aviation gasoline and lubricating oil going to Spain and that after I had told him that this particular information from Port Arthur was manifestly erroneous he wanted to know whether the other instances were also due to error. This I was unable to tell him.

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On Saturday morning I called in Mr. Tiction, who is in charge of preparing these reports, and asked him to check back on our reports and suggested that our system should be revised to prevent errors of this kind. There is an opportunity for error in the fact that we are not using the present Export Control classifications.

Outside the Treasury these weekly reports are going to The President, the Secretaries of State, War, Navy and Interior, Admiral Stark and Leon Henderson. Within the Treasury they have been going to you, Mr. White, Mr. Cairns and to the Office of Merchant Ship Control, in addition to my office which has been sending them out. This list is the same as the original list which you gave to me on July 27, 1940, with the addition of The President and Leon Henderson. Those sent outside the Treasury are all delivered by special messenger.

Article 1275 of the Act of August 23, 1912, provides that statistics of imports and exports are to be compiled and published by the Bureau of Foreign and Domestic Commerce of the Department of Commerce from data supplied by the Collectors of Customs.

Article 1278 of the same statute permits Collectors to supply to trade papers, trade organizations and commercial concerns such statistical information regarding the foreign trade as may be available from the records kept for the purpose of making reports to the Department of Commerce, but prohibits them disclosing individual transactions, or names of importers or exporters. Customs regulations prohibit the Collectors from disclosing for publication details of their official activities except under special authority from the Bureau.

An amendment to Customs regulations, put into effect since the start of the war, forbids the disclosure of any information at all for publication during the effective period of any proclamation of the President that a state of war exists between foreign nations.

W4

Treasury Department **254**
Division of Monetary Research

Date Nov. 19, 1941

To: Secretary Morgenthau

Even if Treasury classifications of oil to Spain may be in error here and there, the appended memorandum suggests that there may be something "rotten in Denmark".

H.D.W.

MR. WHITE
Branch 2058 - Room 214 $\frac{1}{2}$

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1941

TO Mr. White
 FROM Mr. Ullmann

Subject: U. S. petroleum exports to Spain

1. In August, Mr. Gaston was informed from Port Arthur, Texas, that there were strong indications that our oil shipments to Spain were being transhipped to the Germans via railroad, German tankers, and tanker trucks. The State Department received similar information. (See attached exhibit, with excerpts of messages.)
2. In September, the Treasury Department offered to have one of its employees (of Spanish descent) secretly signed on as a crew member of a Spanish tanker. The State Department did not accept this offer — stating that it was assured by its representatives in Spain that this oil was not transhipped, and that it believed no further investigation necessary.
3. In September, the U. S. Government consented to the transfer of the tanker "Santa Helena" from Panamanian to Spanish registry — despite the strong appearance of duress by the Spanish Government (which had jailed the boat's owner).
4. In 1941, up to November 8, the United States exported 220,000 barrels of lubricating oil to Spain.

The Garfias estimate of lubricating oil consumption in Spain in the years 1936, 1937, and 1938 was 100,000 barrels per year — at a time when mechanized warfare was going on. In other words, we have shipped oil this year at a rate more than two and a half times the estimated consumption in civil war years. This could be related to the notable German deficiency in lubricating oils.

5. We have exported to Spain this year, 676,000 barrels of fuel and gas oil — or at the rate of a million barrels per year.

This is below the 1 1/2 million barrels estimated consumption in 1938 (Garfias estimate) — but this year has seen severe rationing while 1938 was a war period.

6. We have exported 481,000 barrels of gasoline — or at the rate of 570,000 barrels per year. This is substantially below the 2.3 million barrels estimated Spanish consumption in 1938.

Again, however, all information indicates that rationing has been severe and may have curtailed gasoline consumption substantially more than one-fourth.

United States Exports of Petroleum Products to
Spain, January 1, 1941 - November 8, 1941

(Thousands of Barrels)

<u>Period</u>	<u>Fuel and Gas Oil</u>	<u>Gasoline</u>	<u>Lubricating Oil</u>
January	178.8	-	12.9
February	30	8.0	22.0
March	5	-	-
April	39	67.0	3.4
May	101.5	11.0	20.5
June	132	64.0	42.8
July	61	136.4	24.7 ^{3/}
August	143.1	-	49.8 ^{4/}
September	15.5	127.7	2.0 ^{5/}
October	44.8	67.6 ^{1/}	-
Nov. 1 - Nov. 8	<u>127.7</u>	<u>-</u>	<u>41.7</u>
Total - 44 Weeks	878.4	481.7 ^{2/}	219.8

- Includes 1,600 bbls. aviation gasoline.
- 89 percent (427,100 bbls.) reported as high octane gasoline.
- Includes 1,345 bbls. aviation lubricating oil.
- Includes 750 bbls. of transformer lubricating oil.
- Aviation lubricating oil

Source: U. S. Treasury Department, Office of Merchant Ship Control

Excerpts From Messages Received From Port Arthur, Texas

A. Excerpt from letter of August 23, to the Department of State from the Assistant Collector of Customs.

Department of State,
Export Control Division,
Washington, D. C.

Attention: Mr. Cooper.

Sir:

I refer to our conversation over the telephone this morning wherein I referred to the widespread local opinion that the ever-increasing Spanish fleet of tank vessels are delivering to Germany much of the petroleum products being licensed by the State Department for export to Spain.

In compliance with your request that I furnish you with a memorandum of the information within my knowledge touching upon the possibility that the petroleum products licensed and cleared from this port on board Spanish vessels bound for Spanish ports, I am inclosing a copy of a written memorandum made by the Immigration Officer in Charge at this port upon conversations held by him with several of the officers and crew of the Panamanian Steamship ST HELENA now in the process of being taken over by the Spanish Government and made a unit in the growing Spanish fleet of tank vessels operating between here and Spain. This memorandum was made in the presence of a number of interested local government officials, including a Naval Intelligence Officer. I hand you this memorandum for whatever it is worth.

In paragraph No. 9 of the memorandum, where 38 German vessels are said to have been seen in the port of Vigo, Spain, let me add that this occurred in August, 1940.

One of the officers said he had observed French vessels operating between ports in Spain and in German occupied France. We take this to be equivalent to trade between Spain and Germany.

It is the opinion of the retiring Panamanian master of the ST HELENA that petroleum products and other military supplies are being supplied to Germany by Spain.

The new master of the ST HELENA taking over under the Spanish flag appears to be a brilliant and trusted Spanish naval officer. It is said that he has been met by German military officers on his arrival in Spain. This Captain Pedrez says he does not know what is done with the oil after it is delivered in Spain.

Our information is that Mr. T. Reiber, recently ousted Chairman of the Board of Directors of The Texas Company, is retained by that company as a good-will agent at a salary of \$20,000.00 per annum, and that he is the exclusive American purchasing agent for the C. A. M. P.S.A. line of Spain, an agency of the Spanish Government and operator of the oil tanker fleet carrying oil from here to Spain. I am sure that the Department is familiar with the facts and circumstances which lead to his retirement from The Texas Company a year or so ago, such as his confidential dealings with a German agent in New York, and his connection with his causing The Texas Company's tankers to deliver oil to the Franco Government in Spain during the Spanish Civil War but on clearances and manifests falsely showing the vessels to have been destined to France or some other country, for which violations this office assessed and collected \$22,000.00 in fines from The Texas Company. It appeared that these oil shipments to Spain were in collaboration with the German aid to Spain.

There are eight Spanish vessels in port and anchored off shore today awaiting cargoes from The Texas Company on export licenses, sailing permits and navicerts; and other vessels of this line are enroute here for the same purpose. This Spanish trade is becoming the largest part of petroleum exports from this port. If these exports are going into the German military operations, this is a serious matter, as I see it.

Whether there is a reason for it or not, the operators of these vessels hesitate to bring their vessels into port until the export licenses, and sailing permits have been granted for the cargo and vessel to depart. Could this mean that the operators know that there is good reason on the part of this Government to refuse the licenses and sailing permits and fear that such reason will become known and be acted upon by this Government and that the operator is playing as safe as possible by keeping his vessels outside until each case has been acted upon favorably?

B. Excerpt from interview (August 26) of Inspector in Charge with Master and Engineer of the Spanish vessel.

5. Since June 1, 1940, the following tankers have arrived in this port from Spain or Spanish Canary Islands and departed for Spain or Canary Islands, all of which, to the best information available, are owned or chartered by the C.A.M.P.S.A. line:

- | | | |
|---------------|-------------------------------|--------------|
| 1. CAMPAS | 5. CAMPILO | 9. GOBEO |
| 2. CAMPERO | 6. CAMPOAMOR | 10. ZORROSA |
| 3. CAMPECHE | 7. CAMPUZANO | 11. REMEDIOS |
| 4. CAMPOMANEZ | 8. CASTILLO CAMPAMARIO | 12. PAN AM |
| 13. BADALONA | 14. SANTA HELENA (CAMPECHANO) | |

A report has been received that another vessel, the CASTILLO has just been chartered by the company and is due to arrive here shortly, while still another vessel is under construction in Spain.

6. This number of vessels is in excess of those operated by the C.A.M.P.S.A. line prior to the revolution in Spain. There are several Spanish tankers waiting off the bar at Sabine at the present time for export licenses; and, according to available information, there will be ten C.A.M.P.S.A. owned or chartered tankers anchored off Sabine by September 4, 1941.

7. Although more tankers are operating than during normal times prior to the revolution, gasoline was plentiful then in Spain and is rationed now. In fact, practically no more vehicles operated except those in the service of the Spanish Government or officials of other governments located in the country. Although there are more petroleum products, more wheat, tobacco, and other commodities in Spain than ever before, yet there is no bread to be had other than a small supply of black bread, and no tobacco at all.

8. Continuous rail traffic from Spanish ports through France to Germany carries these products from the seaboard.

9. At one time during the present war, 30 German vessels were tied up in the harbor of Vigo, Spain, 12 of which were tankers. It was stated that these vessels were moved from Bilbao, Barcelona, and other ports to Vigo because Vigo was a greater distance from the French frontier.

10. The cargo vessels anchored at Vigo move outside the territorial waters, usually at night, to furnish provisions to service vessels of Germany; and German barges carry fuel oil from the Tankers to submarines. Although the German tankers have long since been emptied by the barges, the barges still continue to move out at night, loaded. C.A.M.P.S.A. line vessels still unload at Vigo, as well as other Spanish ports.

11. In August 1940, four Italian tankers were seen at La Palma, Canary Islands.

12. C.A.M.P.S.A. line tankers discharge part cargoes at La Palma and then proceed to continental ports.

13. The C.A.M.P.S.A. line master mentioned heretofore is a graduate of the Spanish Naval Academy, was head of the naval intelligence service for the republican government during the revolution, fled to Spanish Morocco when the republican cause was lost, returned to Spain after the revolution, was imprisoned for a time and released without trial. He was not only restored to his master's position on a vessel operated by the new government, but is a special representative of the C.A.M.P.S.A. line. This master declines to say positively that C.A.M.P.S.A. is supplying German and Italian land and naval forces, but says he has reason to believe such to be the case. He states further that he does not know what becomes of the cargoes after the vessels discharge. The engineer was more communicative than the master, and gave more information.

14. That part of the above data which was not stated by the two officers mentioned is supplied from files of this office; and, in addition thereto, it is found that certain vessels of the Standard Oil Company have carried oil to Spain during the past twelve months, specifically the SYLVAN ARROW, which arrived from Bilbao, Spain, on November 18, 1940, and sailed for Spanish ports on November 20, 1940. Furthermore, the New York Maritime Register shows that The Texas Company's Panamanian tanker "NEW YORK" has made several trips between Covicinas and Teneriffe, Canary Islands. Unquestionably the Spanish mainland and the Canary Islands have received more oil during the past year than can possibly be consumed by the industries of that nation.

C. Excerpt from teletype message of August 26, 1941

Information from rumor and conversations picked up from crew members of these vessels indicate that while probably all of these cargoes are actually unloaded in the ports of destination as shown by clearance papers, there are both German and Italian vessels in the ports which are loaded from the shore storage and that probably all of it finds its way to Germany and Italy. Some reports are that there are regular tank car railroad departures from Vigo to Germany through unoccupied France taking these products to Germany. Also, Italian tankers depart for ports in occupied France. There are some reports that even tank trucks lines operate from the Spanish ports to Germany through unoccupied France. An engineer on one of the Campsa tankers is alleged to have stated that during last August he saw 38 German vessels in Vigo, twelve of which were tankers. It is also rumored that it is not uncommon for Italian vessels to obtain oil in La Palma and Teneriffe Canary Islands. Mr. Pedraz, new master of the former Panamanian Santa Helena now Spanish Campechano, sale of which was completed yesterday, said to agent Simpson and Asst. Collector Gunter that he is an officer in the Spanish navy, that all of the masters of these vessels are such officers, that the cargoes of these vessels are taken into the ports to which cleared, but that in view of the heavy obligations of the present Franco government of Spain to Germany, when German vessels call for cargoes of oil it is never refused as there is little else that can be done. He also pointed out that while there is now much more petroleum products being imported by Spain than ever before, there are practically none to be had by the populace and the general supposition is that it goes to Germany and Italy with strong indications that it is due to pressure by Germany that it is being imported. There are also reports that Reiber formerly with Texas Company is now good-will and purchasing agent for the Campsa line in the United States at a salary of twenty thousand per annum.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1941

TO Secretary Morgenthau
FROM Mr. Kubn

Reuters, the chief British news agency, had a text of your speech in its New York office and cabled all the salient points to England. This probably explains Ambassador Winant's cable.

Robert Sherwood tells me that long extracts from your speech were broadcast all over the world by short wave radio. He says he has written you a letter showing exactly which passages were emphasized for short wave purposes.

F. K.

November 17, 1941

TO: Mr. Thompson
FROM: The Secretary

On my Beacon 211 telephone yesterday, in a conversation with Harry White, a Newburgh subscriber came in on my conversation. I was very much upset and angry and the Chief Operator there, who was handling the call for me, insisted it was Newark, but I insisted she was wrong.

They sent two men over to see me and they agreed it was a Newburgh subscriber. I had a similar experience the week before.

I then suggested they route me via Beacon to Poughkeepsie where they have a direct wire to Washington. I used that once and got an excellent connection. The Poughkeepsie Chief Operator was delighted; said she had not handled my long distance calls in years, and the reason I am telling you this is because the telephone company, at my suggestion, is going to contact you. If you don't hear from them by this afternoon, please get word to the New York Telephone Company that until further notice all long distance outgoing and incoming calls for me should be routed through Beacon and Poughkeepsie and if you have any trouble please contact the President of the New York Telephone Company, as I told them if I could not get service I was going to insist on putting my own operator at their switchboard while I was at the Farm.

November 17, 1941
8:30 P.M.

RE TAXES
(Meeting held at Secretary's home.)

Present: Mr. Kuhn
 Mr. Barnard
 Mr. Foley
 Mr. Buffington
 Mr. Viner
 Mr. Tarleau
 Mr. Foley
 Mr. Morris
 Mr. Sullivan
 Mr. Kades
 Mr. Gaston
 Mr. Bell
 Mr. White
 Mr. Blough

H.M.Jr: The reason I asked you gentlemen out to spoil your evening by coming here, I had two things in mind. The first thing is, as long as I have been here in the Treasury we have never gone out to try to sell a tax program to the public. I mean, really sell it. I suppose we have had what, four million people who used to pay taxes, Tarleau?

Tarleau: That is right.

H.M.Jr: And now supposedly on the books there are nineteen million. Right?

Tarleau: It is getting up that way, yes.

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H.M. Jr:

And we have more than doubled the amount of revenue we want to get. I think we have to go out and really do a selling job to the public to get them to receive this thing in good humor. I think we have to, through Internal Revenue, have ambassadors of good will, just as many of them as possible, and I think it is just as important that the taxpayers should be happy, within the realms of possibility, and that we should be just as aggressive as the financial page of the New York Times is on the other side.

We have never done this and I think in a very short period Buffington has been able to catch hold of what I wanted on the tax notes and he has gotten out thirty million of these circulars, something like that.

Buffington:

Thirty-three million are out and thirty-six in the process.

H.M. Jr:

When I get up that high a couple of million doesn't count. We got the banks to put them in their statements. So far as I know we haven't had a complaint. It is absolutely a unique undertaking, to get thirty million copies of Treasury literature put in the banks to go out on a given date, and I think it is going to do a lot of good. I think we in the Treasury have just got to do the way we have in Defense Savings Bonds, I mean build up a staff to do this thing. We have got to have speakers. One of the particular things I have been thinking of is the possibility of having a radio forum. I mentioned this before, where once a week - it might start with half an hour and if it is worthy let it grow, where we would put on - what I was thinking of particularly was this. Unless we go on the air - go to the people and explain to them what the loopholes are and stop up the loopholes first, I don't

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believe that we can expect to increase our taxes by fifty percent more but if the people feel, the masses feel that - "well, if everybody is paying, then I am willing to pay, but if somebody escapes, well, if they escape why should I have to pay more," and particularly the little fellow.

Now, we have gotten licked every year on our community property and our tax exempts, on our depletion and so forth and so on, and I think we have got to go to the public and explain it to them and say quite frankly, "If you agree with us get in touch with your Senator and Congressman" and so forth and so on. If we don't we will be just going around and you will have a sore spot in the body of this republic which will get worse instead of better as you have to get more money. What I would like to see is for us to go on and attempt, say, once a week, to devote one hour to explaining community property, what it means to a person who lives in California and one in New York, and then invite questions and answers. Then the following week take a half dozen questions and answers and answer them. Then invite other people to come on the program and state their case and we will answer them, just the way this Washington Forum of the Air is run. They have different cases and they discuss them and have a moderator and so forth and so on.

That is just one idea. I think we have got to have people thinking about it, I mean having dozens of ideas, so that between now and the first of January we acquaint the public certainly with the more important loopholes and it is an entirely new kind of thing. I think the most important of all is through Internal Revenue, John; we ought to have enough people trained in a school so that if the

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taxpayer wants to go over any time and tell his troubles, there is somebody there whose exclusive job it is to get this person the answer that he wants, even if it is only a matter of a dollar and fifty cents, but we would run that school so that these people could come. We will tell them that they can go to a certain place, not on the thirteenth of March but any time, three hundred sixty-five days a year, and there is somebody there to sit down with you and explain this thing.

Now, we can't win this war unless the people that are going to pay the bill at least know what it is all about, and it is our job in the Treasury to do an educational job, to let them know what it is all about. I am not blaming anybody, I am not criticizing anybody; we have just never done it. We make an occasional speech when Mr. Blough is fifteen minutes late and it makes it that much more difficult.

(Mr. Blough entered the conference.)

But as I say, there are two things. The first thing, I wanted to start this thing and then the second phase tonight is, I wanted to talk about how we are going to organize the Treasury to get out the tax bill. I would like first to hear from anybody that has any ideas. You can agree with me or disagree with me on how to do this thing, Roy, of going to the public and acquainting them with - selling the taxes, you see.

I have talked to Buffington about it. He made a swell start on the tax notes but the meeting is open now. I have talked longer than I usually talk. Anybody can talk who wants to.

Sullivan:

Well, I have felt lately that the policy we have

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adopted in the Treasury of not talking publicly about any tax measure until we have presented it to the House Ways and Means is a policy which we should re-examine. We have gotten stung on every tax bill that I have had anything to do with and I can understand the reason for that practice and the desire on the part of Treasury not to offend the prima donnas on the Hill, but we got stung so very badly on this last one that I am almost of a mind to recommend that you have Mr. Doughton and Senator George in and say, "Now we can't do it this way anymore. There is no such thing as an executive session where confidences are kept and hereafter we think we will have to tell the country at the same time we tell you."

So far as taking the fight on loopholes to the country is concerned, I am very much in favor of that, but I think that that practice of weekly radios should not start while the with-holding tax is pending. Now, if it is still possible for us to put that part of our bill in and hope for early enactment, I would then recommend deferring your public discussion of the loophole thing until after the with-holding tax had been passed.

- H.M. Jr: Well, after my experience on the Hill, I have got to re-examine the whole question of with-holding taxes. I am not sure that it is right.
- Sullivan: Well, I think that is something else, but I don't think you should --
- H.M. Jr: I have got to go through that whole thing again.
- Sullivan: That is what I understood we were going to do tomorrow and the next day.
- H.M. Jr: Yes, but just let's talk for a moment about the

present tax bill, the bill which is on the books now. I mean, letting the public know. Let me ask you, John, how are your Internal Revenue officers equipped? I mean, if I dropped in to Internal Revenue and said I wanted this thing explained, is there somebody there to explain that?

Sullivan:

Any day of the year in any office.

Tarleau:

Yes, that is right, but there is another point, you know, John, that I think you might mention to the Secretary and that we might have to re-examine. There have been complaints that at times when they have dropped in the man comes in with a return of himself and his wife and says, "What should I do about this? Should I file a joint return or should I file a separate return? What is the right thing for me to do under the circumstances?" And the man gets advice.

Well, eventually it turns out that the advice isn't good. The man tells him to file a joint return or file a separate return or the Revenue Agent tells him something on which he relies but he is all the way down in the hierarchy, you see, of the Internal Revenue Bureau and the man up on the top says the Internal Revenue Agent is wrong and that causes a certain amount of resentment. You know some of the letters we have gotten in about that, John. It may be we ought to do more than just continue the present practice and that is to stick by and stand by anything that is told to the taxpayer by the man down below. Give him the feeling not only that he can come in and get advice but that we will stand by it.

H.M. Jr:

I don't want to get into that much detail

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tonight because this meeting is only to run until ten and I don't want to get as technical as all that. You are getting too technical for me.

Sullivan:

I think you are quite right in what you are heading at, Mr. Secretary. Friday afternoon, wasn't it Friday?

Gaston:

It was Friday, I think, Thursday or Friday.

Sullivan:

Friday morning Herb and I had a talk along this same line and I had Commissioner Helvering and Tim Mooney and Norman Cann and Victor Self, who is the assistant to George Schoeneman, and we went through the whole thing.

There is now being prepared - and it may be ready in the morning - a memorandum from them as to just what they do on public relations work, particularly as the time for filing draws near; and in that memorandum will be a list of the radio broadcasts and the number of men from the local collector's office who are available to go out speaking to labor unions and Kiwanis and the rest of the service clubs, and a list of the newspapers in which the running story is carried.

H.M. Jr:

I have seen that stuff in the past and it is --

Viner:

Each year, at least recently --

Sullivan:

It has been quite good the last year or two.

Viner:

In the early spring somebody comes out from the Internal Revenue Bureau to the University and is available for two weeks, I think, certain hours in the morning, for anybody who has any tax problems and the University circularizes all its employees and the faculty and they know. I have never gone but I knew I could.

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H.M.Jr.: Didn't you file a return?

Viner: Well, I --

Bell: The salary isn't big enough.

Viner: They would gyp me.

Sullivan: Herb suggested that these stories should be carried in the trade journals and I called Chick Schwarz Friday afternoon and he is getting a complete list of all the family weeklies and the trade journals and we are going to try to get in touch with all of them.

Bell: Jake just says that you send out people to the University --

Viner: And the banks, I think, too.

Sullivan: They go to the banks, the manufacturing companies.

Bell: That is what I was going to ask, do you send them other places?

Sullivan: Yes, we do.

Gaston: Mr. Secretary, you suggested two different things, that is, one relates to public statements on policy, even though it is pending before Congress. The other thing is in relation to publicity, educational campaigns on the existing tax bill.

H.M.Jr.: Excuse me, Herbert, I talked about it first. John brought in the other.

Sullivan: I thought you brought in the second one.

H.M.Jr.: No, the first one is how to sell the existing tax bill.

Gaston: All right, that is the very thing we talked about the other day, and it has seemed to me for some time past that we need this year on this tax bill, not only in view of the changes in this tax bill itself, but what is probably facing us, that we need a far more intensive educational campaign than we have ever had before.

H. S. Jr.: That is what I think.

Gaston: And I suggested some strengthening up of the campaign here, the utilization of more media, the cultivation of the radio to a greater extent, the use of a wider field of publications, use of additional speaking. Then in addition to that, it might be found feasible - and I thought it would be - to stimulate much more active work in the field by the collectors and probably the creation in each collector's office or the designation of somebody, at least, as a public relations man, taking one man particularly, with the responsibility of carrying on an educational campaign in that district. And that would be by the stimulation of radio programs in the district, local radio programs; by seeing that newspaper publicity got into the papers; by holding meetings, especially on the lower ranks of income, where you might expect the new taxpayers to come from; and also to be ready to answer questions and use every opportunity to educate people on the existing bill.

H. S. Jr.: Well, that is what I had in mind.

Gaston: I do think on the other subject you spoke of that we have been too backward, or at least that we are in a situation now where we will probably want to go out and defend more vigorously the ideas that the Treasury stands for in the line of tax policy.

- Bell: Your collectors' offices are not prepared, are they, John, to carry on that campaign of education?
- Sullivan: No, and they couldn't.
- Bell: That would mean new personnel.
- Sullivan: That campaign has got to be carried on from here, Dan.
- Viner: I think it would be a mistake to mix up too much the policy making and the administration. Their business is to administer a law and not to appraise it.
- Sullivan: And a half hour before you go on the air something can happen on the Hill that completely changes it.
- Gaston: What you are saying is, John, that the collectors couldn't have anything to do with the question of policy. You are not saying that the collectors couldn't do anything to educate the people on the provisions of the existing law which they have to administer, were you?
- Bell: That is what I was talking about.
- Sullivan: No, we are in entire accord, Herb, on the idea of educating the public on existing law. What I am saying is that you can't use the collectors' offices or its representatives in trying to sell a tax bill to the country.
- Gaston: Oh, I agree with that, wholly.
- Kuhn: But you can use the collectors' offices to tell people, for example, how to pay your taxes, where to pay your taxes, when to pay your taxes.

- Sullivan: That is right, and that is what I first started to talk about. The reason I spoke about it was your remark that there should be somebody in every office so that a taxpayer could come in and ask a question.
- Kuhn: How about "Why Pay Taxes?" I mean, what you get in return for them. Would that be something fit for the collectors?
- Sullivan: I have never heard that asked anywhere except in "You Can't Take it With you."
- Gaston: I think if that is handled, Ferdie, it will have to be done in literature made here to be distributed through the collectors. I don't think they can handle that on their own. I think we ought to do a little on that line.
- H.M.Jr: All you have got to do is to pick up the financial page of the New York Times any time and read this fellow Nelson. There isn't a day that he doesn't write, "Why pay the tax?"
- Sullivan: You mean that there is some chance of avoiding it?
- H.M.Jr: I mean he is challenging every day some phase of the existing taxes.
- Sullivan: On technical grounds, that is right.
- Kuhn: Mr. Secretary, I meant it affirmatively, that people should be reminded of the values and services that they receive for their taxes.
- H.M.Jr: Well, I go even a step further. I know this sounds very Pollyanna and so forth and so on, but the thing that I would like to aim for as a goal is that the business man would beat his breast and say, "Isn't it wonderful, I earned more money in '41 than I

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did in '40 and I made a bigger contribution to my Government to help win this war through taxes." That is the goal I would like to work for. I know I am a long way from that.

Sullivan:

Well, I --

H.M.Jr:

But what I am thinking of is this, just the way we have forty-eight committees in states on the Defense Savings Bonds, with some central brain here in Washington thinking up the ideas and then distributing them, these ideas, preparing the fellow to pay the tax, to be distributed to these collectors' offices where there would be somebody in that office who would be a public relations man.

Sullivan:

Well, I think --

H.M.Jr:

But I think it has got to be an entirely fresh set of ideas.

Sullivan:

Well, I don't think it has to be fresh, because so far as the collectors' offices are concerned and so far as the Bureau here is concerned, I have never seen any evidence of any public relations work.

H.M.Jr:

Well, then it has to be de novo.

Sullivan:

That is right.

Gaston:

Well, that isn't quite the whole story, John.

H.M.Jr:

It must be de novo.

Gaston:

That isn't quite the whole story. They have been every year beginning in 1935 - they have been increasing their public relations activities in connection with the tax bill - they have been issuing every year clip sheets for news-

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papers describing the tax bill and they have had weekly and daily stories and little short boxes on your income tax. In the last two or three years they have been going into radio a little more. They have had questions and answers. They have had "Mister Income Tax" on the radio last year, on local hookups, you know, not on national networks but on local hookups. They prepared a canned script of questions and answers. They have done a little in that line but I don't think it is enough. I think it needs to be intensified. I think you need to build a real staff here and I think you need to have these contact people in the field.

- H.M. Jr: Well, you and John ought to get together.
- Sullivan: We are not talking about the same thing now. Everything Herb says is entirely true, --
- H.M. Jr: Good.
- Sullivan: ...about how a fellow should pay his taxes and when and where. What you were talking about when I made my remark was the idea of having a public relations fellow in each collector's office who would be able to demonstrate to them why they should be glad to pay taxes and what they were getting for their money.
- H.M. Jr: Well, that, and then invite them to come in and then when they do come in see that they are properly taken care of.
- Sullivan: The latter part of that is being done and I think being done very well, Mr. Secretary.
- H.M. Jr: What I am thinking of is that supposedly we have some - I don't know, nine or ten million new taxpayers. It is just like an organization

of first voters.

Sullivan:

We had that this year. We had seven million new ones this March.

H.M.Jr:

You get these people to try to turn this terrific tide of criticism, I mean this constant jokes in the variety show and the cartoons and everywhere making fun of the Treasury and the taxes and all that, to try to turn that thing around.

Viner:

I think you can take a hint from what they do in Illinois. When you get your tax bill you also get a little propaganda about what it goes for and why it is necessary. There is a little pamphlet that comes with it.

H.M.Jr:

Is that Professor what's-his-name?

Viner:

No, it is local. It is in Cook County, I mean. I may say one of the reasons why they do it, they stick their own name very prominently on it. They are building up political good will for themselves and sometimes the propaganda is that "I am forced to do it as the collector; I didn't frame this tax."

Kuhn:

New York City does it.

Viner:

But nevertheless, put a folder in with your form.

Sullivan:

Well, that is under discussion now and I think it is a pretty good idea.

Blough:

Mr. A. H. Stone of the Mississippi Tax Commission, makes a specialty of trying to make his taxpayers like it. You come in to the tax commission door, that is, seven or eight years ago, and there is a big copper plaque on the table which I don't think is in very good taste,

which says, "Mississippi Tax Commission, dedicated to the service of the people of Mississippi."

But their general reaction is, "I know you want to pay taxes. You may be in a jam. If you are in a spot we will help you out, and make it as easy for you to pay as possible." There is a good deal of romanticism in that but there is some real realism.

Viner: You could get some hints, too, from the techniques of the dentist and the undertaker. (Laughter)

Blough: I have felt this ever since I have been here. We have had numerous requests for information about the Federal taxes, why we pay taxes, where the money goes to, and so on. We have had a little mimeographed material, very little, available, and we have been sending them stuff that the Department of Agriculture worked up, stuff that private organizations worked up, and referring them to private stuff, just because the Treasury didn't have --

Sullivan: There isn't any excuse for that now.

Blough: ...didn't have any little brochures and things like that. It seems to me one thing we certainly could do, it wouldn't cost very much money, would be to have a series - I don't know how many it would take, maybe half a dozen - of little pamphlets covering various aspects of the taxes which --

Tarleau: Well, what are the aspects? You mean first, do you want a brochure on the ordinary questions that you would ask in relation to the tax itself and how it affects you?

Blough: I assume that would be one.

- Viner: One thing that I think it would be a good thing to do is to give them as simple an explanation as you can work out why the income tax can't be simpler. That is the thing that hits lots of these people. They think the complexities are there to get them, whereas you can explain to them that most of the complexities are a result of a struggle for equity and not for getting them and that is one thing that --
- Sullivan: Most of the people who make those inquiries will now be able to use the simplified form, Jake.
- Viner: Then say that you have tried to simplify the form.
- Kuhn: Even that isn't so wonderfully simple that it doesn't need to be explained.
- Gaston: We are going to get into a lot of trouble on that unless - there is room for a whole educational campaign all by itself because on this simplified form there are just a lot of people who lose money if they pay on the simplified form, and we have got to be frank and honest. We don't want people using the regular form when they could save money on the simplified form and then coming back with a kick later and also we don't want people using the simplified form when they lose money by using it and come back on it later.
- Viner: Is there any way of listing the important cases and warning people in that regard?
- Gaston: The important thing is this. If you are paying a lot of interest or a lot of expense money, proportionately large expense money, if you are a little rural salesman who works on a salary and has to maintain his car --

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- Viner: Well, a little booklet ought to be given out.
- Gaston: You don't want the simplified form. If you have bought a home which is pretty expensive in relation to your income and are paying a heavy interest payment on that home, you probably don't want the simplified form either, because you will probably save more than - you have probably got more than ten percent in interest.
- Tarleau: Of course that is true, but we have to be careful that we don't make, because of the simplified form, the thing even more complicated than it was before you had the simplified form because they have got to go through making out the old form and then they have got to make out the simplified form and see whether they are better under one than the other, Herbert, and that was one of the points we have always been worried about in the simplified form.
- Gaston: I think you may well worry about it, because a lot of people are going to lose money out of it.
- Sullivan: What?
- Gaston: I think a lot of people are going to lose money on it.
- Sullivan: They are not going to lose very much, Herb.
- Gaston: Of course, the Government is going to lose a lot of money, net.
- Tarleau: Are we, Roy, going to lose a lot of money?
- Blough: We will lose a little money. It depends on what you mean by a lot of money. We might lose as much as ten or twenty million dollars.

Tarleau: How much do we get out of those people with grosses of --

Sullivan: Two.

Tarleau: ...around two thousand dollars. What is the amount of collections, would you say, just roughly?

Blough: Well, I think maybe fifteen or twenty is high. I don't know how much comes out of those people.

Tarleau: I thought if anything we were not too generous with those people down below.

Blough: We aren't too generous with them.

Viner: But Roy, to some extent there would be an adverse selection.

Blough: There is no doubt that there is an adverse selection.

Gaston: You are generous to the man who doesn't have business expense and is not paying heavy interest on a home. You are generous to him because he hasn't got ten percent deductions.

Blough: Well, our purpose is to say to a man, "Now here is an easy way to do this, and you can get it over with in five minutes. Now, if you really want to go into this and study it and work it out, and so on, you may figure out a way to save yourself a dollar or two."

Sullivan: "And it may cost you more."

Tarleau: Of course there is a real problem there if some of them do find out in comparing with their neighbors, by golly they have got to use the simplified form, but that is the risk we took

when we put the thing in.

Blough: That was the risk we took when we made it optional.

Sullivan: And on the form, on the very top of it, it says "optional."

Viner: What is the maximum saving that can be made?

Sullivan: A hundred and ninety-three dollars.

Viner: As much as that?

Blough: You might save the whole works.

Sullivan: That is what I mean.

Viner: That is what I want to know, what is the maximum?

Sullivan: A hundred and ninety-three dollars.

Viner: On that basis, my guess is there will spring up tax experts who, for a five dollar fee or something like that, will offer to tell you --

Blough: I think that is quite clear and we have seen that from the very beginning. I don't know whether it is particularly reprehensible, but certainly it is going to happen. I am not sure that it is reprehensible because it will mean a great deal of public education in the income class.

Tarleau: Certainly for a while it may even be a good thing but the point is, we knew about that. We even were worried about that.

Viner: Of course when you made the simple form, I didn't know anything about it, but I wondered if you canvassed the desirability of making the

simple tax up to a gross income of so much.

Blough: We canvassed that idea but we decided on the one hand you had Mr. Salary Man with no deductions of any kind to amount to anything. On the other hand you had Mr. Home Owner, with very heavy taxes, very heavy interest, Mr. Farmer, and you just couldn't set - well, the farmer would be excluded there, but the home owner, you couldn't set up a gross tax which would be very equitable and certainly to start in with it seemed necessary to make it optional. I don't know, it might - I assume that it wouldn't have had to be made optional.

Tarleau: This one?

Blough: But then above three thousand you would have a sudden --

Tarleau: Yes, we would have to have a notch of some kind; in other words, a dollar of income would suddenly - would cost you more than five or six or seven dollars of tax.

Blough: A dollar of income would make you money.

Viner: Make this tax up to the first three thousand of income and make it the same --

Blough: For everybody.

Viner: Same for everybody.

Tarleau: Then we would really have a complication.

Blough: Then your justification would be on the higher incomes and you would gain nothing by that.

Tarleau: Then it wouldn't be ten or twenty million dollars.

- Viner: You fix the rates. You see, what I had in mind was whether you had canvassed the possibility of making the income tax simple on the first three thousand and then as complicated as you wanted above that, and fix your whole rate structure so you would get the same amount of revenue.
- Blough: But the difficulty of that is that deductions have always come off the top and not off the first three thousand.
- Viner: Yes, but you can fix the rates then.
- Morris: Well, Roy, from the point of view of pure equity, this business of crediting interest on a home and not crediting apartment rent is thoroughly inequitable.
- Blough: Absolutely, I agree with you.
- Viner: Always permitting the deduction of local real estate taxes has no justification, --
- Morris: Well, that is in the same class.
- Viner: ...on an owned house.
- H.M. Jr: Can I get in on this again?
- Sullivan: We have an entirely new code if you want to get in.
- Gaston: We worked up a petty argument about something else.
- H.M. Jr: I will tell you what I would like you to do. When the March of Time decides they are going to put on a program, they must have at least three or four programs as tests.
- Kuhn: You mean radio programs?

H.M. Jr:

Yes. Now, what I would like you to do with the existing staff and everybody that we have, is to work out for me two or three programs, you see, with this idea, laying down the thing that we have got to raise so much more money, and tell the people why and go into this whole business of this testimony which I gave you, see. It is going to be so much and the national income is so much, and there is so much goods and there is a shortage of whatever it is, from five to ten billion dollars, and we are going to have to get more money. Before we get more money we feel that everybody should pay their proper portion and therefore we think the first thing to do is to plug up a loophole.

My first thought would be, and you could talk this over with anybody here in the room, would be to lay down a foundation, why we need more taxes, and then the second would be to adjust one inequity like community property or something like that, you see, and work out two or three programs, you see, with technicians and people in defense savings bonds and so on and so forth, and let's take a look at it.

Kuhn:

You mean dramatizations or speeches?

H.M. Jr:

I don't know.

Kuhn:

I have some feelings about the radio that may not be --

H.M. Jr:

Just before you say that, because - may I just say one other thing. I am convinced after the experience I have had, you cannot get the daily newspapers to print the stuff. That has been my experience.

Sullivan:

Amen.

Kuhn:

I agree with you there.

H.M. Jr: I just wanted to say that is why I harp on the radio.

Kuhn: I am all for the use of the radio. For example, in the local stations, to spread a knowledge of the broad principles of taxation, the reasons for it, the method of paying and so on, but I am not strong for the radio if you are going into details, if you are going into figures, technicalities. I don't believe that people absorb and keep it. I believe it goes into one ear and goes out the other. I believe that most of the speeches that have been made on the radio from the Treasury on tax subjects have had very little effect.

H.M. Jr: Oomph?

Kuhn: No, it isn't that, Mr. Secretary. They have got the oomph, but they haven't had the effect. They haven't stuck in peoples' minds.

H.M. Jr: If you have the oomph it has the effect.
(Facetiously)

Kuhn: I think we have to know exactly how the radio can be used and not try to do something for which the radio isn't fitted. I think --

Sullivan: To what extent has the radio been used in taxes?

Kuhn: The radio can create an atmosphere. The patriotic stuff goes over beautifully on the radio. In the Defense Bond business where we have used the radio more than it has ever been used before by any single Government campaign - I don't believe that it sold a lot of bonds. I think it has created a lot of good feeling and good morale. It is a prestige

builder and all that. I don't believe that it has actually sold bonds or given people a knowledge of the technical nature of the bonds. The denominations, the reasons for limiting purchases to a certain amount, I think on all that the radio has been ineffective. I think on that you have got to rely on pamphlets, on forums, question and answer sessions in public meetings, the use of community organizations like Rotary and so on. That is where those arguments stick. Maybe somebody disagrees with me.

Bell: How about the movie shorts?

Kuhn: No.

Bell: Certainly that gets a lot of people.

Viner: I would certainly say in my own opinion you should not use the radio except for a formal, carefully prepared speech by somebody high up in the Treasury on the controversial issues that are not yet in effect. In other words, you should not use the radio on community property unless you make a speech or someone makes a speech and has a good argument, because you mustn't mix in the type of radio material which no loyal citizen has a right to protest against with the type that does raise a legitimate argument.

Gaston: I think you need strictly to separate the two different things, one an educational campaign on the existing tax bill and the other promotion for general tax ideas of the Treasury and I think that promotion of controversial or novel tax ideas on the part of the Treasury has got to be done in a rather conservative way, through conservative channels. I don't think you can do it by entertainment and ballyhoo and so on. I think

that has to be done by sober policy speeches which may either be on the radio or may be delivered before audiences. If it is controversial, if you are at issue with Congress, for instance, or if you are promoting something novel in the way of tax ideas, explaining something new, I think our experience amply justifies the statement that we will get newspaper publicity on that sort of thing.

Kuhn: The newspapers will cover things delivered before an audience, won't they?

Gaston: Yes, they will, not so well as they do - where it is broadcast on the national network, as you do yourself, they play it down. It has got to have a lot of news in it before they look at it.

Kuhn: It has got to be delivered to a real audience.

H.M.Jr: Ferdie, I am talking about two distinct things. The first thing that I would like to get is - there are two separate things. I don't care whether the radio or what it is, but I would like two things worked out. One is the selling to every town and village and so forth and so on of the present program, the present tax program, you see, because I just don't believe the people know what it is going to do to them, and then the other thing is the question, which is entirely different, of the things we would like to get in a tax bill. They are two separate things.

Gaston: That is right.

Kuhn: Completely.

H.M.Jr: Will you think about those things?

Kuhn: Yes. I think the first can be done at once and the second will depend for its effectiveness upon other things being done in advance.

H.M.Jr: Don't you think that is all right, Herbert, to stop there?

Gaston: Absolutely. I would like to see--

H.M.Jr: Herbert, will you think about it too?

Gaston: Yes, I think we can get together and map out a plan, a public relations plan for educational work on this tax bill. Then we could also work out some ideas on the promotion of general Treasury ideas on the tax policy.

Foley: Well, it seems to me that one is centralized and the other is a decentralized program. The development of a future program is something that can be done here and only here.

Gaston: That is right.

Foley: By the people who are thinking the way the Administration has to be projecting itself. The other one, it seems to me, is the job that we best can do, not through our own people in the field or collectors, our people in the offices, but perhaps the same way the defense bond campaign has been carried on, by getting in public-spirited, high-minded people in each little community, such as a school superintendent or principal, pay him on a per diem basis, get him to read the things that Treasury sends out and get him projecting the Treasury point of view to the others in the community, and I think if

you do that you get people listening to him and you get a better understanding of why taxes are necessary and why it is patriotic in these times to do it willingly and not begrudgingly.

Morris:

I think there is one pitfall that is very hard to avoid. I think you have got to do it in spite of this pitfall, but it has got to be kept in mind, and that is that even in the present tax bill or in any tax bill there are going to be certain things that are controversial, and when you go out and start telling people about what is in the bill, they will say, "Well, why do you do it that way? Why don't you do it some way," and they will tend to throw you back into the controversial era and also there is a great feeling, incorrect as it is in many aspects, but nevertheless it has got to be allowed for, that they think that these things are just what the Treasury wants.

Now, we know that isn't the case, but they will say, "Well, you explain this to me. You want me to do this. This is inequitable. Now if you want to change it, why don't you change it?" We have got to be very careful not to get involved in this explanation and back into the controversial side.

Kuhn:

Because the Treasury, you mean, isn't responsible for a lot of things in the tax bill?

Morris:

Yes, but if they start selling it - and people more or less think they are responsible for it anyway.

Sullivan:

It will be a use tax.

Viner:

I don't think you ought to defend the tax act.

You ought to defend the act of demanding tax payments in general terms.

Sullivan: Entirely a general basis.

Kuhn: Mr. Secretary, I think there are some things to do right away that can be done at once. Number 1, I think we ought to make every effort to get a swell staff of letter writers because they are our best pretext for getting our general line and philosophy over, replies to squawks. We ought to pay an awful lot of attention to that, and I don't know how it is being done, John, but I just suspect that we could do a lot better if we got some experts in from outside who - some mail order people to write letters in response to squawks.

Sullivan: I don't doubt, Ferdie, that it can be done better, but you must remember that however facile an outside fellow is, he can't answer one letter until he knows the tax business.

Kuhn: Well, that is true, but some of these letters are just general complaints. There are people who say they don't want to pay any taxes because of this decision of the Administration or that decision.

H.M.Jr: Or on account of the labor situation.

Kuhn: Or on account of the labor situation and somebody certainly can compose a reply that will not only rebut their argument but give positively the Treasury's philosophy in these things.

H.M.Jr: Buffington, where do those letters go now?

Buffington: I was just going to say I get a good many that are not highly technical, but I don't like to answer them because they should be

answered by someone who knows all about the tax bill, and I have been sending them to Shere.

Blough: Well, here is the situation. A lot of letters have been coming to us. We are not happy about it because we don't want to be a letter writing organization. Recently--

Kuhn: You haven't got the time anyway.

Blough: Recently the number of letter has gotten so tremendous that Charles Bell has set up two people - I don't know how competent they are - to answer letters, and we have agreed, and I think you (Gaston) have agreed that where technical points come up we will be very glad to consult with them.

Now, as it happens, it is taking a good deal of time to do that consulting just now. We hope a little later it may not take so much time.

Viner: What do you do when you agree with a squawk?

Blough: Let the letter writer figure that out. (Laughter)

Tarleau: We do have some of those cases.

Viner: What can you do?

Foley: The two people that Charlie Bell has got are my people, and I think that Ferdie is right. I think we can do a much better job replying to these letters, and John says - when John says that a fellow can't write anything until he knows the tax laws, I think that a fellow can know the tax laws and still not be able to write the letters.

Sullivan: That is right.

Foley: He may never be able to write the letters, because it requires a certain kind of technique, and I do think we ought to get those people, and we ought to take them, not from the people that are over-worked from the staff at the present time, but get them from the outside.

H.M.Jr: Check.

Kuhn: I think every letter is an ambassador of the Treasury's policy and it is read by far more people than just the recipient of the letter. It is shown around, especially if it is a good letter. That is one thing.

The second thing is my pet that I have talked about with you (Secretary) and Buffington and Odegard and that is this business of cartoons. I have talked to John about it. There have been two particularly nasty ones within the week showing the poor taxpayer with welts on his head and standing in a barrel and Mr. Morgenthau sharpening his knife and the various devils behind him ready to smash at him, and I think they are more damaging to Treasury good will in the country than any other single kind of publicity, and I think they are very easy to crack. I think it is going to be comparatively easy to start right now on these people to--

H.M.Jr: Well, we talked about it on the plane.

Kuhn: ... replace that conception with a different one, show the taxpayer as a kind of upstanding citizen who is doing something that may hurt, but he is proud to be doing it, because he knows why he is doing it.

H.M.Jr: Well, I think that this thing is worthy of just as many people and just as much brains and thought as defense savings bonds.

Sullivan: Correct.

Kuhn: That is right. Certainly things to create the atmosphere--

H.M.Jr: I think that should be a whole section.

Foley: And a whole section whose job is nothing else but this, Mr. Secretary, and not the people that are drawn upon from the rest of the Treasury that are already over-worked and that would rather be doing their regular work.

Blough: Whose capacities are along other lines.

Foley: Than spend their time on this thing, and are obviously treating it as a part-time job or as a temporary thing. You don't want to do it, and my people don't want to do it, and Tommy's people don't want to do it.

Tarleau: Yes, I lost Herbert Merillat that way. He was writing letters and writing letters, and that was the last I saw him.

Sullivan: Ferdie got him, and now Ed has got him.

Foley: I haven't. Now you see him and now you don't.

H.M.Jr: Ed threw him back at me. (Laughter)

Kuhn: May I raise another thing that I think is damaging to popular psychology on taxes and that is the kind of thing that happened last spring, when various people around the Administration began sniping at the Treasury

right after the Treasury put up its tax bill. I think that is awfully important for us if we are going to do this educational job that people around town talk with the same voice. I wondered if there was anybody that had any suggestions.

H.M.Jr: I didn't read the whole story, but this is - there will be no leaks about this meeting tonight, because this is the Treasury crowd. There are never any leaks. I didn't read it all. I will read it tomorrow. I heard there is a whole account in the Wall Street Journal of the meeting that took place in your (Sullivan's) office.

Blough: That is quite inaccurate, Mr. Secretary.

H.M.Jr: But at least they knew the meeting took place in your office. There were two outsiders in it, and I would put my money on which one talked, too.

Sullivan: I don't know whether either of them talked, but I will tell you what happened. While you were in there George Bryant came in and asked Mrs. Brennan if there was any chance of seeing me if he waited a little while. She said, "I don't think so. I think he is going to be busy all afternoon." He said, "Thank you very much, and I will see him in the morning." George started out and went over to the hat rack and said, "Marriner Eccles' hat. I would recognize that anywhere." She told me that after the meeting ended.

Foley: It has been done before.

Gaston: It is an old device.

Kuhn: Isn't that a real obstacle, though, to putting this over?

- H.M.Jr: Well, that is the most difficult thing of all, and that is the thing - it is almost impossible. These people swear on the family Bible they will never do it again, until the next time.
- Kuhn: I don't mean leaks, I mean disagreements, public disagreements.
- H.M.Jr: Well, at my press conference today, the AP man said, "Now, Mr. Morgenthau, what about the people in the Administration that don't agree with you?"
- Viner: That is the way he talked to me today.
- H.M.Jr: Maybe that is where he got this. (Laughter)
- Viner: I was very much interested. He told me that Shoup had presented an elaborate report and that lots of the economists around Washington didn't like it and it was a terrific thing and so on, and I said, "Where can I see the report?" He said, "Oh, some of the Treasury people have it."
- H.M.Jr: That is the way they do it. They go around and visit - you drop an eyebrow or frown and somebody else does something else.
- Viner: I was just ignorant. I didn't know anything about it.
- Gaston: Smart people these newspaper people, Ferdie.
- Kuhn: Yes, they are smart fellows.
- H.M.Jr: I think you will agree, John, that this is something a little bit different than the regular run of Internal Revenue.

Sullivan: Entirely.

H.M.Jr: What I would like to do to start the thing, I would like Buffington who has done a swell job on the tax thing to start this and branch out a little bit and work with Kuhn and with Gaston and anybody else who wants to feed ideas to them, you see. You have done a swell job in a very short time on the tax bill, and now let's branch out a little bit and see how much help you would have to get to do the thing which you are doing now. I mean, you are doing it now through this distribution of this "Know Your Taxes."

Well, now, let's go a step further. It needs somebody to give it all of his time, and I think that Buffington--

Sullivan: I think that is a very good idea.

H.M.Jr: Has demonstrated that he can do this one thing. Let's see if he can't take on some more.

Kuhn: We have to create an atmosphere right now.

H.M.Jr: But I think we should feed the ideas in there and they can check very carefully, and I think we ought to let Helvering know right away.

Sullivan: I think he ought to be in on the whole business.

H.M.Jr: I think Helvering ought to know.

Sullivan: I will send you a copy of this memo he is sending over, George, on what is being done now and that is a good jumping off point for you, I should think.

H.M.Jr: Is that all right with you?

Buffington: Fine.

H.M.Jr: Kuhn? And Herbert, will you think about this?

It is all right, yes.

Now, let's just talk a minute. I mean, we are going to start this thing and try to build it around Buffington. It is a selling job. I want to bring in - well, just the way you are, business groups and so forth and so on, you see. I am not giving up my tax forum of the air.

Kuhn: No, that is a different thing.

H.M.Jr: Now, John, just take a couple - where are we now - where do we stand right now on next year's tax program.

Sullivan: Well, until I heard your remarks tonight, I thought we were still going to go ahead and get our withholding tax; at the time we presented that, present the entire program and tell them that we wanted immediate action on the withholding part and tell them why we wanted that and that the day that was passed we would come in with parts two and three. that is where I thought we were.

H.M.Jr: Well, we are not because - well, I am just not sold. I have got to start all over again.

Sullivan: You mean you have given up any hope of doing anything before Christmas?

H.M.Jr: No, I mean I am just starting with myself. I mean, from the arguments in the mail and

and so forth and so on, my mind is still open and I have got grave doubts about the withholding tax.

Sullivan: You mean as to its wisdom or our ability to get it through?

H.M.Jr: No, as to its wisdom. I first want to be sold on its wisdom. Then if I think it is all right, we will go to town on it.

Sullivan: Well--

H.M.Jr: I want that and what method we are going to use to get increased taxation of corporations and individuals and the whole business. As far as I am concerned, the whole question is an open book, nothing is settled.

Sullivan: I have always felt that before we start on any part we should have the entire program ready so that when we present anything we can present the whole business.

H.M.Jr: Well, at least in my own mind I would like to have a complete program.

Sullivan: Well--

H.M.Jr: Well now, let me ask you this: How are we fixed in the Treasury right now as to people to work on the thing, as to a new program?

Sullivan: Well--

H.M.Jr: Who have we got in?

Sullivan: Well, we have Mr. Blough's shop and Mr. Tarleau's shop, and they are expanding Mr. Tarleau's shop to take on four new men. We also have Mr. Gulick's people.

H.M.Jr: Well, and then what about Shoup and Paul?

Sullivan: Randolph will be here all day tomorrow and Wednesday.

H.M.Jr: Can he stay?

Sullivan: I don't know how long.

H.M.Jr: Well, what I am--

Sullivan: He has never turned us down on anything, any request you have ever made.

H.M.Jr: What I am groping for is this. Just the way we have got Buffington set up to try to do this thing with the help of Kuhn and Gaston and everybody else that has any ideas, the question of just working out a new bill that is separate from all your other administrative duties, you see what I mean? I just wondered how that is going to work.

Sullivan: That is about all I have worked on since I have been there. We have had five, you see.

H.M.Jr: How much time do you give to Internal Revenue, the organization?

Sullivan: Very, very little.

Bell: How about the Social Security taxes, Mr. Secretary? Is that still open, along with these others.

H.M.Jr: What voice is that?

Blough: Dan Bell.

H.M.Jr: Yes.

Bell: You wouldn't feel like going ahead with that

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program first?

H.M.Jr:

First?

Bell:

Yes.

H.M.Jr:

No, I will tell you, Dan, there is the question you asked me whether I was sold on this question of efficacy or whether it was the Congress of the United States - they definitely don't want to take it up until after the first of January.

Bell:

I didn't know.

H.M.Jr:

No, there is no question about the Speaker and Doughton and all of them. None of them want to take it up before the first of January.

Sullivan:

Of course your revenue bill gets postponed six months the minute your Social Security bill gets in there, Dan.

Bell:

You mean just the items that you had? Not the whole Social Security program?

H.M.Jr:

General Watson called me up tonight at half past five and said the President was ready to see George and Doughton, but George was out of town and was there anybody else, and I said, no, not to have the meeting. The President was ready Wednesday morning. I asked him Friday whether he would do it. He said, "No, unless it is a favor to you," and I said, "Well, it is a favor to me," and he said, "Well, then, I will do it," but he was ready to do it Wednesday, but George was out of town, so that means it goes over, I guess, until next week, and then maybe the President will be in Warm Springs. But he was - to give the President full credit, he was ready to do it Wednesday.

- Sullivan: I think if your mind is made up, it is just as well if it went over, because we ought to know what we want to do.
- H.M.Jr: I have got grave doubts.
- Sullivan: May I ask what part of it it is you have doubt about? Is it the amount of money we need or whether or not it is a pressing need?
- H.M.Jr: No. I haven't changed a bit as to the amount of money and as to the great need of it, but I have got grave doubts about this tremendous increase on the little fellow. I have got grave doubts about it.
- Morris: Isn't that partly due to the mechanics? We didn't sell the thing correctly, and they are all talking fifteen percent and forgetting all the exemptions and forgetting that it doesn't hit a man until he gets twenty-one hundred dollars.
- H.M.Jr: I have got the table, Dave, and I know it works out an average of eleven and all that, but I mean that is what I want to start in on tomorrow morning. I don't know who wants to be an advocate for it. I still think from the mail that the white-collar worker who has had no increase and to treat him just the same as the fellow that is getting two or three times as much isn't fair.
- Kuhn: Mr. Secretary, is that reaction in the mail a direct reaction to the taxes or to other things such as the rising cost of living and so on? If a real attempt were begun, through the passage of a decent price control bill and other things, wouldn't the letter writer feel a little differently about it?

- H.M.Jr: I think you have got to get your price control bill through. I think the strike situation has got to be settled. I think those two things have got to be settled first. But I still think what I would like to see is a table of taxes, and let's just say, for example, we are going to take a third of everybody's net, just for example, you see, and see that thing work right through, the whole thing. You will find great discrepancies.
- Kuhn: I don't think that this reaction comes from taxes.
- H.M.Jr: There are certain groups with great discrepancies.
- Blough: You mean between those that have got more and those that haven't got more?
- H.M.Jr: No, just disregard that. Starting at two thousand dollars and running up to a hundred thousand or five hundred. You say, "Well, we are going to take a third right straight through."
- Blough: Those two charts, I think, indicate that any way you do it you are going to have discrepancies of a pretty serious character.
- H.M.Jr: It is awfully hard to explain those discrepancies and it hasn't been explained to my satisfaction.
- Sullivan: Well, Mr. Secretary, you are forgetting that in part two of this bill you are revising your surtax rates to try to correct that.
- H.M.Jr: I would like to see a table that - applying whatever the percentage is to the person who pays on his net, beginning from where he pays taxes right up to five hundred million dollars' income. Now, here comes another tax bill and you run a line, just what does that

superimpose? Now is that a curve which will follow a natural course or is it a curve that will go up and down?

Morris:

Well, I am talking against myself, but I think that on this question of the white collar class that if there is any justice in their having stable income, that then while they may kick at present, they have no right to kick, because the other people have not had any decent income for the last five years, and they are coming up and having it now. The white collar group has to look at its average income over a period as compared with this other group's average income. That is a question that is very delicate politically and very full of necessary education, but I think that side has been completely neglected in all discussions of the relative cases.

H.M.Jr:

You may be right, but isn't it possible, Roy, to take a chart and show the percentages and run a line --

Blough:

You saw the charts I sent up today, didn't you? Maybe Miss Chauncey didn't give them to you.

H.M.Jr:

I told Miss Chauncey to give them to you to bring here tonight.

Blough:

I have them.

H.M.Jr:

I haven't looked at them, no.

Blough:

I have them here.

H.M.Jr:

Does that give that?

Blough:

I think it does that.

H.M.Jr:

I haven't looked at them because they came in late. Do you think that is possible?

Viner: I am not sure I have it clearly in mind, but if it is possible, Roy can do it.

H.M.Jr: What I am saying is --

Viner: To show first what the whole schedule is, net, the effective rates now, and what it will be as related to what it is now on the new tax.

H.M.Jr: On any new tax, any additional tax. But is it a - no, I didn't see these, Roy.

Flough: I think everyone here except Mr. Barnard has been given a copy of this.

Buffington: I haven't.

Gaston: I haven't seen it, Roy.

H.M.Jr: Isn't that funny, that I should ask for that?

Viner: What is this, Roy? This isn't it, this is something else.

Flough: Well, here is one.

H.M.Jr: That is a strange coincidence, isn't it?

Sullivan: They didn't get around until about half past five, Roy.

Flough: What I passed around was the Henderson material, and I thought we had gotten this out. I sent you (Foley) a copy of this.

Foley: Yes.

Flough: I don't have enough of this to go entirely around. Here is one more.

H.M.Jr: Now, there are two tables and two charts. The purpose of the first --

That is amazing, Roy, that I should ask for this. You thought I had looked at it, did you?

Blough: No, I thought you had seen it.

H.M.Jr: No.

Blough: The purpose of the first table is to show what happens to the effective rate of tax. The first chart and the first table show what happens to the effective rate of tax.

Now, the bottom black line is the present law, 1941 act, and you go along the bottom with the size of the income, and up the side you have the percentages which the income tax constitute of the total income. Now, the dash line marked "A" is the plan which we have talked about in which the supplementary tax of fifteen per cent with present exemptions is allowed as a deduction for income tax computation, and if you observe how that line starts at the bottom and then rapidly to about - up to about eight or ten thousand dollars increases the effective rate, and then above that the influence of the deduction decreases it so that when you get clear up to the top it increases the effective rate only about three per cent.

Now, if you did not allow the supplementary taxes deduction, you would get the dotted line "B", in which the combined tax, supplementary and present income tax run up to about ninety-three per cent at five million dollars and less in smaller amounts.

Now, line "C" hitched on to line "B" assumes that you decide, "Well, we can't go up above

ninety per cent. Maybe we had better stop at eighty-five per cent combined rate." Then you just draw a line from there on over and say, "Well, at eighty-five per cent we stop." That might be ninety, it might be eighty, it might be anything you want. So that the chart shows the effect on the effective rate of the supplementary tax.

Now, the second chart, chart two, has a slightly different purpose. Its purpose is to show what this withholding tax takes away, combining the withholding and income tax, what it takes away out of the income the taxpayer has left after the present tax is deducted.

In other words, the taxpayer doesn't start from scratch. He starts with the present law. Now, of the income he has left after the present law, what does this supplementary tax do? The bottom dashed line shows what the supplementary tax does to the income remaining to the taxpayer if you allow the supplementary tax as a deduction in computing income tax. It goes up to about ten thousand dollars and then because of the progressive certain things about the income tax rate which I will explain if you wish, it sort of sags off there to about a hundred thousand and then goes on up again from there on up.

Line "F", dotted line, shows what happens to what the man has left if you don't allow the supplementary tax as a deduction in computing the income tax. You take seventy per cent of what is left, for example, of five million dollars. Line "C" shows what happens to the income that is left if you flatten the thing off at eighty-five per cent and don't take in any more.

- H.M.Jr: If you were working for Mr. Mellon, he would put in line "C", because nothing ever happened above seven hundred fifty thousand dollars as long as Mr. Mellon was there (laughter).
- Sullivan: If you don't put something --
- H.M.Jr: As long as he was there - what was it, seven hundred or seven fifty? They never advanced the tax rate beyond that.
- Buffington: Another way of putting it is that it was his bracket.
- H.M.Jr: That is right (laughter).
- Sullivan: Well, there is a little limit on you, Mr. Secretary, what you can do to those fellows, or they will end up owing the Federal and state taxes a hundred and fifteen per cent of their income.
- H.M.Jr: Now Johnnie, you will have me crying and I won't be able to sleep all night (laughter).
- Sullivan: At least you know I am not talking of my own predicament.
- H.M.Jr: I have got to take your word for that.
- Well, Roy, this is what I want and I don't see how we happened to be of the same mind yet. I think this is an excellent place to start tomorrow morning at ten o'clock.
- Blough: We shall have additional copies of this for everybody. These are all I have this evening.
- H.M.Jr: Maybe you can sell it to me, I don't know. First you have got to sell Viner.
- Viner: Well, I am troubled on the technical point on

these charts. You had a problem to get in from one thousand to six million and you used semi-logarithmic sideways.

Blough: Yes, we have been obliged to do that for years.

Viner: I don't know what that does to your curve.

Bell: I will say that is technical.

Blough: Well, it gives you a nicer looking curve.

Viner: But ninety-five persons out of a hundred misread that. You see, what it doesn't show is how gradual the gradation is at the start.

Blough: Well, that is quite right but otherwise --

Viner: I would say I would do this over for, say up to fifty thousand dollars, which affects the great bulk of the persons, on a natural scale and see what that looks like. We will get another picture of how it rises. I don't know how many here know this, that this was a doped chart.

Blough: I beg your pardon (laughter). I think, however, your suggestion is a good one.

Viner: Up to fifty thousand.

Blough: I don't know whether we can go as high as fifty and still show the thing at the bottom, but as high as we can and still have the detail at the bottom show. I think you are right. It would be very well to do that. What time is our meeting tomorrow?

Sullivan: Ten o'clock.

Blough: We won't have it by ten, but we may have one copy at ten.

H.M.Jr: That chart, as I understand it, only includes the fifteen.

Blough: Chart one or chart two?

H.M.Jr: Chart one.

Blough: Chart one includes the fifteen plus the present tax.

H.M.Jr: Yes. But go the whole way. Give me a new tax bill. I mean, the new tax bill with the new surtaxes and everything else.

Sullivan: He means combining the surtax rates we are going to propose and the fifteen per cent.

H.M.Jr: Or anything else, and give it to me.

Blough: Well, I think, Mr. Secretary, what I personally had in mind was this, that after you see this chart we will be in a somewhat better position to consider what sort of rates the surtaxes should have.

H.M.Jr: Granted. If this chart is correct - now, that "A" line is an amazing line. Then following the same method, I would like to build a tax bill based on your 1941 act.

Blough: I think the first question is how high are you willing to go, and at what level are you willing to go there. I am not sure there is much economics in it, to be perfectly frank, in a time like this.

H.M.Jr: What do you mean?

Blough: Whether it makes much difference from the economic point of view whether you take eighty-one per cent or ninety-one per cent.

- H.M.Jr: Well, I think that --
- Viner: There is no money up there and they can modify there to some extent their behaviour in accordance with the rates, so they don't give you any more now.
- H.M.Jr: Well, if we decide we are going to raise so many billion from individuals and so many billion from corporations, this is to me - that I happened to get to the thing this way - I mean, if it isn't a doped chart, if it isn't too dopey, I would like to see the same thing on corporations, on their net.
- Blough: The corporation tax when you get above twenty-five thousand dollars is fairly flat from there on up. We could do it up to twenty-five thousand.
- H.M.Jr: Could you illustrate the difference between taxing the corporations on their average earnings and on their invested capital?
- Blough: We could for any specific corporation.
- H.M.Jr: Well, I would like to see some.
- Blough: It would be something of a problem to try to generalize it. I will see what we can do.
- H.M.Jr: Well, take some, because I think that would be - I have never seen it presented this way before.
- Blough: We can easily do it with the standard corporate rate. Let me see if we can do something with the excess profits. It is going to be much harder, I will say that.
- H.M.Jr: Well, there are a lot of other things that go into this whole business. I don't want to

start another discussion, but this whole question of the attitude of the management as to the economy in their own management and production and all the rest of that. That whole thing comes in, and I still haven't thrown aside your (Barnard's) idea of the surpluses and what to do with them. In other words, as far as I am concerned, the whole thing is still an open book.

Jake, you will be here tomorrow, won't you?

Viner: And Wednesday.

H.M.Jr: Well, I think we have made a little start tonight.

Blough: Mr. Shoup wasn't planning to come down tomorrow. If you really want him, he will come.

H.M.Jr: That is one idea I had to throw out, that Ferdinand Kuhn had. He wanted to take fifteen minutes right in the middle of the Treasury Hour and have me go on and talk about depletion of community property tax.

Kuhn: I am still hoping, Mr. Secretary.

H.M.Jr: I mean, just the way this fellow does with the Ford Hour.

Kuhn: Baby Snooks and -- (laughter).

Foley: I am afraid they would cut you off in California.

Barnard: I wouldn't do that. I have had about thirty years' experience in this kind of public relations. The technical question you never can properly handle in the mass. You are sunk if you do it. You won't get anywhere but into trouble, but you have got to handle it by

another method which is a constant readiness to answer the individual and a proof to the public that you are always ready to do it. You know what you doing, you know why you are doing it, and you will go just as far as anybody wants you to go, but not with the general public. You will just get yourself, I am sure, into a mess if you try to handle that kind of a question in the mass.

- Viner: I think the way to handle those things is to wait until some Senator or Congressman writes to you, and then write a carefully framed letter and give it out.
- Kuhn: Do you agree with what we were saying saying earlier, about the unsuitability of doing technical things in the --
- Barnard: Yes, unsuitable, but I don't think it is unsuitable to have every revenue officer in a position to answer those questions.
- Blough: It wouldn't be unsuitable to have the women voters make it their study topic for the year, either.
- Barnard: And it is very important to answer any letter that comes in, and it is important to have that kind of people that are interested in the question and have a discussion with them. But they are a limited group. The rest of the crowd merely want to know that you know what you are talking about, or think you do, and that you treat them nice when you ask them a question the answer to which they can't understand because they won't understand it. There isn't one person in a thousand that will understand any one of these technical questions.

- Kuhn: They appreciate your letters. They write back and thank you, tell you that they feel a lot better about it. It happens again and again.
- H.M.Jr: Well, it isn't easy. I appreciate it isn't easy. We certainly ought to make the effort.
- Barnard: I don't think you ought to make the effort on the line of attack that has been tried again and again by many people, and it doesn't work. That I don't think you ought to do. You can't make too many mistakes here, and you are talking here tonight about changing the program that you have already been accused of putting up, and it doesn't help your program --
- H.M.Jr: I didn't say that, excuse me. What I said was that I wasn't sold on the thing.
- Barnard: Assuming that you are not sold tomorrow or the next day, then you are going to change and --
- H.M.Jr: Well, you wouldn't want me to go ahead if I wasn't sold, would you?
- Barnard: No, what I am saying is please don't go ahead until you really know what you want to do. You jumped pretty fast this last time, and you had to to get things moving, but it won't do to jump this way and jump the other if you are going to try to keep the public sold. It will look as though you didn't know what you were doing and every wind that blew changed your mind. I don't think you can do that.
- H.M.Jr: Well, I would rather be accused of not knowing my own mind but changing if I had doubts, if I thought I was wrong. I would rather change and take the criticism.

- Barnard: Well, I think you are right about that.
- H.M.Jr: Than not change and just bull it through.
- Barnard: All I am saying is if it takes an extra week to be sure you know what you are doing it is well worth doing.
- H.M.Jr: No, I think we may be at this thing from not until the first of January because I don't think we are going to get any tax hearing. You see, normally what we do is, we prepare in three to six months for a tax bill. That is what we take normally. We were trying to do it the other day in two weeks.
- Gaston: In addition to deciding what you want, there is also the question of strategy involved, because you won't get what you want from Congress. In other words, if you decide on a withholding rate, and go to Congress and ask them for fifteen per cent in this situation, you probably won't get more than ten, if you get that.
- H.M.Jr: That is why, Herbert, if we once decide definitely we want a withholding tax, we ought to go to the public first before we go to Congress.
- Gaston: I think we should go to the public.
- Blough: Your point is, we don't necessarily go to Congress with just the rate we want?
- Gaston: Well, I think that is a question of strategy to be decided. We ought to be conscious in advance that we will probably not get as much as we asked for.
- Sullivan: I don't think you can make a horse trade more than once, Herbert. We went in the last time.

The Secretary decided he wanted three and a half billion dollars and we fought it out along that line all summer, and we got three and a half billion dollars, and I think that once you go in with something more than you think you need and get less, everything you say from that time on is going to be discounted.

- Barnard: Well, John, you can't possibly go in for more than you need in this situation. You could in a normal time.
- Sullivan: You are right.
- Barnard: It is politically impossible to get as much as you need.
- Sullivan: If it is the judgment of everybody in the Treasury who is working on it that fifteen per cent is what we need, let's go in and face the brickbats and fight and get it.
- H.M.Jr: Well, John, I think the thing to agree on is how much we want in dollars and then fight for that just the way we did last time. We had success then. Now, we want five billion dollars --
- Viner: The point is five billion dollars in one way will not do this job as well as three billion gotten in some other way.
- Sullivan: That is right. You are disturbed about the equity and the wisdom of getting it in this particular way. I think in the present situation the manner in which you are going to collect the amount is fully as important as the amount you are going to collect.
- H.M.Jr: Granted. It is awfully hard to get a fight with me tonight.
- Viner: And of course the tax structure is so high that you do have to consider very carefully

how you get in your additional sum, because there can be very serious equities. You have to be very careful tonight.

H.M.Jr:

Well, gentlemen, thank you all for coming out in the middle of the winter.

November 17, 1941

ELEMENTS OF A TAX PROGRAMI. Taxes intended especially to combat inflation.

1. A new supplementary tax on net income might be imposed to be withheld at the source on salaries, wages, dividends, bond interest, and similar items, and to be collected on other incomes quarterly throughout the year. These taxes would thus be collected insofar as possible like the payroll taxes. They would, however, have personal exemptions and credits for dependents. The supplementary tax would be deducted from net income in computing the income tax. Because of this deduction and because of the personal exemptions the increase in effective rate of tax would never be as high as the stated rate of tax. If the rate of this supplementary tax were 15 percent and the existing personal income tax exemptions of \$750 for single persons and \$1,500 for married couples, with a dependent credit of \$400 were allowed, it is estimated that at present income levels the net increase in tax revenue would be about \$2.8 billion

2. Payroll taxes for old-age and survivors' insurance might be increased sooner than provided in the present law. These taxes are at the present time imposed at a rate of 1 percent on employers and 1 percent on employees and are scheduled to rise on January 1, 1943 to 2 percent on employers and 2 percent on employees. This increase might be made one year sooner than was scheduled. It will be recalled that no increase was made on January 1, 1940 when it was originally scheduled. The increase in tax would yield during 1942 increased revenue of approximately \$0.9 billion

3. The Social Security Board's program relating to the expansion of the old-age and survivors' insurance and unemployment insurance systems might be enacted as soon as practicable. The change with respect to unemployment insurance involves an additional 1 percent tax on employees. The combined effect of these changes would be to increase the revenue by approximately \$1.0 billion

The above taxes would all be anti-inflationary and would yield a total increased revenue estimated at approximately \$4.7 billion

II. Rate and other changes to balance the impact of the anti-inflation taxes and to raise additional revenue.

1. Individual income tax: Increase surtax rates of individual income tax to yield at least. \$0.2 billion
2. Corporation taxes
 - (a) Excess profits tax: Revise basis and possibly increase rates. For example, if the tax were computed using an average of the income credit and the invested capital credit, the revenue would be increased substantially. \$0.5 billion
 - (b) Surtax: Increase rates 2 percent from 6 and 7 to 8 and 9, respectively. \$0.2 billion
3. Estate and gift taxes: Increase rates and lower exemptions. \$0.2 billion
4. Defense excise taxes: Special excise taxes on commodities competing with the defense program can serve a function in the present situation. In general, the Treasury would support such an excise tax; it should have been requested by SPAB and should apply to those durable consumers' goods, maximum prices for which have been set by the Office of Price Administration, and the distribution of which among consumers is expected to be so inequitable as to necessitate some governmental action to assist in allocation.

In determining the consumers' goods to be taxed and the determination of tax rates and bases, etc., the facilities of the

Office of Production Management and the Office of Price Administration and their respective industry advisory committees should be fully available to the Treasury Department. The Treasury would reserve the right to determine where, in its judgment, the effective administration of such taxes would be feasible. Revenues would depend entirely on the goods taxed and the rates. It would not be unreasonable to expect from this source, \$0.4 billion

III. Changes to close loopholes.

1. Mandatory joint returns: If mandatory joint returns cannot be enacted then at least a change relating to community property income is recommended.

2. Insurance taxation:

- (a) Align the treatment for stock and mutual insurance companies other than life.
- (b) Revise basis for taxation of life insurance companies to provide more adequate taxation.

3. Eliminate percentage depletion or otherwise revise the present scale of excessive allowances.

4. Tax-exempt securities:

- (a) Eliminate the exemption with respect to future issues of State and local obligations.
- (b) Restrict the exemption on outstanding issues to the taxes now prevailing.

5. Capital gains and losses: Align alternative tax on capital gains and losses to allow for rate increases under the 1940 and 1941 Acts.

Taxes and Tax Changes not Included
in the Tax Program

1. General sales taxation.
2. A progressive tax on spending (Professor Fisher's plan).
3. Excise taxes on luxury articles not competing with the defense program.
4. Compulsory saving.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 17, 1941

TO Secretary Morgenthau
FROM Mr. Buffington

I discussed with John Sullivan your memorandum dated November 17, regarding provisions in the field offices of Internal Revenue to take care of taxpayers. He stated that he had the matter under consideration and would report to you direct.

RTS.

*Noted
11/17/41*



TREASURY DEPARTMENT

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WASHINGTON

A MESSAGE TO TAXPAYERS
FROM THE SECRETARY
OF THE TREASURY

The folder, "Know Your Taxes", which is being distributed by the Treasury, shows at a glance what you will have to pay in the coming year and how much of your monthly income you should set aside regularly for tax payments.

The purchase of Tax Savings Notes, now on sale by the Treasury, is one way to save systematically and conveniently for this purpose--but the important thing is to save.

I suggest you consult your local bank, savings and loan association, or employer. They will, I am sure, assist you in arranging now a savings plan to provide the money for income tax payments next year.

Financial institutions are now making, and I know will continue to make, a real contribution to the defense program by educating the public to save. Only through saving and thrift will we be able to eliminate the threat of inflation which endangers us all.



Secretary of the Treasury.

November 19, 1941.

This sentence was changed as per attached copy of letter with my approval.

*HMT
11-19-41*



November 17, 1941

MEMORANDUM

To: The Secretary

From: Mr. Blough

Subject: Burden distribution of a 15 percent supplementary withholding tax.

The supplementary (withholding) income tax has been considered in the Treasury as part of a larger program which would involve increases in income surtax rates, to be imposed in such a manner as to achieve the most desirable effective rate curve. Without reference to such increases in surtax rates, the effect on tax burdens of a 15 percent supplementary tax with present personal exemptions is indicated for various income levels in the attached Charts I and II and the accompanying tables, for a married person with no dependents.

Chart I

Chart I shows effective income tax rates at various levels of income, under the 1941 Act and with the supplementary income tax.

1941 Act

The solid black line labeled "1941 Act" shows the effective rates under existing law. Thus the effective rate at \$10,000 is about 13 percent and at \$600,000 is about 70 percent.

Line A

Line A shows the combined effective rates of the supplementary tax and the regular income tax if the supplementary tax is allowed as a deduction in computing the regular income tax. The increase in effective rate over the present law is greatest at around \$10,000, being about 10 percent at that income, and gradually declines as the size of the income increases.

Line B

Line B shows the combined effective rates of the two taxes if the supplementary tax is not allowed as a deduction for income tax computation. The increase in effective rate gradually rises to 15 percent of income, bringing the combined effective rate of both taxes to over 90 percent at \$2,000,000 income.

Line C

Line C is the same as Line B except that a maximum combined effective rate of 85 percent has been introduced. Similar lines could be drawn for other maximum effective rates.

Chart II

Chart II shows for different alternatives the percent which the increase in tax due to the supplementary tax bears to the net income remaining after the 1941 income tax. Any additional taxes must be drawn from this income.

Line A

Line A shows the percent when the supplementary tax is allowed as a deduction for income tax computation. The 15 percent supplementary tax increases from zero to nearly a maximum at around \$10,000 and remains relatively unchanged throughout the higher income levels. Due to the nature of the rate scale of the income tax the percent of remaining net income taken due to the supplementary tax is slightly lower in the brackets between about \$25,000 and \$100,000 than at \$10,000.

Line B

Line B shows the percent of remaining income taken as a result of the supplementary tax when the supplementary tax is not allowed as a deduction for income tax computation. The 15 percent withholding tax results in an effective rate on remaining income rising as high as nearly 70 percent for a \$5,000,000 income.

- 3 -

Line C

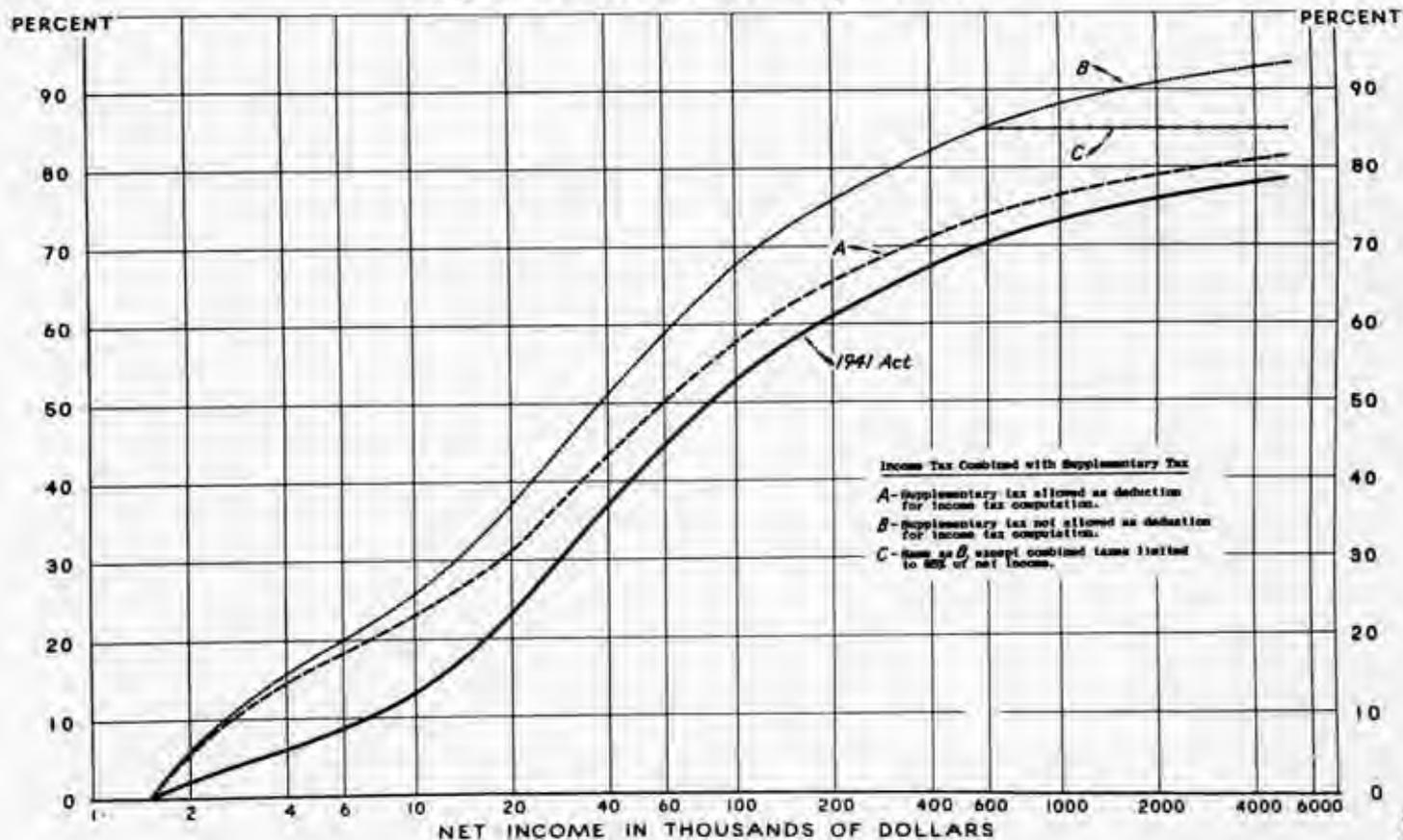
Line C is the same as Line B except that the combined individual income and supplementary taxes are limited to 85 percent of net income. Due to this limit, the percent of remaining income taken as a result of the supplementary tax declines from 50 percent at \$600,000 to about 30 percent at \$5,000,000.

RB

Attachments

EFFECTIVE INDIVIDUAL INCOME TAX RATES

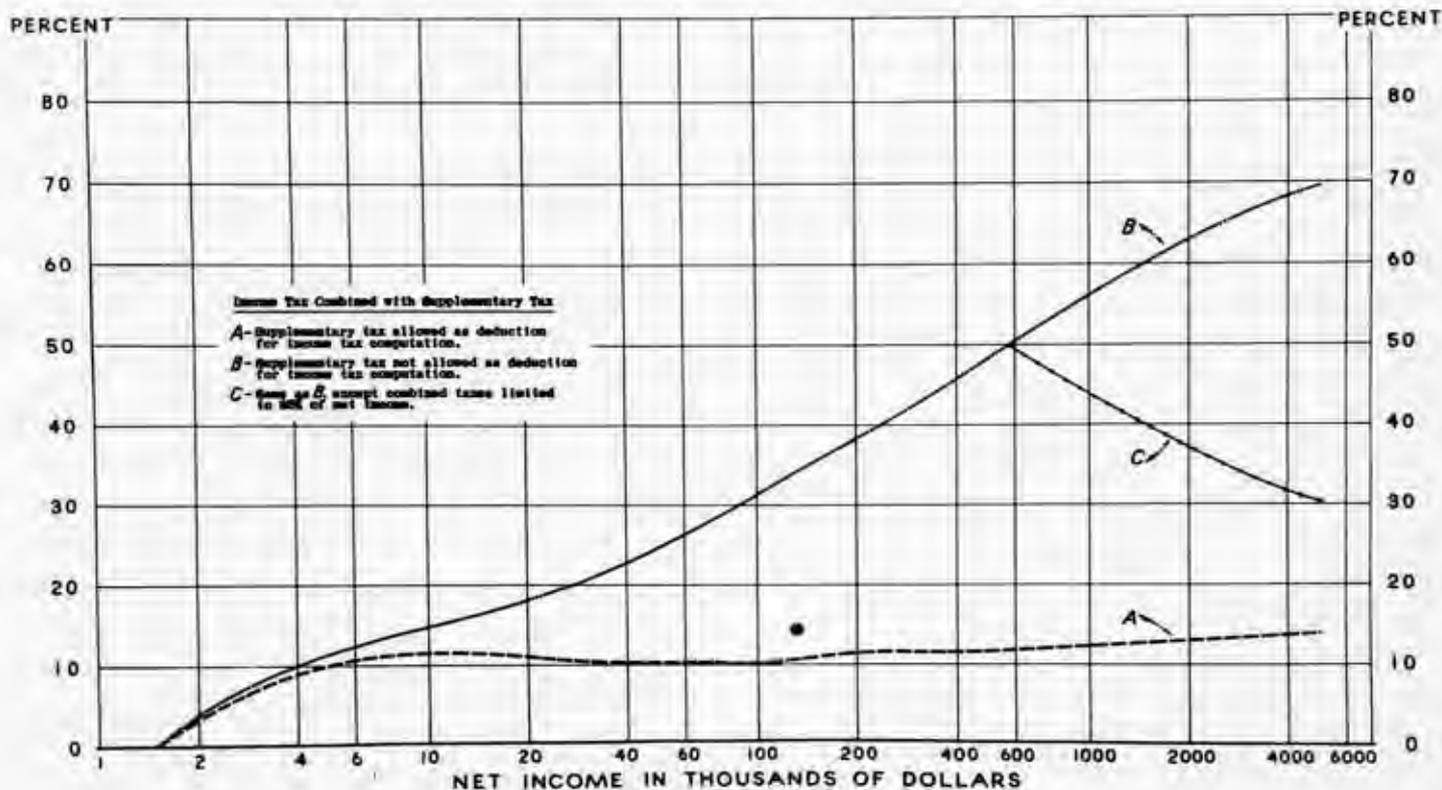
Married Person. No Dependents



INDIVIDUAL INCOME TAX

Married Person, No Dependents

Increase of Combined Individual Income and Supplementary Taxes over 1941 Tax
As Percent of Net Income Remaining After 1941 Income Tax



Comparison of present individual income tax and individual income tax combined with a supplementary tax, for net incomes of selected class ^{1/}

Married person - No dependents

Net income: before personal exemption and credit: Present law dependents: ^{2/} Act of 1941	Effective rates				Increase in effective rates of combined tax over present law		
	Combined individual income tax and supplementary tax						
	Not allowing: the supple- mentary tax as a deduc- tion for income tax computation of net income ^{3/}	the supple- mentary tax as a deduction for income taxes and for income tax computation of net income ^{3/}	the supple- mentary tax as a deduction for income taxes and for income tax computation of net income ^{3/}	the supple- mentary tax as a deduction for income taxes and for income tax computation of net income ^{3/}	Not allowing: the supple- mentary tax as a deduction for income taxes and for income tax computation of net income ^{3/}	the supple- mentary tax as a deduction for income taxes and for income tax computation of net income ^{3/}	the supple- mentary tax as a deduction for income taxes and for income tax computation of net income ^{3/}
\$ 1,500	-	-	-	-	-	-	-
1,800	1.3%	3.5%	3.8%	3.8%	2.2%	2.5%	2.5%
2,000	2.1	5.5	5.9	5.9	3.4	3.8	3.8
2,500	3.6	9.0	9.6	9.6	5.4	6.0	6.0
3,000	4.6	11.4	12.1	12.1	6.8	7.5	7.5
4,000	6.2	14.4	15.6	15.6	8.2	9.4	9.4
5,000	7.5	16.7	18.0	18.0	9.2	10.5	10.5
6,000	8.7	18.2	19.9	19.9	9.5	11.3	11.3
8,000	10.9	20.8	23.1	23.1	9.9	12.2	12.2
10,000	13.1	23.0	25.8	25.8	9.9	12.8	12.8
12,500	15.7	25.3	28.9	28.9	9.6	13.2	13.2
15,000	18.3	27.5	31.8	31.8	9.2	13.5	13.5
20,000	23.1	31.5	36.9	36.9	8.4	13.9	13.9
25,000	27.5	35.0	41.6	41.6	7.6	14.1	14.1
50,000	40.9	47.0	55.4	55.4	6.1	14.6	14.6
75,000	48.0	53.3	62.7	62.7	5.3	14.7	14.7
100,000	52.7	57.5	67.5	67.5	4.8	14.8	14.8
500,000	69.0	72.6	84.0	84.0	3.6	15.0	15.0
1,000,000	73.3	76.6	85.0	85.2	3.3	11.7	15.0
5,000,000	78.5	81.4	85.0	93.4	3.0	6.5	15.0

Treasury Department, Division of Tax Research

November 12, 1941

- ^{1/} Under the proposal a supplementary tax is imposed at the rate of 15 percent of net income after the deduction of the personal exemption. No earned income credit is allowed under the supplementary tax.
- ^{2/} Maximum earned income assumed.
- ^{3/} The limitation of the combined tax to 85 percent of net income before personal exemption and credit for dependents becomes effective at \$573,657.

Table 2

Increase in combined individual income tax and supplementary tax over present income tax (Revenue Act of 1941) as a percent of balance of net income remaining after income taxes under the present law ^{1/}

Married person - No dependents			
	Allowing supplementary tax as a deduction for income tax computation	Not allowing supplementary tax as a deduction for income tax computation and limiting the combined tax to 85 percent of net income ^{3/}	Not allowing supplementary tax as a deduction for income tax computation and with no limitation
\$ 1,500	-	-	-
1,800	2.3 ^{1/2}	2.5 ^{1/2}	2.5 ^{1/2}
2,000	3.5	3.8	3.8
2,500	5.6	6.2	6.2
3,000	7.1	7.9	7.9
4,000	8.7	10.0	10.0
5,000	9.9	11.4	11.4
6,000	10.4	12.3	12.3
8,000	11.1	13.7	13.7
10,000	11.4	14.7	14.7
12,500	11.4	15.7	15.7
15,000	11.3	16.5	16.5
20,000	11.0	18.0	18.0
25,000	10.4	19.4	19.4
50,000	10.3	24.6	24.6
75,000	10.3	28.3	28.3
100,000	10.1	31.2	31.2
500,000	11.6	48.3	48.3
1,000,000	12.3	43.9	56.0
5,000,000	13.9	30.4	69.6

Treasury Department, Division of Tax Research November 12, 1941

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- ^{2/} Maximum earned income assumed.
- ^{3/} The limitation of the combined taxes to 85 percent of the net income before personal exemption and credit for dependents becomes effective at \$573,657.

Schedule of Fixed Maturities and First Call
 Dates During Period December 17, 1941 -
 December 30, 1942

Date :	Issue :	Fixed Maturities :	First Call Date :
(in millions)			
<u>1941</u>			
Dec. 15	U.S.A. - 1 $\frac{1}{2}$ % note	\$ 15	
<u>1942</u>			
Jan. 15	R.F.C. - 7/8%	310	
Jan. 15	F.F.M.C. - 3% (1942-47)		\$236
March 1	F.F.M.C. - 2-3/4% (1942-47)		103
March 15	U.S.A. - 1-3/4% note	426	
July 1	R.F.C. - 1%	278	
July 1	F.C.I.C. - 2 $\frac{1}{2}$ % (1942-44)		875
Sept. 15	U.S.A. - 2% note	342	
Oct. 15	R.F.C. - 7/8%	230 (taxable)	
Dec. 15	U.S.A. - 1-3/4% note	<u>232</u>	
Totals		\$1,921	\$1,214

Nov. 17, 1941.

D.H.M.



TREASURY DEPARTMENT
WASHINGTON

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November 17, 1941.

MEMORANDUM FOR THE SECRETARY:

Last Thursday, you asked me to arrange to have the people who did the little plays which were included in our last two Treasury Hour programs ("Statue of Liberty"; "Abraham Lincoln") in Washington to see you this week.

I find that both of these plays were done by Mr. D. H. Johnson.

Mr. Johnson has been asked to come to Washington on Wednesday. If this date is not suitable, we will change it to suit your convenience.

~~GRAVES.~~
SA



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TREASURY DEPARTMENT
WASHINGTON

November 17, 1941.

MEMORANDUM FOR THE SECRETARY:

Herewith I hand you recordings by Igor Gorin of "The Pledge of Allegiance to the Flag," and a selection from "The Barber of Seville," as sung on the Treasury Hour program last Tuesday, November 11.

This record may be played on any Victrola.

GRAVES.

*(Noted
WFM)*

November 17, 1941.

Dear Mr. Taylor:

Arturo Toscanini has volunteered to conduct the N.B.C. Symphony Orchestra in a special concert of one hour on December 6, from 9:30 to 10:30 P.M., on behalf of the Treasury's Defense Savings program.

In accordance with Mr. Toscanini's wishes there will be no studio audience on this occasion, but it will be possible for me to bring a few personal guests to the studio.

It would give Mrs. Morgenthau and me great pleasure if you and a friend would be our guests at this concert.

Could you let me know immediately, by telegram, whether you will be able to come? Because of the very limited number of admissions, these invitations will not be transferable. A card of admission will be sent to you, with full directions, soon after I hear from you.

I hope very much that you may be able to attend the concert.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Deems Taylor,
2 East 60th Street,
New York, New York.

Random House



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THE MODERN LIBRARY

20 EAST FIFTY-SEVENTH STREET · NEW YORK

ROBERT K. HAAS, VICE-PRESIDENT

11/17/41

Dear Henry -

Here's the lecture leaflet of the man I referred to yesterday.

If you do anything with him, I'll be interested in hearing about it.

With best regards, & renewed thanks for a very pleasant day,

Cordially,

Bob

EUROPE-ASIA-LATIN AMERICA-NORTH AFRICA

from the viewpoint of International Affairs

from the viewpoint of Military Affairs

General Reilly's views and opinions have been gained through 36 years of close observation of world events.

During the last 36 years, he spent twelve in Europe and North Africa, eight in Asia and one in Latin-America. He has been twice around the world - once by the Trans-Siberian and once via the Suez by sea. He has flown the Atlantic by Clipper three times.

He has recently flown from Europe via Portuguese West Africa, Brazil, Trinidad and thence along the islands of the Caribbean to Miami, Florida.

He is a graduate of West Point and later was an Instructor in History there.

General Reilly saw war in Mexico, China, the Great War from 1914 to 1918 (ambulance driver, war correspondent and soldier) Poland and Spain.

He was in all the battles of the 42d Rainbow Division.

He was the youngest Infantry Brigade Commander in the American Army in France. He was given this command on the battlefield. He was the only Colonel of Field Artillery to be promoted to the Command of a Brigade of Infantry.

His experience in Eastern Asia included a special mission, reporting directly in person to General Wood, then Chief of Staff of the U.S. Army in Washington.

He has written for many of the leading magazines and newspapers of the United States. He has frequently broadcast - once from Paris, France, after the outbreak of the present war. He has frequently spoken publicly.

Four years editor of the Army & Navy Journal established him as an expert on national defense.

... beyond what is going on in the world today, necessary to have a background of knowledge and experience both in international politics and in military affairs. It is also necessary to have personal contacts with important people in political and military affairs.

... cases in which General Reilly has been correct coming events are proof that his knowledge and experience and these ambitions.



NOT TRUE, 1911-1913. As an instructor in history, he taught the date that there would be a general war in Europe and that the German Army's right flank would come through Belgium.

LONDON, 1918. In a speech before the American Club in London on returning after driving an ambulance on the British front in France for three months, he said of the urgent need of shells instead of champagne, with the result that Lord Northcliffe invited him to his house and subsequently started his campaign for shells instead of champagne.

JAPAN, 1928. He wrote from Japan that the date of the loss of power of the Army and Navy of Japan was wrong. In 1928, he wrote from China that the Japanese were planning to seize Manchuria and that the Manchurians, chased from his throne in Peking, on 12th came in Mukden. In 1934, he wrote and spoke on the subject of a new pact that would not stop with Manchuria but would go on to seize the greater part of China.

A YEAR BEFORE WAR GENERAL REILLY WARNED OF BLITZKRIEG.

Watching the Germans on the battlefield of Spain and in the skies above them in 1935, General Reilly saw the tactics and weapons of Blitzkrieg being put to the test of battle.

From then on he warned that these tactics and weapons must be copied or defeat was certain, because the tactics and weapons being used by the American, British and French armies and air forces were not capable of either fighting or resisting Blitzkrieg.

American editors were not interested. The British, The Aeroplane, the French, L'Illustration, published what he had seen.

Later, the Illustrated London News published an article by him on blitzkrieg with sketches illustrating it as well as photographs. Out two weeks before Poland was invaded it proved a correct forecast. A year later the Illustrated London News re-published it, saying it had been proven correct again and again.

On his return to the United States, besides articles in the various U. S. Army Service Journals, General Reilly lectured to the cadets and officers at West Point, the Virginia Military Institute, the officers of the Assistant Secretary of War's Conference, those at Governor's Island and various other groups.

POLAND, 1920. When all the invited press were publishing that the Poles were about to be defeated, he called for a decisive battle with the Polish Army, and a decisive battle was yet to be fought and that the Poles would win it.

FRANCE, 1928-1929. In 1928, he made several new predictions correctly forecasting the present war.

In 1928, on arriving in Paris from Spain, at a time when most correspondents were writing to the contrary, wrote to the French quickly overran Catalonia and win the Spanish Civil War.

FRANCE, 1928. He wrote that the French would not attack the Maginot Line and that the Germans would not directly attack the Maginot Line, but would, when attacking in the West, come through Holland, Belgium, Luxembourg and North France.



THE SECRETARY OF THE TREASURY
WASHINGTON

NOV 17 1941

Memorandum for the Secretary

There are three possible plans of censorship (each requiring legislation) which have been suggested for the consideration of the Walker Committee (appointed by the President at the November 14 Cabinet meeting).

1. Complete censorship after declaration of war.
2. Complete censorship now.
3. Censorship now to the extent of examination and inspection, but not to the extent of deletion of objectionable material when it is found.

The first possibility does not meet the present need, but the subordinates of all the Departments considering the matter agree that it is desirable.

The second possibility is considered desirable, but it is alleged by Justice that it is not politically feasible at the present time.

The third possibility, says Justice, is politically feasible, and a bill has been drafted combining the first and third possibilities. If Justice is correct in its estimation of the political situation, the bill drafted by Justice should be approved.

It is felt, however, that when the censorship system envisaged by the draft bill is set into operation, care should be exercised to see that it is staffed and controlled chiefly by the civilian rather than the military service. That is the position you have taken in your letter to Secretary Knox under date of October 30, 1941. That position is sound as evidenced by the British experience with censorship during the present war. That experience has been fully explained to representatives of this Department by representatives of the British Censorship.

The British started with a censorship controlled by the military and were forced to change to a civilian basis. Only a very small part of the information secured by censorship is of interest to the military service. Most of the information secured is valuable for combating propaganda and for waging economic warfare.

It is felt that no compromise of the position you have taken on this matter should be admitted.

S. W. F. h.

November 17, 1941

MEMORANDUM

To: The Secretary
From: Mr. Blough
Subject: Article, "Aviation's Tax Hurdle," by
Salig Altschul, in Aviation, November 1941.

Following are the principal points made in the article:

A. Aircraft construction industry

1. Aviation companies use the average earnings method for excess profits taxation.
2. To limit profits to 6 percent of invested capital would reduce earnings available for stockholders "to minuscule proportions."
3. It is realized that excess profits taxes will be higher and this is responsible for aircraft equities being in "strange disrepute among investors."
4. "The ever-present fear of post-war adjustments to the industry receives attention in virtually every discussion on the industry."

B. Air transportation industry

1. The air transportation industry is exempt from the payment of excess profits taxes by the exclusion of airmail revenues from such taxation.
2. Post-war prospects for the air transport industry are excellent.
3. For these and other reasons, the air transport securities are very favorably viewed.

MB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

HA 341

DATE November 17, 1941

TO Secretary Morgenthau
FROM Mr. Kamarok

Subject: Plane Shipments to British Forces

1. In the week ending November 11, a total of 94 planes of all types (52 combat planes), and in the week ending November 4, 100 planes of all types (69 combat planes) were shipped to British forces.
2. For the first time, we have data on the shipment of planes to Canada prior to October 7. From February 1 to November 11, 1,071 planes were delivered to Canadian forces. 995 of these were trainers, while the rest, or 76, were combat planes.
3. Army cooperation planes form a new category now included in our tables. These are liaison and short-range observation aircraft which perform tactical missions for the army directly. The Fairchild-24 is a four-place single-motor monoplane, probably used for army liaison work. The Vultee Stinson O-49 is a two-place observation plane, which is also used by our army. The Pitcairn Autogiro is, of course, an aircraft having rotor blades instead of the conventional wings.

*Cited
H.M.F.*

Table A - Shipments by Area
(From February 1, 1941)

	<u>Week ending November 11</u>	<u>Week ending November 4</u>	<u>Total Reported To Date</u>
<u>To the United Kingdom</u>			
Light and medium bombers	6	6	1,021
Heavy bombers	1	2	80
Naval patrol bombers	2	3	31
Pursuit	0	10	189
Army Cooperation	2	0	12
Total to the United Kingdom	11	21	1,383
<u>To the Middle East</u>			
Light and medium bombers	7	13	254
Pursuit	30	31	643
Trainers	6	4	59
Total to Middle East	43	48	956
<u>the British Pacific Forces</u>			
Light and medium bombers	0	0	36
Naval patrol bombers	0	0	12
Pursuit	0	0	118
Trainers	0	0	55
Total to Pacific Forces	0	0	221
<u>To the Canadian Forces</u>			
Light and medium bombers	0	0	38
Naval patrol bombers	0	0	12
Pursuit	4	4	26
Trainers	36	27	995
Total to Canadian Forces	40	31	1,071
<u>Totals</u>			
Light and medium bombers	13	19	1,349
Heavy bombers	1	2	80
Naval patrol bombers	2	3	105
Pursuit	34	45	976
Army Cooperation	2	0	12
Trainers	42	31	1,109
Total	94	100	3,631

Table B - Shipments by Types

	<u>Week ending November 11</u>	<u>Week ending November 4</u>	<u>Total Reported To Date</u>
Bell Airacobra	0	0	154
Boeing B-17	0	0	21
Boston III	0	0	24
Brewster Buffalo	0	0	118
Cessna T-50	24	19	465
Consolidated Catelina	2	3	105
Liberator I	0	0	22
Liberator II	1	2	37
Curtiss Kittyhawk	34	35	261
Tomahawk	0	0	416
Douglas Boston I	0	0	0
Boston II	0	0	29
Boston III	11	14	415
Fairchild-24	0	0	6
Glenn Martin Baltimore	2	5	27
Maryland I	0	0	114
Maryland II	0	0	1
Grumman Martlet II	0	0	9
Lockheed Hudson II	0	0	1
Hudson III	0	0	297
Hudson IV	0	0	9
Hudson V	0	0	380
North American Harvard II	18	12	644
Mustang	0	10	18
Pitcairn Autogiro	2	0	2
United Chesapeake	0	0	52
Vultee Stinson-049	0	0	4
Grand Total - All Types	94	100	3,631

Table C - Plane Shipments to the British by Weeks *
(From February 1, 1941)

<u>Week ended</u>	<u>Light and medium bombers</u>	<u>Heavy Bombers</u>	<u>Naval Patrol Bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
35 Weeks (February 1- October 7)							
TOTAL	1,241	47	95	741	6	916	3,046
35 Weeks (February 1- October 7)							
WEEKLY AVERAGE	35	1	3	21	0.2	26	87
October 14, 1941	45	9	1	68	0	44	167
October 21, 1941	21	9	1	50	0	57	138
October 28, 1941	10	12	3	38	4	19	86
November 4, 1941	19	2	3	45	0	31	100
November 11, 1941	13	1	2	34	2	42	94
February 1-November 11, TOTAL	1,349	80	105	976	12	1,109	3,631

* Since we do not have a break-down by weeks of the deliveries to Canadian forces prior to October, no statement of deliveries by weeks is given for this period.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 17, 1941

TO: Secretary Morgenthau
FROM: Mr. Haase
Subject: The Business Situation,
Week ending November 15, 1941.

Summary

(1) While aggregate industrial production has been maintained around peak levels, the impetus of the defense program is being counterbalanced to a noticeable extent by various readjustments and uncertainties largely incident to the shift from civilian to defense production. Weekly business indexes have been moving in a narrow range but recently have shown a slight rising tendency.

(2) National income payments in September rose more than seasonally and attained an annual rate of \$92.2 billions. This contrasts with an annual rate of only \$73.5 billions prevailing in April 1940 at the beginning of the defense program. The purchasing power of the national income in September, however, declined to approximately the July level due to the rise in the cost of living.

(3) The index of basic commodity prices last week (ended November 14) was fractionally lower due to some weakness in prices of domestic commodities. The BLS all-commodity index in the week ended November 8 rose 0.1 point to 91.7, equalling the recent high reached in mid-October.

(4) The shortage of iron and steel scrap is curtailing steel operations, and is reported to have been largely responsible for last week's decline of 1.7 points in the operating rate to 96.6 percent of capacity. Finished steel shipments of the U. S. Steel Corporation in October rose about 5 percent above the highest previous month on record.

(5) As a result of heavy shipments of agricultural products under lend-lease arrangements, agricultural exports in September reached the highest level since February 1940. Exports of foodstuffs rose to the highest point since August 1930.

The general business situation

The long upswing in industrial production, accompanied by expanding consumer income and a rising price level, began to run into strong cross-currents by late summer. In recent months industrial production has been maintained near peak levels, but the excited consumer buying of August and September has subsided, basic commodity prices have declined somewhat, and the general price trend has temporarily flattened out.

Business in general is going through a transitional period incident to an accelerating shift from the production of civilian goods to an increasing absorption of industrial capacity for defense production. The maladjustments arising from this shift, together with uncertainties connected with pending price-control legislation, labor controversies, tax proposals and international developments, have been restraining influences, temporarily tending to offset the dynamic effects of the defense program.

Fears of serious employment dislocation during the changeover to defense production have not, as yet, been realized. Despite priorities unemployment in various industries, factory employment in the nation reached a record high in September, and on the basis of data now available for New York state, probably showed little further change in October. National income payments are continuing to increase, but the rapid rise in living costs has kept real incomes practically unchanged for three months in succession.

In the last several weeks, weekly business indexes have shown slightly greater strength, basic commodity prices have firmed somewhat, and department store sales again show some evidence of more active consumer buying.

National income higher, but real income reduced

National income payments rose more than seasonally in September, and reached an annual rate of \$92.2 billions. (See Chart 1, solid line.) This compares with \$90.8 billions in the previous month and with only \$73.5 billions in April 1940, at the beginning of the defense program.

In recent months, however, the increase in national income has been largely nullified, in terms of its purchasing power for actual goods and services, by the rapid rise in living costs. The purchasing power of the national income,

- 3 -

in fact, declined in September to approximately the July level, measured in terms of the BLS cost-of-living index. This cost-of-living index is designed to measure changes in living costs of moderate income families in 51 large cities, and is a reasonably satisfactory index for determining real incomes or purchasing power for the majority of the population.

In other words, the more recent rise in national income has been almost wholly due to increased prices. In Chart 1 (dotted line) the trend of purchasing power, or real national income, is shown by months since August 1939. It will be noted that national income payments increased 29 percent between August 1939 and September 1941, but the rise in living costs has cut the increase in purchasing power to only 17 percent. If the purchasing power of national income were measured in terms of commodities alone (using the BLS all-commodity wholesale price index) the increase in purchasing power since August 1939 would be only 5 percent.

Cost of living higher in October

The Conference Board cost-of-living index in October rose 1.2 percent above the September level, marking an unbroken 11-month rise. The increase was somewhat less than in September but was one of the largest of the past year.

Chart 2 shows estimates of the BLS cost-of-living indexes for October based on the Conference Board figures, with an actual figure for food costs. (The other actual BLS figures are expected to be released this week.) It will be noted that clothing prices, for the fourth month in succession, rose faster than food prices. Since the beginning of the war, however, food prices have risen much more than clothing prices. The Conference Board index for sundries showed an increase of 1.4 percent in October, which was attributed chiefly to the new Federal excise taxes.

Basic commodity index practically unchanged

The recent upward movement of the price index of 28 basic commodities was halted in the week ended November 14, and a fractional decline occurred. The index of 12 food-stuffs declined slightly (see Chart 3), while the index of 16 industrial raw materials was slightly raised by an increase in rosin prices. Among the domestic commodities, noticeable declines occurred in the grains, and in cottonseed oil, hogs and steers.

A drop in the price of soy bean futures amounting to the new permissible limit of 6 cents led a general decline in the grain markets on Wednesday, November 12. The drop in soy bean prices occurred after issuance of the November Government crop report. The report forecast the 1941 soy bean production at more than three times the 1930-39 production average, which was much greater than expected. The corn crop forecast also was very high, substantially above the 1930-39 average.

Cottonseed oil production higher; consumption lower

Although cottonseed oil prices are 132 percent above the August 1940 low, it is of interest that mill stocks of cottonseed, and the production of cottonseed oil, are substantially higher than last year, while the domestic consumption of cottonseed oil is lower. Latest Census Bureau reports show mill stocks of cottonseed on October 31 at 29 percent higher than on that date last year, with production of crude cottonseed oil in October nearly $\frac{1}{4}$ percent higher. The domestic consumption of refined oil in the three-month period, August through October, in contrast, was $6\frac{1}{2}$ percent below that in 1940.

All-commodity index shows little change

The BLS all-commodity index rose 0.1 point to 91.7 in the week ended November 8, equalling the weekly high for this period reached in the week ended October 18. Foods again showed some rise, but remained lower than a month earlier. The largest increases among subgroups occurred in cattle feed and in grains, while moderate decreases occurred in livestock and poultry, and in petroleum products.

Cotton goods shortage

A scarcity of cotton print cloth, which caused the closing of some printing plants last week and threatens further closings, according to press reports, is attributed in the trade to several factors: (1) Heavy Government buying of textile materials, superimposed on large civilian demand; (2) the switching of looms to other fabrics by a number of mills to circumvent greater ceiling limitations on print cloths; (3) heavier export sales of cotton goods, in which shipments to Morocco and French West Africa for the account of the Vichy government (approved by our State Department) has played an important part; (4) power shortages in the South, and growing labor shortages in some areas.

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Domestic consumption of raw cotton in October amounted to 953,600 bales, a new record high for any month. On the basis of the average consumption in the first quarter of the 1941-42 season, an annual rate of more than 10,750,000 bales is indicated, against a crop forecast at approximately 11,000,000 bales.

Weekly business indexes slightly higher

Weekly business indexes continue to move within a narrow range, but recently they have shown a tendency to edge slightly higher. Barron's index of business activity rose 0.9 point in the week ended November 3, after standing at 139.5 in the 3 previous weeks. During the same week the New York Times index also rose moderately and advanced 0.6 point to 128.2. This was the third consecutive fractional gain in the Times index.

Moderate gain in department store sales

Department store sales in the week ended November 3 showed a further slight recovery from the slump which followed the heavy tax-anticipation buying at the end of September, but the gain over year-earlier levels narrowed to 14 percent from 18 percent in the previous week. (See Chart 4.) In view of the rise in prices during the past year, the actual volume of goods sold in the first week in November probably was about the same as in the corresponding period of 1940. The St. Louis district, with a gain of 25 percent, showed the biggest improvement over year-earlier levels, while the New York district with an increase of only 6 percent made the poorest showing.

Actual figures covering last week's sales are not yet available, but a leading trade source reports that good weather produced the best volume of retail trade since the sharp rise at the end of September. It was also stated that the recent slackness in clothing sales, such as top-coats and women's furs and fur-trimmed coats, has been reflected in earlier than usual fall clearance sales in some cities.

Steel operations cut by scrap shortage

Steel operations last week declined 1.7 points to 96.6 percent of capacity, and during the current week operations are scheduled at 97.0 percent of capacity. The decline in the operating rate last week is reported to have been due principally to the continuing shortage of steel scrap. It is said that the OPM has been juggling available scrap supplies to keep hard-pressed plants from closing, but that in most leading districts the supply situation has become tighter.

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The outlook for steel operations is further bedclouded by the renewed strike in the company-owned coal mines. On October 1, aggregate stocks of coal at steel mills and by-product plants were equivalent to 31 and 32 days supply, respectively. Steel operations will be curtailed much sooner, however, due to the uneven distribution of coal stocks, and to the almost immediate repercussions which the coal strike is likely to have on beehive coke production. The strike at these mines last month caused an almost immediate curtailment of operations at some plants in the Pittsburgh and Youngstown districts, where 15 to 20 percent of the coke used by the mills, according to trade reports, is produced by beehive coke ovens. The operation of these ovens is dependent on a constant supply of coal, since they usually do not have facilities for carrying stocks of coal.

Finished steel shipments of the U. S. Steel Corporation last month rose about 6 percent above the highest previous month on record, which was August of this year. (See Chart 5, upper section.) It will be noted that while expansion in finished steel shipments was very rapid from April to October 1940, subsequent increases have been at a much slower pace as virtual capacity was reached. Shipments last month, in fact, are reported to have been around 108 or 109 percent of capacity. For the second consecutive month, new orders received by the corporation fell moderately below shipments, with a consequent further small reduction in the backlog of unfilled orders. (Refer to Chart 5, lower section.)

New orders lower

Our index of new orders continues to run substantially below the very high levels reached last spring and early summer. Due to declines in new orders for steel and textiles the combined index declined 7 percent in the week ended November 8. (See Chart 6.) New orders for steel fell to 95 percent of capacity as compared with 107 percent in the previous week. Orders for products other than steel and textiles in the aggregate were almost unchanged.

Agricultural exports show further rise

Shipments of agricultural products under lend-lease arrangements showed further gains in September. As a result, agricultural exports reached the highest levels since February 1940, when cotton was still being exported in very heavy volume. (See Chart 7.) Exports of food-stuffs rose above \$50,000,000 and reached the highest point

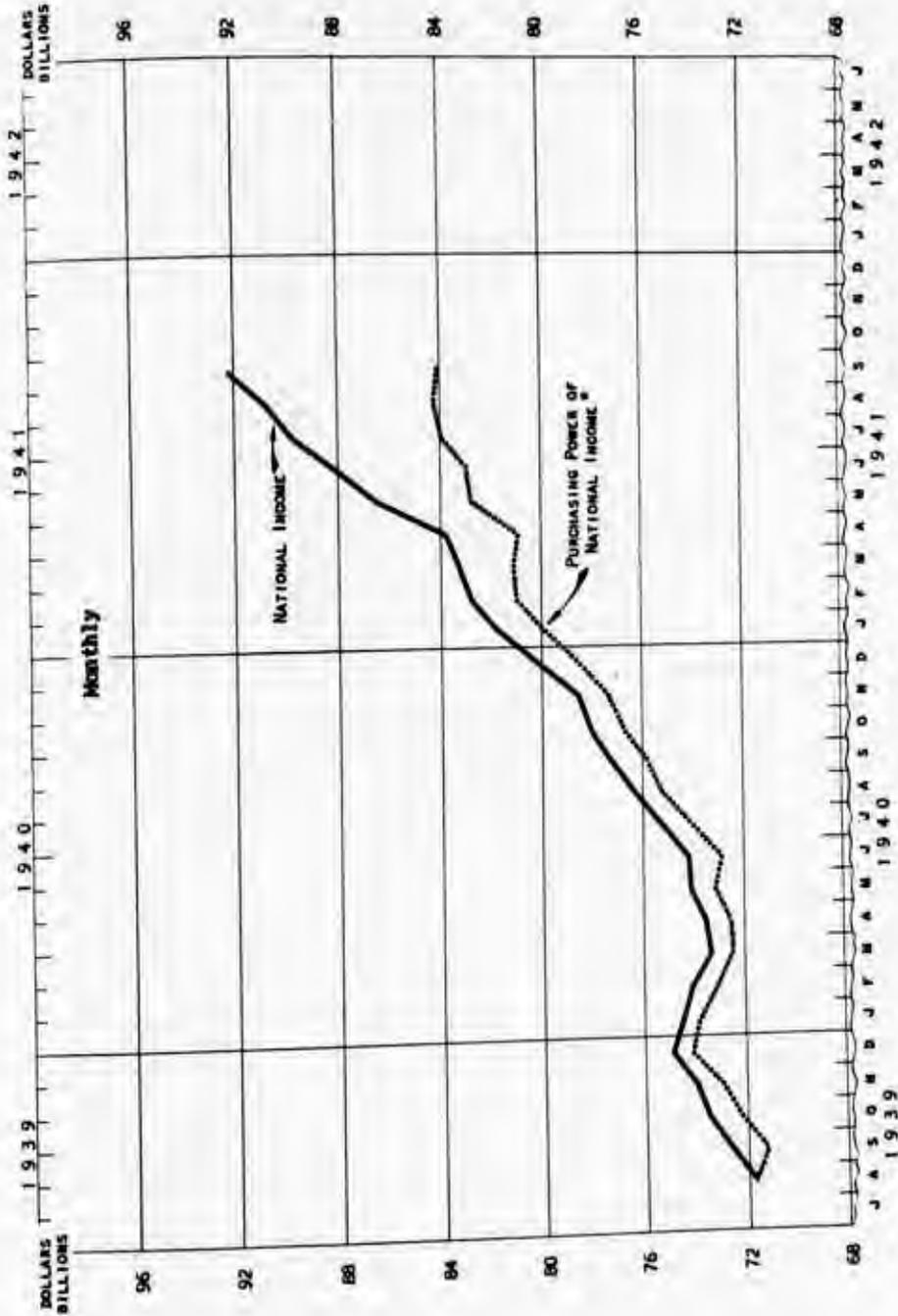
- 7 -

since August 1930. Shipments of foodstuffs to the British Empire have been rising steadily since the enactment of the Lend-Lease Act last March, and during the past week the Secretary of Agriculture stated that American foodstuffs had been going to England recently at a rate of about 250,000 tons per month. The volume of agricultural exports in September also was swelled by an upswing in raw cotton exports to the best levels in a year and a half, although still relatively small as compared with earlier years.

Despite the gains shown by agricultural products, total exports of United States merchandise in September dropped 7 percent below the previous month's high figure. Reference to Chart 7 will disclose that non-agricultural exports showed declines from the previous month, although petroleum products rose noticeably and coal and copper scored slight gains. The volume and value of aircraft shipments were not publicly disclosed but confidential figures from the Department of Commerce (shown on the chart) indicate a slight further increase to \$53,000,000.

A continued heavy movement of freight for export last month is indicated by a recent report of the Association of American Railroads, covering cars of export freight unloaded at Atlantic, Gulf and Pacific ports. Exclusive of grain and coal, more than 63,000 cars of export freight were unloaded in October. This is more than 7,000 cars above the September total, which was the highest for any month since compilation of these figures began in November 1939. Receipts at New York continued to run ahead of actual shipments, and the amount of lighterage freight in storage showed a further increase. The amount of storage space still available, however, is twice as large as the space now occupied.

NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



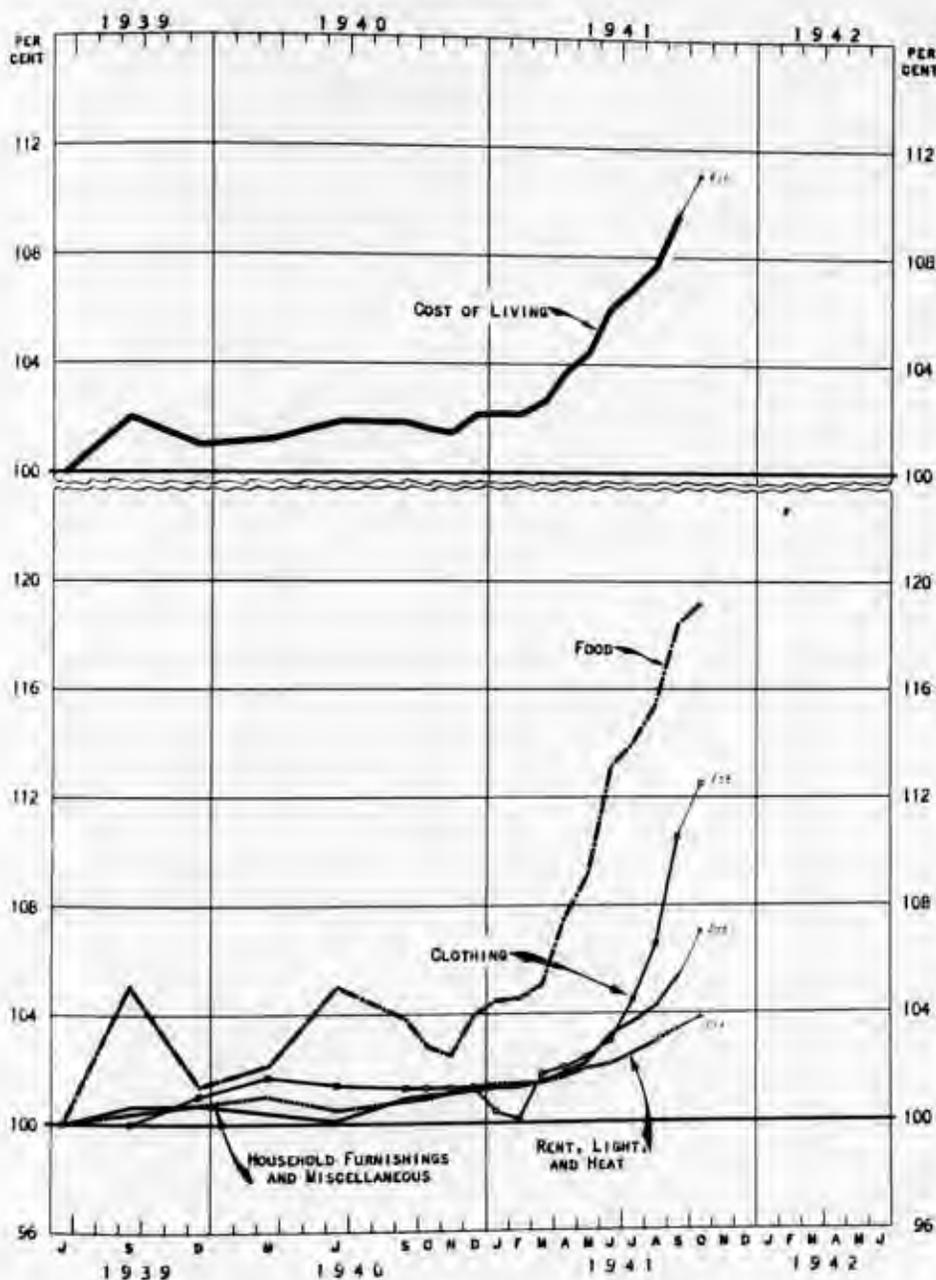
*BASED ON COST OF LIVING INDEX OF P.L.S. AUG. 1939 = 100

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

C - 415

COST OF LIVING AND SELECTED ITEMS
 JUNE 1939 = 100

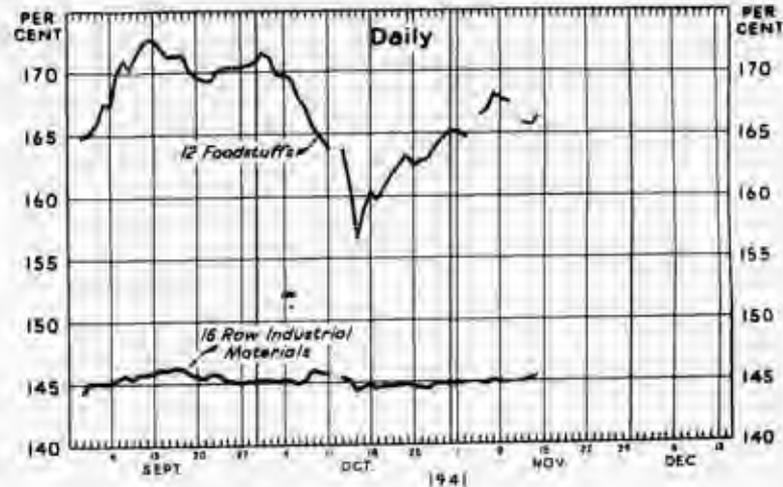
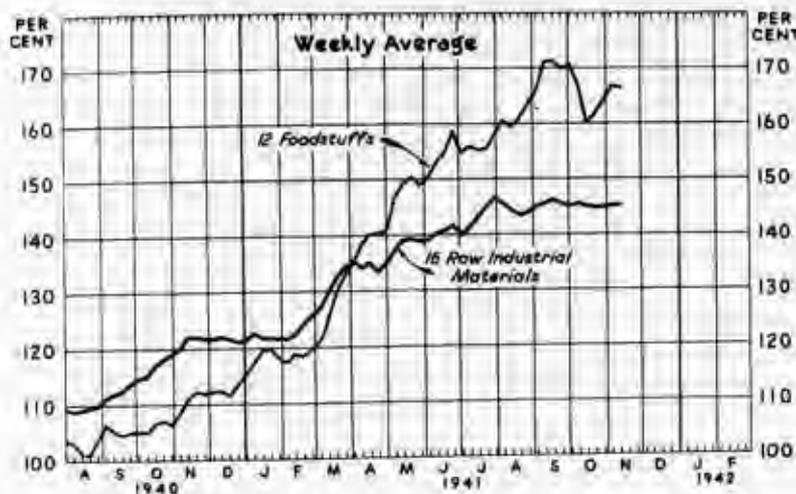
353



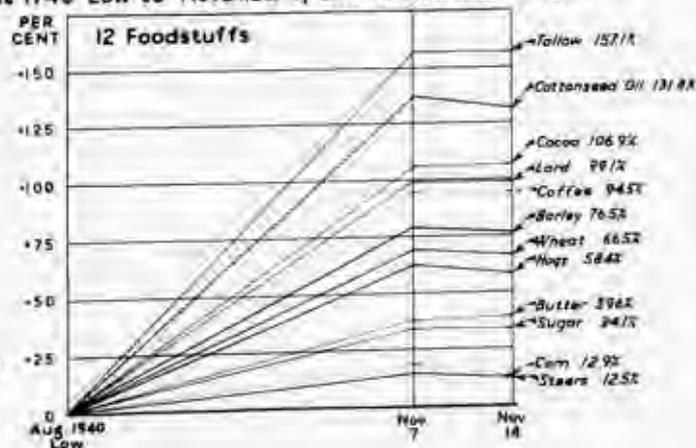
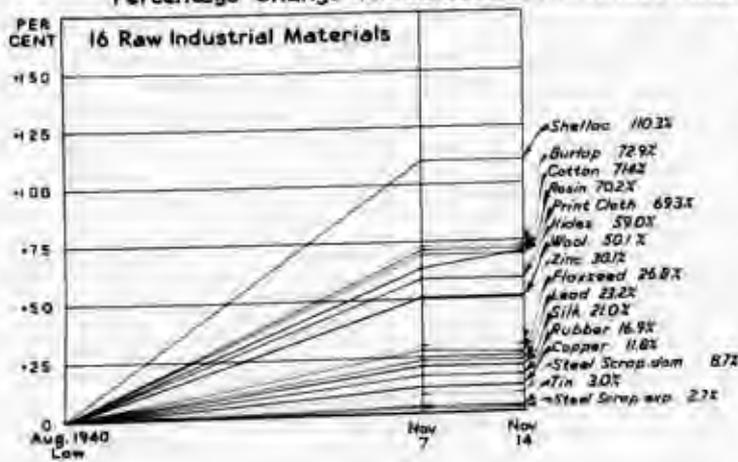
SOURCE: B.L.S.

MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100



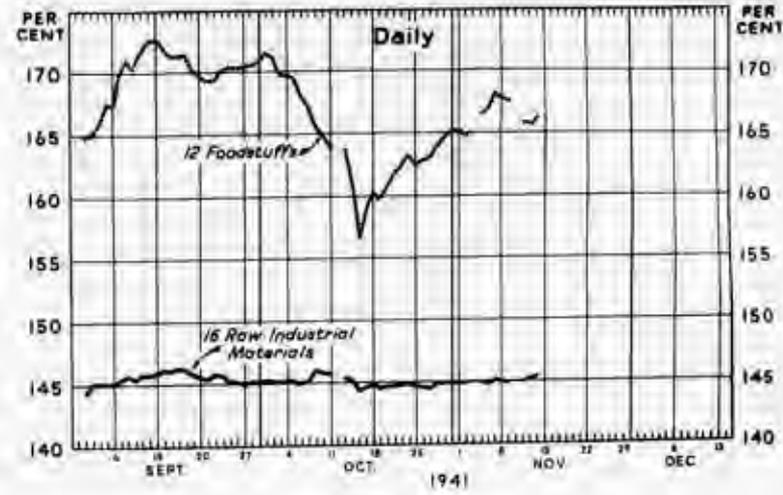
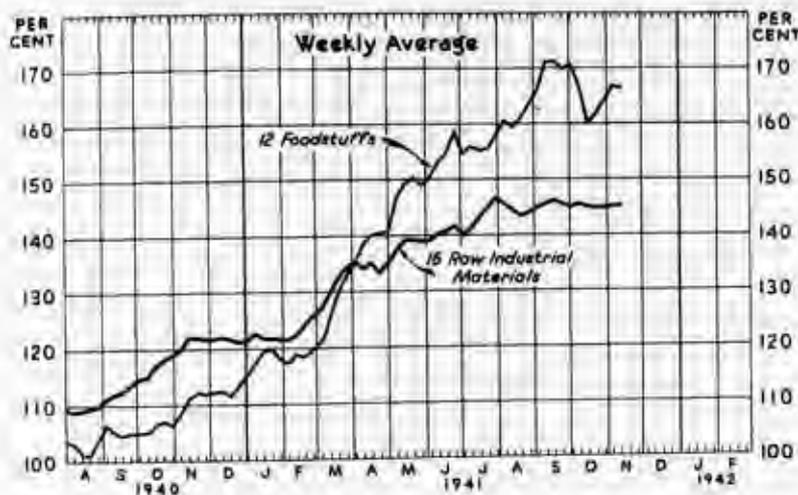
Percentage Change for Individual Commodities, August 1940 Low to November 7, and to November 14, 1941



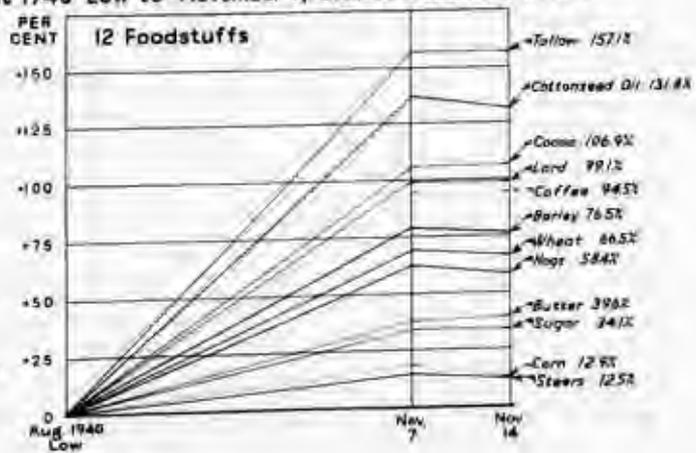
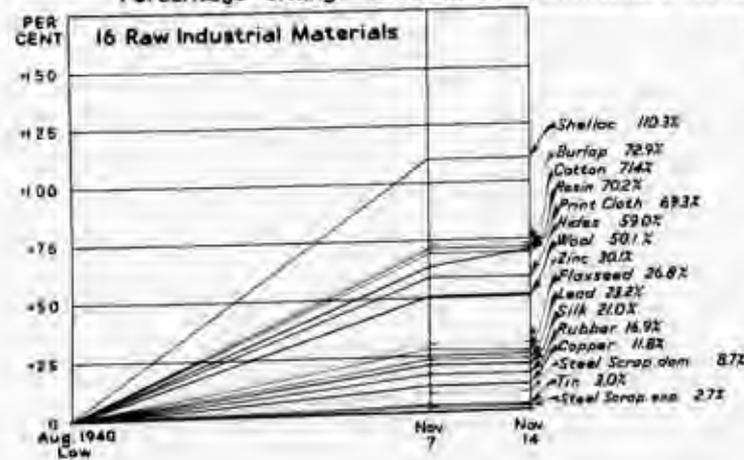
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MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

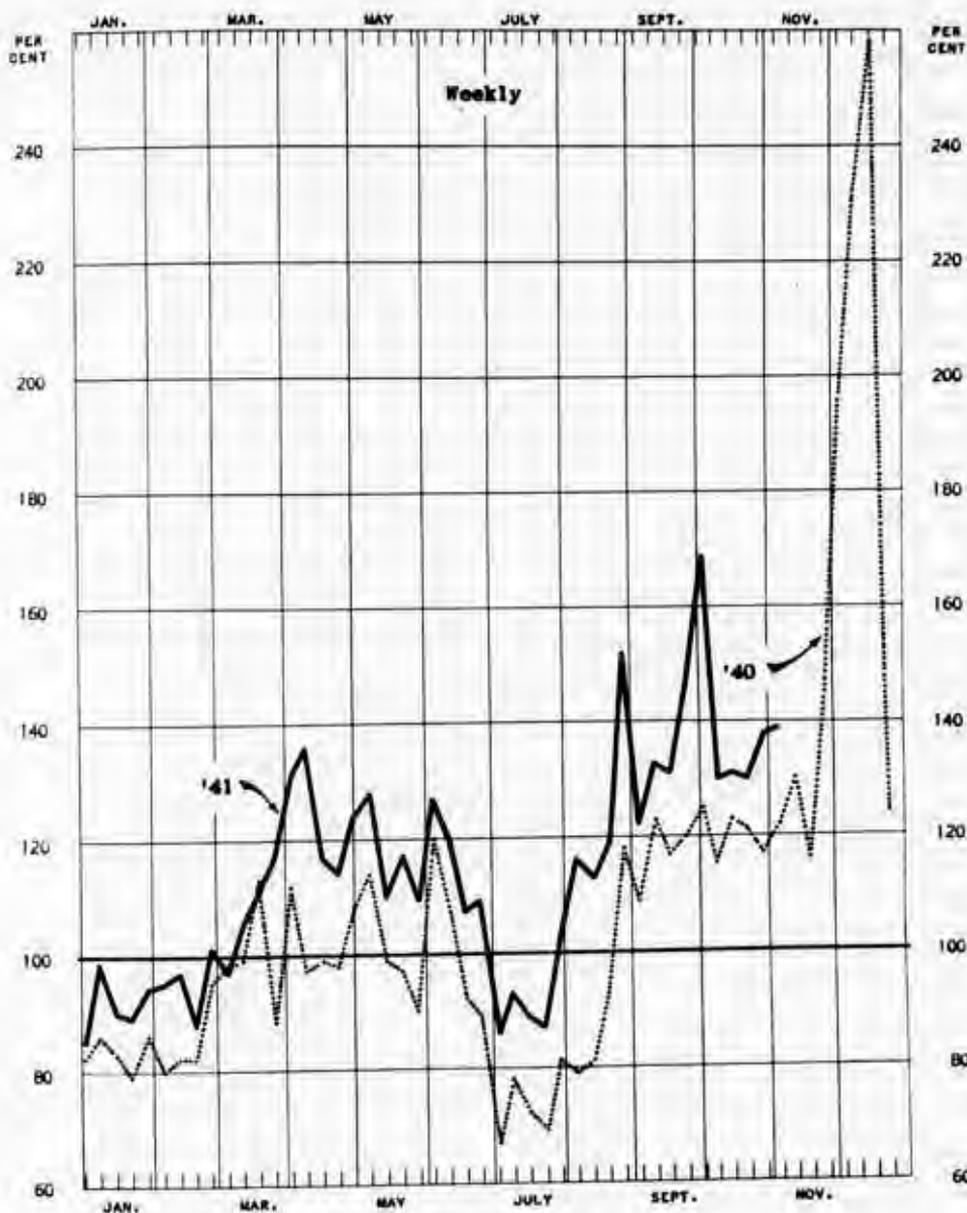


Percentage Change for Individual Commodities, August 1940 Low to November 7, and to November 14, 1941

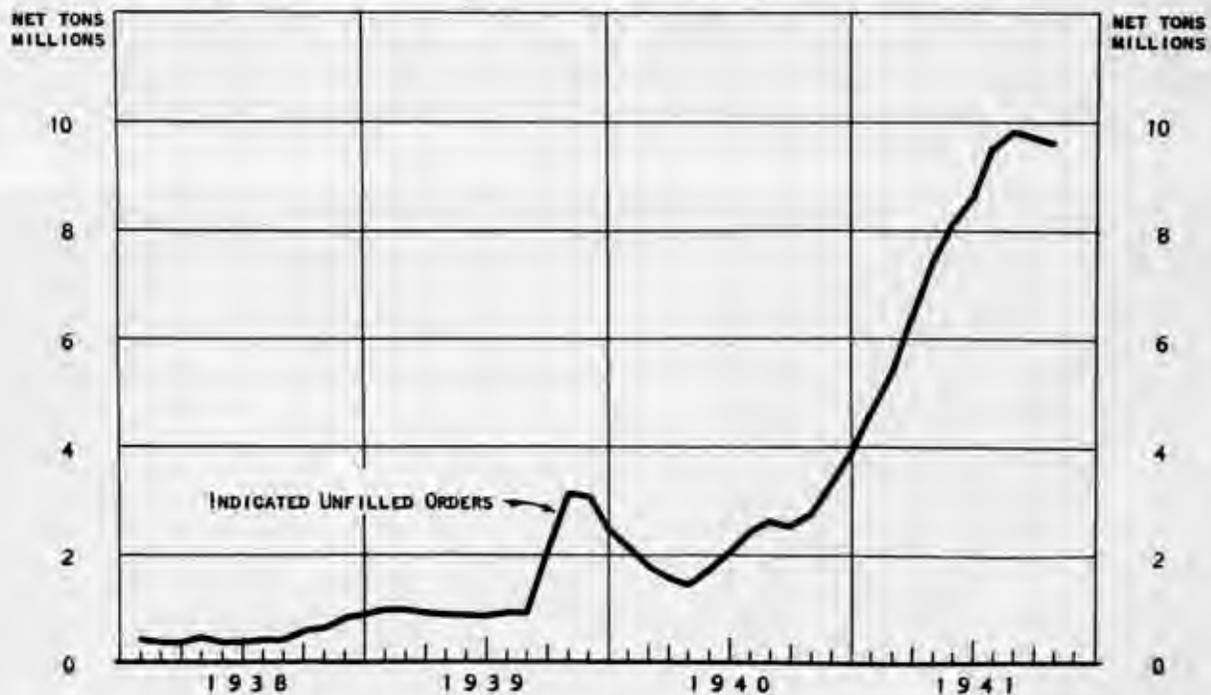
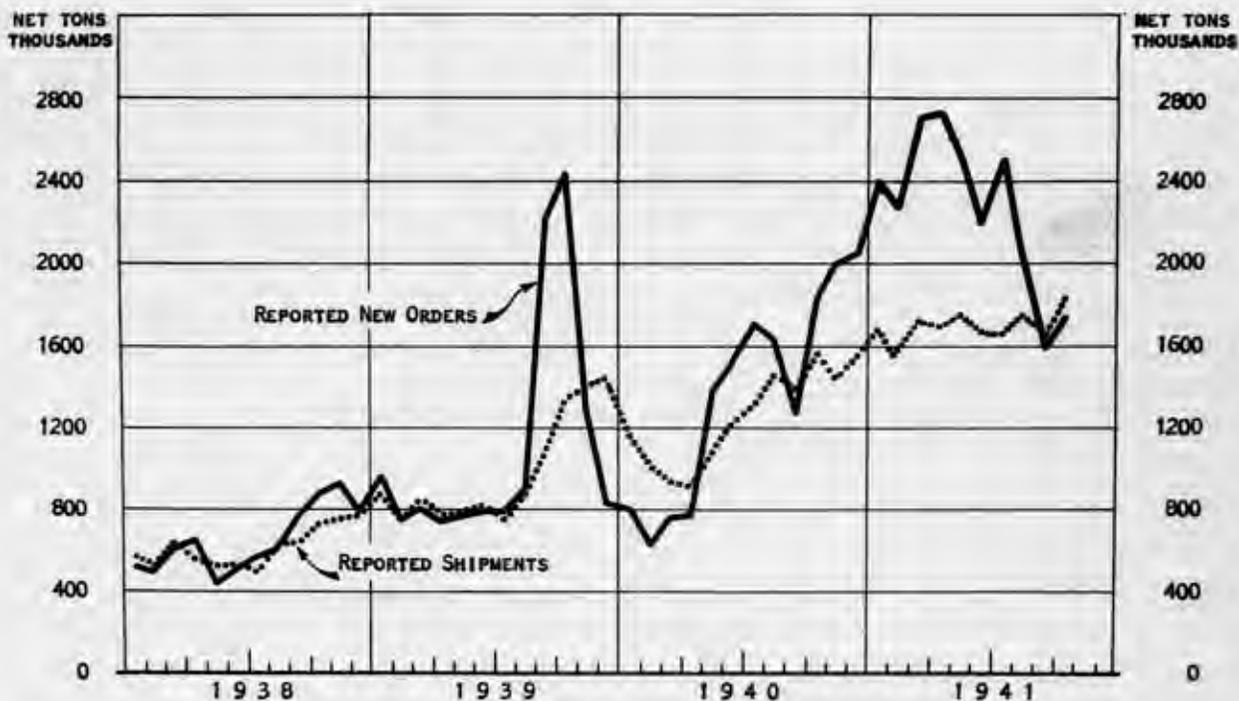


DEPARTMENT STORE SALES

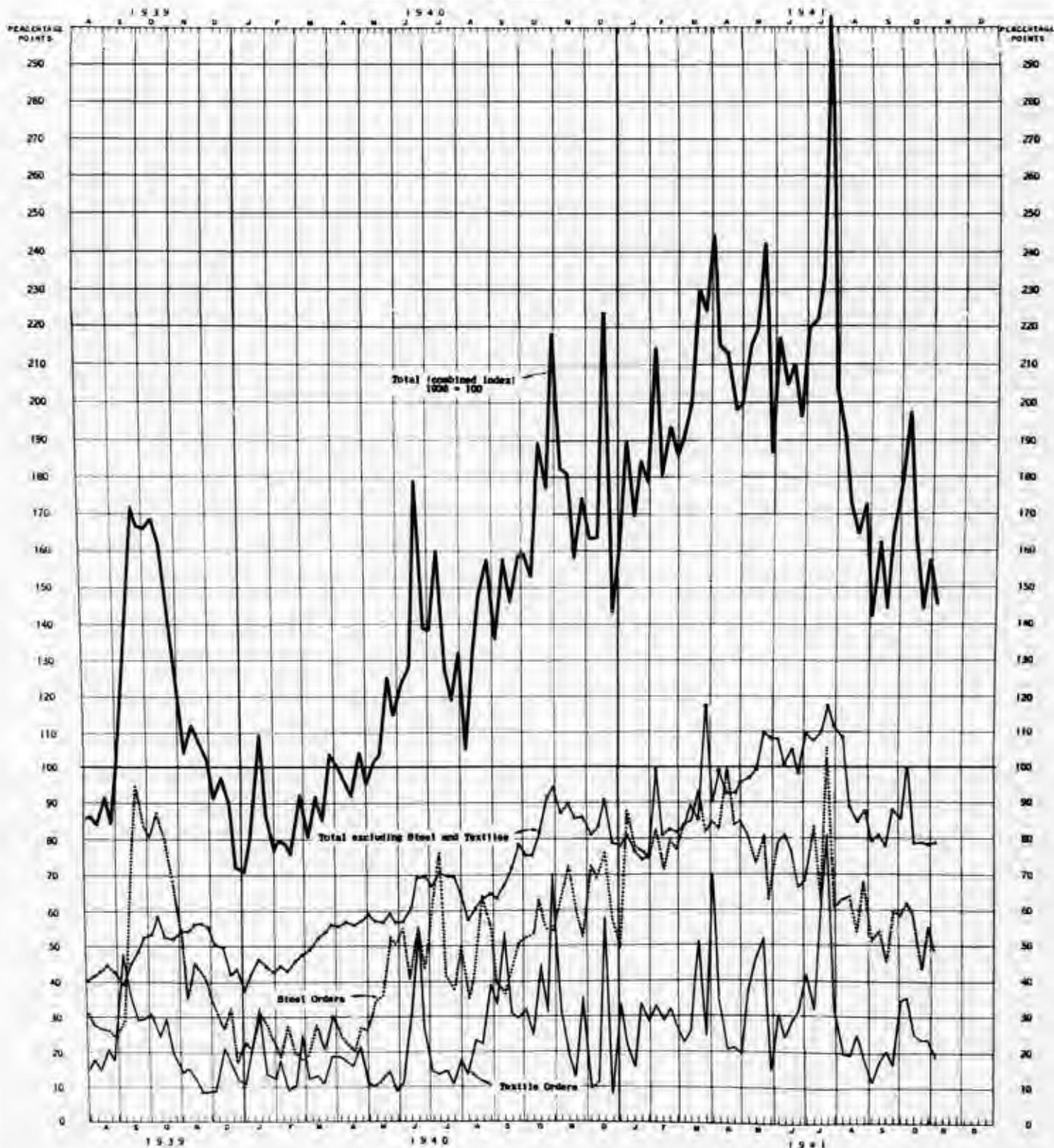
1935 - '39 = 100, UNADJUSTED



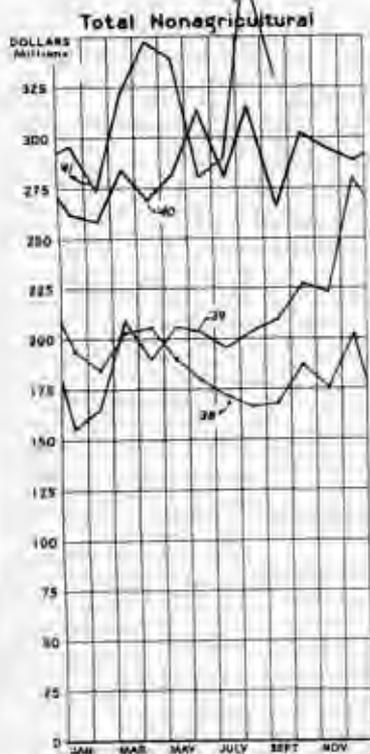
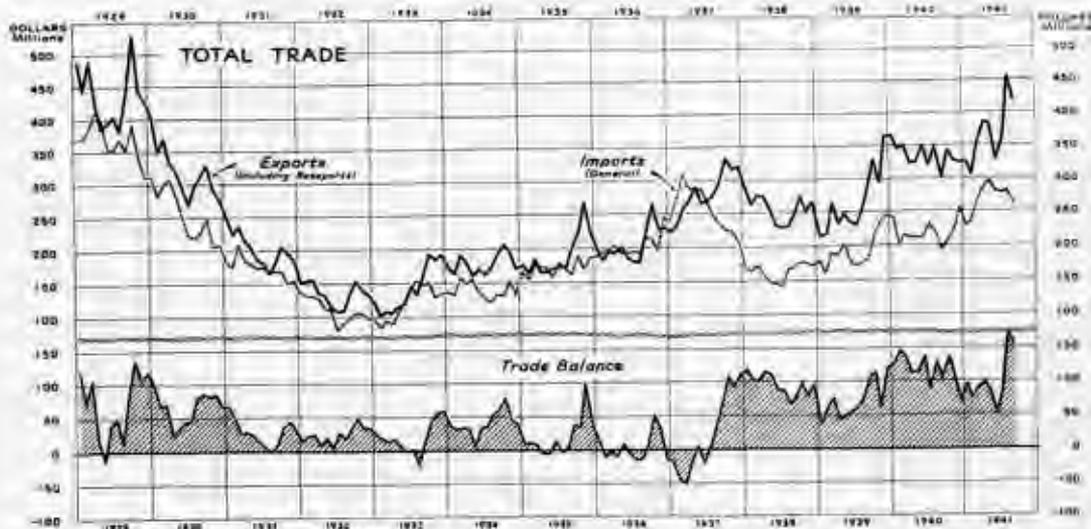
REPORTED NEW ORDERS, SHIPMENTS, AND INDICATED UNFILLED ORDERS OF THE U.S. STEEL CORPORATION



INDEXES OF NEW ORDERS
 Combined Index of New Orders and Selected Components

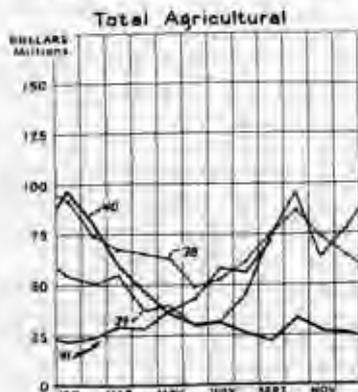
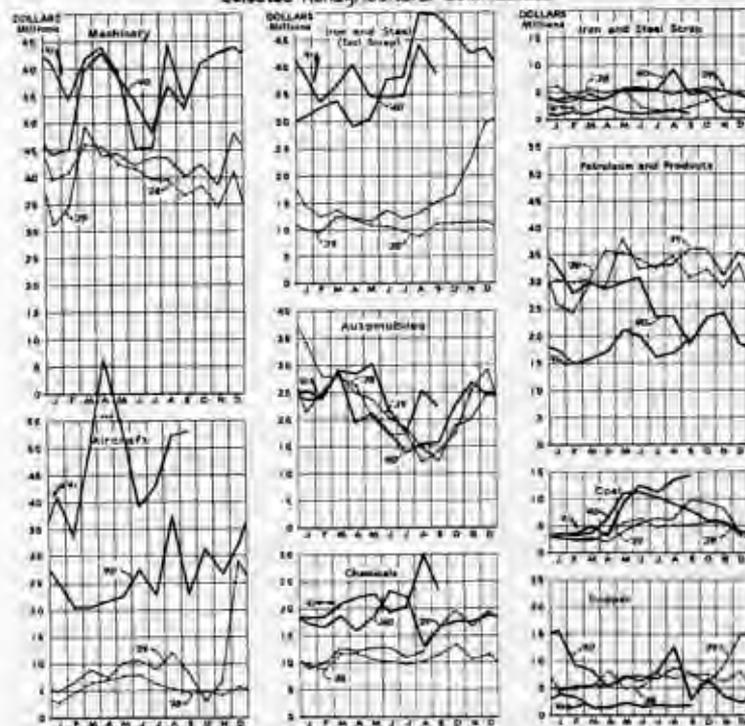


U.S. TOTAL TRADE AND EXPORTS BY COMMODITIES

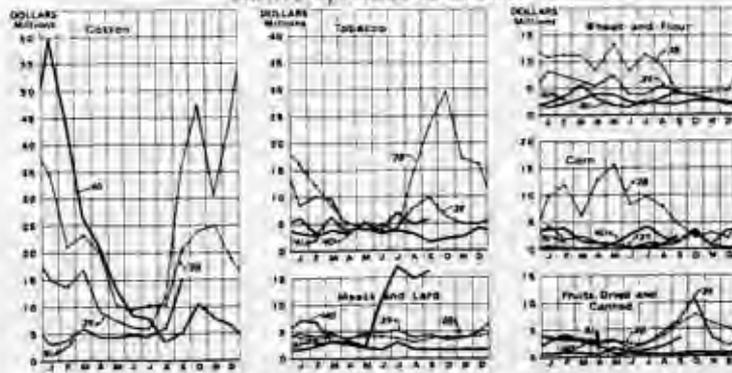


EXPORTS OF U.S. MERCHANDISE

Selected Nonagricultural Commodities



Selected Agricultural Commodities



TREASURY DEPARTMENT

359

INTER OFFICE COMMUNICATION

DATE November 17, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

As of the opening of business November 17, 1941, there were 2298 pending applications in the Foreign Funds Control.

J. W. Pehle
F. H. F. L.

Draft, See final copy
as sent to Pres + Secy
Nov 11/8/41.

November 17, 1941

360

TO Secretary Morgenthau
FROM H. D. White
SUBJECT Suggested Approach for Elimination of United
States-Japanese Tension

I.

It is becoming increasingly evident that diplomatic preparedness is as important an instrument of defense as is military preparedness. Military activity may win battles, diplomatic activity can make the fighting of these battles unnecessary; military victories can gain raw material, equipment and can weaken the enemy, diplomatic victories can achieve similar gains. Without major diplomatic victories Germany could not have attained her spectacular success. Had they not suffered major diplomatic defeats neither England nor France would be in their present predicaments.

But to be effective, diplomacy, like an Army, must use modern equipment and employ modern strategy. An "all out" effort involves in diplomacy as in military strategy the fullest use of every economic and political advantage. Just as our military forces in preparation for an "all out" defense or in actual warfare must make intelligent use of our geographical position, our rich resources, our vast labor power, technical equipment and democratic traditions, so must diplomacy utilize those advantages to the full if it is to have any chance of success.

In the light of requirements and possibilities of modern diplomacy, the manoeuvres of American diplomacy

- 2 -

during this grave crisis in the world's history have been pathetic.

Virtually surrounded by a world ablaze, and with the fire growing hotter, and nearer and more dangerous, our diplomatic machinery concerns itself chiefly with maintaining a facade of important goings-on, an appearance of assured and effective functioning, whereas behind that front is largely hesitation, bewilderment, inaction, petty maneuvering, sterile conversations, and diverse objectives.

Here and there, now and then, progress is made but on a scale that is completely inadequate to the task in hand. Where modern diplomacy calls for swift and bold action, we engage in long drawn out cautious negotiation; where we should talk in terms of billions of dollars, we think in terms of millions; where we should measure success by the generosity of the government that can best afford it, we measure it by the sharpness of the bargain driven; where we should be dealing with all-embracing economic, political and social problems, we discuss minor trade objectives, or small national advantages; instead of squarely facing realities, we persist in enjoying costly prejudices; where we should speak openly and clearly, we engage in protocol, in secret schemes and subtleties.

We must cut loose from that outmoded and decayed pattern of diplomacy. We must substitute, before it is too late, imagination for tradition; generosity for shrewdness; understanding for bargaining; toughness for caution, wisdom for prejudice, and strategy for tactics.

- 3 -

We are rich -- we should use more of our wealth in the interests of peace and victory. We are powerful -- we should be willing to use our power before our backs are to the wall. We need no nation's lands -- we should make full use of that fact. We keep our national pledges -- now is the time that record of integrity should stand us in good stead. We are protected by two oceans -- let us exploit that protection while distance is still a potent barrier. We are a democracy -- let us take full advantage of the strength just covenants openly arrived at.

If ever there was a time when diplomacy could secure its most brilliant victories for the United States, now is that time! The longer we wait the less chance will we have to use diplomacy as an aid to our defense. The patterns of relationship jell; plans become irrevocable; opportunities lost are gone forever. A nation committed irrevocably to a course of action loses the power to exercise choice, to accept offers and make conditions.

The proposed program of diplomatic effort given below will be called naive and visionary. It may be laughed at by the professional diplomats, but their ridicule will not alleviate the danger that confronts us, nor will their traditional method of handling the situation lead to any better results than have the efforts of their colleagues in England and France.

I am convinced the proposal is workable and could be spectacularly successful.

The proposal is given below only in bare outline and in only enough detail to indicate the essential point. Obviously, if and when the proposal is given serious consideration each of the enumerated points must be elaborated carefully, with appropriate conditions spelt out, loopholes or evasion blocked, and adequate protective clauses added.

The important thing right now is not a carefully worked-out proposal, but is rather the acceptance by the President and Secretary Hull of the worthwhileness of a different approach to the problem so that in the preliminary discussions with the Japanese emissary the negotiations can begin on a very different level than that likely to be the case if traditional methods are pursued.

If the President were to propose something like the appended agreement and the Japanese accept, the whole world would be electrified by the successful transformation of a threatening and belligerent powerful enemy into a peaceful and prosperous neighbor. The prestige and the leadership of the President both at home and abroad would skyrocket by so brilliant and momentous a diplomatic victory -- a victory that requires no vanquished, a victory that immediately would bring peace, happiness and prosperity to hundreds of millions of Eastern peoples, and assure the subsequent defeat of Germany!

I fully appreciate the difficulty and possible resultant unpleasantness involved in your getting the President and Secretary Hull/^{to} give the proposal serious consideration -- but isn't the goal worth the risk of being turned down?

United States and Japan

A.

1. War between the United States and Japan would cost thousands of lives, billions of dollars; would leave the vanquished country bitter and desirous of revenge; would foster social disruption, and would not insure peace during our children's lives, nor permanently solve troublesome problems now standing between the two countries, and

2. The United States is eager to avoid war, and is willing to go more than half way to settle peaceably the issues that stand in the way of more friendly intercourse between the two countries, and

3. The United States recognizes that Japan, because of the special nature of its economy, is greatly in need of opportunities for increased foreign trade, and in need of capital to repair the ravages of four years of warfare, and

4. The United States recognizes that injustice has been done to the Japanese people by our immigration laws, and

5. The United States believes that in the long run the interests of both the Japanese people and the American people can best be served by establishing fair and peaceful conditions under which Japan and her neighbors can prosper, and
6. The United States is rich enough in funds, raw material, equipment, and technical skill to build, if necessary, a Navy and air force ten times as strong as that which Japan can build, and
7. The United States is, because of numerous circumstances, powerful enough to destroy Japan should the United States be forced against her will to take up arms against Japan, and
8. The United States wishes so much to avoid unnecessary bloodshed and destruction that it will pay well to help Japan's economy back to a peaceful and healthy basis, and
9. The United States wishes to help China maintain her independence and attain peace so that she may go forward in her political and economic development, so unfortunately interrupted in 1937, and

- 7 -

10. The United States believes there is no basic obstacle to permanent and more friendly relations between the United States and Japan and believes that the Japanese people will welcome an opportunity to restore peace, to reconstruct Japan's industry and trade, and to promote friendly relations with her neighbors on a basis fair both to Japan's needs and the needs of her neighbors.

And finally -- and of most immediate importance --

11. The United States wishes to concentrate as soon as possible her naval force in the Atlantic so as to be prepared for any emergency against a potential enemy with whom there is no current basis for friendship.

B.

Because of the foregoing facts, the United States proposes to enter into an Agreement with Japan at once under which the United States and Japan will agree to do certain things, as follows:

On her part, the United States Government proposes to do the following:

1. To withdraw the bulk of the American Naval forces from the Pacific.
2. To sign a 20-year non-aggression pact with Japan.
3. To promote a final settlement of the Manchurian question.

4. To place Indo-China under the Government of a joint British, French, Japanese, Chinese and American Commission, which will insure most-favored-nation treatment for those five countries until the European War is ended, and which will govern the country primarily in the interests of the Indo-Chinese people.

5. To give up all extra-territorial rights in China, and to obtain England's agreement to give up her extra-territorial rights in China, and give Hong Kong back to China.

6. To present to Congress and push for enactment a bill to repeal the Immigration Act of 1917 which prohibits immigration into the United States of Japanese, and place the Japanese and the Chinese on the same basis as other peoples.

7. To negotiate a trade agreement with Japan, giving her (a) most-favored-nation treatment and (b) such concessions on imports as can be mutually satisfactorily arranged, including an agreement to keep raw silk on the free list for 20 years.

8. To extend a \$2 billion 20-year credit at 2 per cent interest, to be drawn upon at the rate not to exceed \$200 million a year except with approval of the President of the United States.

9. To set up a \$500 million stabilization fund half supplied by Japan and half by the United States, to be used for the stabilization of the dollar-yen rate.

10. To remove at once restrictions on Japanese funds in the United States.

11. To use its influence to the full to attempt to eliminate sources of potential friction between Japan and her neighbors.

C.

On its part, the Japanese Government proposes to do the following:

1. Withdraw all military, naval, air police forces from China (boundaries as of 1931) from Indo-China and from Thailand.

2. Withdraw all support -- military, political, or economic -- from any government in China other than that of the national government.

3. Replace with yen currency at a rate agreed upon among the Treasuries of China, Japan, England and United States all military scrip, yen and puppet notes circulating in China.

4. Give up all extra-territorial rights in China.

5. Extend to China a billion yen loan at 2 per cent to aid in reconstructing China (at rate of 100 million yen a year).

6. Withdraw all Japanese troops from Manchuria except for a few divisions necessary as a police force, provided U.S.S.R. withdraws all her troops from the Far Eastern front except for an equivalent remainder.

7. Sell to the United States up to three-fourths of her current output of war material -- including naval, air, ordnance and commercial ships on a cost-plus 20 per cent basis as the United States may select.

8. Accord the United States and China most-favored-nation treatment in the whole Japanese Empire.

9. Negotiate a 10-year non-aggression pact with United States, China, British Empire, Dutch Indies (and Philippines).

D.

Inasmuch as the United States cannot permit the present uncertain status between the United States and Japan to continue in view of world developments, and feels that decisive action is called for now, the United States should extend the above offer of a generous and peaceful solution of the difficulties between the two countries for only a limited time. If the Japanese Government does not indicate its acceptance in principle at least of the proffered terms before the expiration of that time, it can mean only that the present Japanese Government prefers other and less peaceful ways of solving those difficulties, and is possibly awaiting the propitious moment to carry out further a plan of conquest.

In the event that Japan elected to reject the offer of peaceful solution under terms herein indicated, the United States would have a clearer idea of what to expect and would therefore know better how to shape her own policy.

III.

The advantages of terms indicated above to the two countries are so great, and the disadvantages so small, that it is difficult to believe that the Japanese Government would hesitate to accept the offers. Certainly the bulk of the Japanese people would be enthusiastic about the offer.

The advantages accruing to each government are listed below:

A. To the United States

1. Our naval power will be greatly increased at once by the freeing of our Pacific fleet for duty elsewhere.
2. We would be able to send more of our equipment to England and Russia without increasing our vulnerability to an attack from the East.
3. We will have stopped the war in China and have regained for her her freedom.
4. We will have paved the way for a substantial increase in post-war trade.
5. We would greatly strengthen the Allied position vis-a-vis Germany.
6. We will have saved ourselves from a war with Japan.
7. The money it would cost us would be a very small part of what we would save by not having to fight Japan, or by not having to be prepared for a two-ocean war.
8. A prosperous Japan and China can greatly help to restore our normal trade, and thus make easier our own transition to a peace time economy.
9. Insure for ourselves an increased supply of tin, antimony and wood oil and rubber from the Far East.
10. Handicap Germany in its present military campaign and at the same time give great moral encouragement to the British and Russian people.
11. Finally, military and naval experts who now fear a "two front" naval threat will be more enthusiastic about all out help to England and Russia. There will be much less cause to oppose the administration's foreign policy.

B. To Japan

1. Instead of being confronted with prospect of a more serious war and certain defeat in the end, she can have peace at once.

2. She can proceed at once to shift from a war economy to peace economy and at the same time experience prosperity rather than a serious depression.

3. She can withdraw from the China incident without loss of "face".

4. She can strengthen her currency and reduce her public debt.

5. Her foreign trade will greatly increase.

6. She can devote her energies and capital to reconstructing Japan, building up Manchuria, and developing new trade possibilities at a time when other countries are engaged in war or preparation for war.

7. She will at one stroke have solved some of her thorniest problems in her international relations.

8. She will avoid the social disruption that is bound to take place in Japan after an expanded and prolonged war effort.

IV.

It would, of course, be necessary to obtain Congressional approval before making definite offers, but through preliminary confidential conferences with leaders of both parties and with appropriate committees, the ground could be quickly prepared so that negotiations could go forward.

A completed document could in a week or two be offered to the Japanese Government. The world, including the Japanese people, would know the motives and the contents of our offer. If the Japanese Government would not accept, it would have at least the great advantages of (1) clarifying our own policy and rallying support behind the President, (2) create serious division in Japan.

If the Japanese Government were to indicate its tentative acceptance in principle, the President could at once call a conference in Washington to be attended by Chinese, British, Russian, and possibly Dutch East Indian and Philippine representatives. Inasmuch as all the important concessions are to be made by United States and Japan, the participation of other governments in the conference need not complicate negotiations.

The one danger inherent in the proposed concessions is that if accepted by Japan it would provide her with a breathing space during which she could greatly strengthen her military and economic potential. She might then be a greater threat to us a year or two hence than she is now.

- Against that possibility are the following factors:
1. Owing to the scarcity of many raw materials she will not be able to expand her navy and air force during the next year nearly as much as we can -- particularly in view of the provision in the agreement that we can buy 80 percent of her current output of armaments.
 2. The next two years are crucial for us. If we can obtain the release of the Russian, British and American forces now being tied up in the Far East by Japan's continuous threatening, we will have done

more to strengthen United Kingdom and Russia vis-a-vis Germany than we could with a whole year's output of planes and tanks and ships.

3. The Japanese people would be so relieved by the settlement of the China "incident", and the end of the threat of war with major powers, and would be so happy at the cessation of economic strangulation and the emergence of real prosperity, that it is hardly likely that any military clique could stir up significant trouble for years to come.
4. Finally, there would be nothing important left for Japan to threaten to fight for that she could hope to get if Germany were defeated. Japan would hardly dare invade China again soon -- so long as the Chinese did not have civil war. Japan would certainly not wish to threaten the United States, the United Kingdom, or the U.S.S.R. if Germany were defeated. She also would not wish to interrupt the annual increments of loan to Japan, nor again jeopardize her markets and sources of raw materials.

Altogether, the likelihood of Japan's strengthening her position and re-entering the world scene as a belligerent aggressor in the next few years seems very slim -- provided Germany is defeated.

For Miss Chauncey

TREASURY DEPARTMENT

374

INTER-OFFICE COMMUNICATION

DATE November 17, 1941

TO Secretary Morgenthau

FROM Mr. Bell

STRICTLY CONFIDENTIAL

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Nov. 10	620	24,816	15,000	10,043
11	Nil	Nil	Nil	Nil
12	Nil	Nil	10,000	10,220
13	Nil	Nil	Nil	Nil
14	Nil	Nil	Nil	Nil
15	Nil	Nil	Nil	Nil
	<u>620</u>	<u>24,816</u>	<u>25,000</u>	<u>20,263</u>
Sales from Feb. 22, 1940 to Nov. 8, 1941	<u>9,828,856-1/2</u>	<u>281,070,558</u>	<u>45,423,016</u>	<u>37,309,201</u>
Sales from Feb. 22, 1940 to Nov. 15, 1941	<u>9,829,476-1/2</u>	<u>281,095,374</u>	<u>45,448,016</u>	<u>37,329,464</u>

AWB

November 17, 1941

CONFIDENTIAL

Dear Mr. Knoks:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter dated November 6, 1941, enclosing your compilation for the week ended October 29, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

(Signed) D. W. BELL

Under Secretary of the Treasury.

Mr. L. W. Knoks,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

FD:ec:11-10-41

November 17, 1941

CONFIDENTIAL

Dear Mr. Encke;

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter dated November 13, 1941, enclosing your compilation for the week ended November 5, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

(Signed) D. W. BELL

Under Secretary of the Treasury.

Mr. L. V. Encke,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

(Init.) F. D.

FD-11-17-41

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377

FEDERAL RESERVE BANK
OF NEW YORK

November 13, 1941

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing our compilation for the week ended November 5, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knocks,

L. W. Knocks,
Vice President.

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

Enclosure

Copy:vw:11-17-41

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$8.5 million received from New York accounts of British authorized banks.

NOV 17 1941

My dear Mr. Berle:

The President has sent us a copy of the letter addressed to him by Dr. Alvin H. Hansen, U.S. Chairman of the Joint Economic Committee of the United States and Canada, transmitting a resolution of the Joint Economic Committee which recommends that travel between the two countries should be liberalized. He has asked this Department, along with your Department and the Department of Justice, to explore this matter and he has told me that he has asked you to keep in touch with us on this subject.

I shall be glad to see you now or later and to help in every way possible. I have asked Mr. M. D. White, who is a member of the Joint Economic Committee, to investigate what steps the Treasury can take and he will be available for any conferences or discussions which you may deem necessary.

Sincerely yours,

(Signed) E. A. Tamm, Jr.

Secretary of the Treasury.

The Honorable
Adolf A. Berle,
Assistant Secretary of State,
State Department,
Washington, D.C.

cc - D. M. B.
J. L. M. W. K.

VFC:ien
11/13/41

NOV 17 1941

My dear Mr. President:

In accordance with the request in your letter of November 7, 1941, and the recommendations of the Joint Economic Committee of the United States and Canada, the Treasury Department will be very glad to cooperate with the Departments of State and Justice to explore the possibility of liberalizing the regulations concerning travel between the United States and Canada.

I have written to Mr. A.A. Berle, Jr., Assistant Secretary of State, to inform him that we are ready to consult with him upon this matter.

Sincerely yours,

[Signed] H. Morgenthau. *HJM*

Secretary of the Treasury.

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

n.m.c.

VFC:lon
11/15/41.

Photostat file sent to Mr. White's office

By Messenger *Stamps*
4:50

383

Copy furnished to Dr. White per Secretary's
instructions 11/10/41

THE WHITE HOUSE
WASHINGTON

November 7, 1941

My dear Mr. Secretary:

I enclose herewith a copy of a letter, dated October 22, 1941, addressed to me by Dr. Alvin H. Hansen, United States Chairman of the Joint Economic Committees of the United States and Canada, transmitting a resolution of the Joint Economic Committees, recommending that the Governments of Canada and the United States undertake, so far as consistent with national safety and the necessity of Canada to conserve her supplies of foreign exchange, to liberalize the regulations now limiting the traditional freedom of travel across the common boundary.

I believe that the objectives embodied in these recommendations are desirable, and I am therefore requesting your Department and the Departments of State and Justice to explore what steps can effectively be taken to accomplish the desired ends. In order

-2-

that there may be some unity in this work, I am asking Assistant Secretary of State, Adolf A. Berle, Jr., who is also an occasional member of the Joint Economic Committees, to keep in touch with your Department on these matters.

Very sincerely yours,



Enclosure:

From Dr. Alvin H.
Hansen, October 22,
1941.

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

COPY

386

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington

Address official correspondence
to the Board

October 23, 1941

Dear Mr. President:

I enclose a resolution of the Joint Economic Committees of Canada and the United States, signed by the respective chairmen of the national committees, recommending that the Governments of the United States and Canada undertake, so far as consistent with national safety and the necessity of Canada to conserve her supplies of foreign exchange, to liberalize the regulations now limiting the traditional freedom of travel across the common boundary.

The Joint Economic Committees feel that while this problem in the United States is primarily an administrative one concerning the passport and visa requirements of the Department of State and the immigration regulations of the Department of Justice, it has economic ramifications of importance. Their principal concern, however, is to remedy the anomalous situation in which the two countries are moving toward closer collaboration in economic questions but pulling apart in personal contacts between their peoples.

The Committees further recognize that the restrictions on pleasure travel in the United States imposed by Canada have been required by the exigencies of conservation of United States dollar exchange. They raise the question, however, whether the United States might not be prepared to make some financial arrangement or concession which would enable the Canadian Government, if it is agreed upon the desirability of such action, to liberalize these restrictions in some degree. In the United States, this question presumably falls within the competence of the Department of State and the Treasury Department.

The Joint Economic Committees would appreciate, in the event you concur in the wisdom of the proposals

indicated

-2-

indicated, that you direct the Department of State, the Department of Justice, and the Treasury Department to explore what steps can effectively be taken to accomplish the desired ends.

Faithfully yours,

ALVIN H. HANSEN, CHAIRMAN
United States Committee

The President
The White House
Washington, D. C.

COPY

COPY

**RESOLUTION OF THE JOINT ECONOMIC COMMITTEES
OF CANADA AND THE UNITED STATES**

The Joint Economic Committees

- (1) Having viewed with regret the evident diminution in the intimacy between the peoples of Canada and the United States which has resulted from the imposition of restrictions on the traditional freedom of travel across the common boundary, and
- (2) Having recognized that these restrictions have numerous economic aspects, particularly as they relate to mobility of labor between the two countries and to the control of foreign exchange, and
- (3) Having recognized that this is likely to add to the difficulty of establishing that unity of feeling which is essential for the full collaboration of the governments and peoples in the national defense efforts of the two countries, and
- (4) Having recognized the basic inconsistency between these developments and other efforts of the two governments directed toward increasing cooperation between Canada and the United States;

Recommend:

- (1) That the Government of the United States study anew its passport and visa requirements for Canadians crossing the Canadian-American border, with a view to liberalizing the regime as far as consistent with national safety, and
- (2) That

-2-

- (2) That the Canadian Government give periodic study to the degree to which it is in a position to liberalize its exchange regulations so as to permit a greater travel of Canadians in the United States, and that the appropriate officials of Canada and the United States discuss these matters from time to time in their administrative and financial aspects.

Signed:

W. A. MACKINTOSH
Canadian Chairman

ALVIN R. HANSEN
United States Chairman

Date: October 11, 1941.

November 7, 1941

My dear Mr. Secretary:

I enclose herewith a copy of a letter, dated October 22, 1941, addressed to me by Dr. Alvin H. Hansen, United States Chairman of the Joint Economic Committees of the United States and Canada, transmitting a resolution of the Joint Economic Committees, recommending that the Governments of Canada and the United States undertake, so far as consistent with national safety and the necessity of Canada to conserve her supplies of foreign exchange, to liberalize the regulations now limiting the traditional freedom of travel across the common boundary.

I believe that the objectives embodied in these recommendations are desirable, and I am therefore requesting your Department and the Departments of State and Justice to explore what steps can effectively be taken to accomplish the desired ends. In order

-2-

that there may be some unity in this work, I am asking Assistant Secretary of State, Adolf A. Berle, Jr., who is also an occasional member of the Joint Economic Committees, to keep in touch with your Department on these matters.

Very sincerely yours,

Franklin D. Roosevelt

Enclosure:

From Dr. Alvin H.
Hansen, October 22,
1941.

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

52 61

Addressed to the Board
to the Board

October 27, 1941

Dear Mr. President:

I enclose a resolution of the Joint Economic Committees of Canada and the United States, signed by the respective chairmen of the national committees, recommending that the Governments of the United States and Canada undertake, so far as consistent with national safety and the necessity of Canada to conserve her supplies of foreign exchange, to liberalize the regulations now limiting the traditional freedom of travel across the common boundary.

The Joint Economic Committees feel that while this problem in the United States is primarily an administrative one concerning the passport and visa requirements of the Department of State and the immigration regulations of the Department of Justice, it has economic ramifications of importance. Their principal concern, however, is to remedy the anomalous situation in which the two countries are moving toward closer collaboration in economic questions but pulling apart in personal contacts between their peoples.

The Committees further recognize that the restrictions on pleasure travel in the United States imposed by Canada have been required by the exigencies of conservation of United States dollar exchange. They raise the question, however, whether the United States might not be prepared to make some financial arrangement or concession which would enable the Canadian Government, if it is agreed upon the desirability of such action, to liberalize these restrictions in some degree. In the United States, this question presumably falls within the competence of the Department of State and the Treasury Department.

The Joint Economic Committees would appreciate, in the event you concur in the wisdom of the proposals

indicated

-2-

indicated, that you direct the Department of State, the Department of Justice, and the Treasury Department to explore what steps can effectively be taken to accomplish the desired ends.

Faithfully yours,

ALVIN H. HANSEN, CHAIRMAN
United States Committee

The President
The White House
Washington, D. C.

COPY

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RESOLUTION OF THE JOINT ECONOMIC COMMITTEES
OF CANADA AND THE UNITED STATES

The Joint Economic Committees

- (1) Having viewed with regret the evident diminution in the intimacy between the peoples of Canada and the United States which has resulted from the imposition of restrictions on the traditional freedom of travel across the common boundary, and
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-2-

- (2) That the Canadian Government give periodic study to the degree to which it is in a position to liberalize its exchange regulations so as to permit a greater travel of Canadians in the United States, and that the appropriate officials of Canada and the United States discuss these matters from time to time in their administrative and financial aspects.

Signed

H. A. HACKETT
Canadian Chairman

ALVIN H. HANSEN
United States Chairman

Date: October 11, 1941.

NOV 17 1941

Dear Dr. Clark:

Thank you very much for the copies of your memorandum on "Forecast of Canada's Foreign Exchange Position" dated November 5 which you have sent to me. I was very pleased to notice that on the side of exports from Canada the Hyde Park Agreement seems to be having a very important effect.

I hope that your health is continuing good despite the strain you are under.

Sincerely yours,

[Signed] H. Morgenthau, Jr.

Secretary of the Treasury.

Dr. W. C. Clark,
Deputy Minister of Finance,
Ministry of Finance,
Ottawa, Canada

*File W.C.C.
Copies to Dr. White's office*

VFC:sic
11/13/41.

TREASURY DEPARTMENT

397

INTER-OFFICE COMMUNICATION

DATE November 13, 1941

TO Secretary Morgenthau
FROM H. D. White

Enclosed is a new forecast of Canada's gold and dollar exchange position for the coming year which has been prepared by the Canadians. Dr. Clark, Deputy Minister of Finance, gave this to Mr. Coe in Ottawa the other day and asked him to transmit it to you.

There is also prepared a letter of acknowledgement for your signature.

1. It appears that in three months July-September, 1941, the situation was a little better than that which had been forecast.

2. The forecast for 1942 indicates that the loss of reserves in 1942 will be small whereas previously a large dollar deficit had been expected.

3. The big factor in changing the situation has been the war purchases by the United States. This part of the Hyde Park agreement is working very well, though it is impossible to assign particular sales to the agreement. Lend-leasing by Britain for Canadian fabrication is proving to be a comparatively small affair -- only \$11 million forecast for 1941 and only \$44 million forecast for 1942.

Attachments 2

STRICTLY
CONFIDENTIAL

Nov. 5, 1941.

Forecast of Canada's Foreign Exchange Position

Notes on revised estimates dated Nov. 1, 1941

1. During the three months July to September Canada had net cash receipts of U.S. dollars to the amount of \$3 million, as compared with a forecast (in July) of a net cash deficit of \$27 million. The improvement of \$30 million is attributable chiefly to increased exports (\$23 million above forecast) and capital receipts (\$13 million above forecast); there were also other offsetting increases and decreases.

2. The change in the forecast for calendar years 1941 and 1942 is shown below:

(\$ millions U.S.)	U.S.-dollar position			
	Previous estimate		New estimate	
	1941	1942	1941	1942
Reserves of gold and U.S. dollars at Jan. 1	328	209	330	221
Cash surplus or deficit	-119	-130	-109	-16
Forecast reserves at Dec. 31	209	71	221	205

The estimates this time have been extended to March 31, 1943, the end of the next fiscal year. They show a forecast net deficit in the first quarter of 1943 of \$52 million, reducing reserves as of March 31, 1943, to \$153 million.

3. These calculations involve certain assumptions, the chief of which are:

(a) That sales of munitions and ships under the Hyde Park Agreement will be consummated in accordance with the program as of September 30, 1941. The contracts for ships (\$150 million) have not yet been signed.

(b) That down-payments and progress-payments will be received in accordance with present expectations, namely, \$20 million on ordnance and \$48 million on ships, total \$68 million to be received in the 4th quarter of 1941 (\$32 million) and the 1st quarter of 1942 (\$35 million).

- 2 -

(c) That prices in the United States will not increase significantly. If such an increase does occur, it would have a very adverse effect on Canada's U.S. dollar position -- it might affect almost all imports from the United States (except those contracted for in advance) but would be unlikely to affect much of our exports to the United States (e.g., gold, newsprint, lumber, munitions and ships sold by War Supplies Limited, etc.)

(d) On the other hand, allowance has not been made for probable and possible renewal sales by War Supplies Limited -- a possible net total of \$120 million; offsetting this in part, the estimate of Canadian war imports shows some tapering off which may well not occur -- it is very difficult to project this item into the future.

(e) There is also the possibility of shortage of supplies restricting imports from the United States, or exports to the United States.

4. The chief revisions in the estimates are shown below (a negative sign indicates a decrease in estimated receipts or an increase in estimated expenditures):

- 3 -

	Nov. 1 estimates compared with July 7 estimates		
	1941	1942	Total for 2 years
Exports to U.S.A. (ex Hyde Park)	37	45	82
Imports from U.S.A. (ex Hyde Park)	15	23	38
Newly mined gold	- 4	-15	-19
Tourist travel receipts (a)	-36	-36	-72
Newfoundland (b)	13	10	23
Services: receipts (c)	22	20	42
expenditures	-12	-16	-28
Capital: receipts	16	--	16
expenditures (a)	23	24	47
Hyde Park (d)	-66	32	-34
All other (not)	<u>19</u>	<u>17</u>	<u>36</u>
Total	27	104	131
Lag in cash payments, etc.	<u>-17</u>	<u>18</u>	<u>1</u>
Net change in forecast of net cash receipts	<u>10</u>	<u>122</u>	<u>132</u>
Net cash receipts: change (as above)	10	122	132
previous forecast	<u>-119</u>	<u>-138</u>	<u>-257</u>
now forecast	<u>-109</u>	<u>-16</u>	<u>-125</u>

Footnotes to the above table:

- (a) Tourist receipts and capital expenditures have both been reduced by \$23 million, representing the former estimate of tourist receipts which did not produce U.S. dollars because they were financed by purchases of Canadian dollars in the unofficial market. In addition, tourist receipts have been reduced by \$13 million. Foreign Exchange Control Board records do not identify even \$91 million (the new estimate) as being actually received in U.S. dollars, and a further reduction may have to be made in later estimates; if so, however, there would be a corresponding increase in the amount shown for "Other services, miscellaneous income, etc." or for "Interest and dividends".

- 4 -

- (b) Newfoundland's net receipts or deficit was formerly thought to be immaterial, over a full year, but recent developments indicate there will be annual net receipts in the amounts shown.
- (c) These miscellaneous income receipts, according to Foreign Exchange Control Board records, are substantially greater than previous estimates. See also the concluding sentence in note (a) above.
- (d) This is almost entirely a question of timing. The total to March 31, 1943, is exactly the same as the total to December 31, 1942, in the previous estimates.

5. Table Ia shows the net effect of the Hyde Park Agreement.

Probable exports to March 31, 1943 (total value in U.S. dollars exclusive of Canadian freight to border) are estimated as follows:

War Supplies Limited

Universal carriers	14
Guns	61
Ammunition	84
Radio apparatus	33
Aircraft, parts, etc.	24
Ships	160
Textiles and miscellaneous	4
China (ordnance and aircraft)	35
	<u>315</u>
Aluminum	35
	<u>450</u>
	15
Add: Canadian freight to border	
Deduct: U.S. content of such exports	<u>-61</u>
Net exports	<u>384</u>
adjust for advance payments	26
Net receipts during period	<u>410</u>
Saving on other war imports through U.K. obtaining components under Lend-Lease	<u>51</u>
Net effect in U.S. dollars	<u><u>481</u></u>

Forecast of Canada's Foreign Exchange Position

TABLE I: GOLD AND U. S. DOLLARS

(In millions of U. S. dollars)

Item	Sept. 15, 1939 to Mar. 31, 1943	Sept. 15, 1939 to Dec. 31, 1940	1941	1942	Jan.- Mar 1943	1941 and 1942 by quarters								Item
						1941				1942				
						I	II	III	IV	I	II	III	IV	
<u>FINANCING CANADA'S DEFICIENCY OF U. S. DOLLARS</u>														
Depletion of liquid reserves	236	61	109	16	52	53	22	-5	37	-30	1	-10	45	1
Liquidation of other U.S. assets by Canada	146	61	40	20	5	11	14	10	5	5	5	5	5	2
Reduction in Canada's U.S. dollar assets	384	142	149	36	57	64	36	7	42	-15	6	-5	50	3
New investment in Canada	93	97	41	20	5	4	19	13	5	5	5	5	5	4
Sub-total: factors increasing Canada's net U.S. dollar debt	477	169	190	56	62	68	55	20	47	-10	11	-	55	5
Gold and U.S. dollars bought from the United Kingdom	227	227	?	?	?	nil	nil	nil	?	?	?	?	?	6
Net effect of Hyde Park agreement	484	-	95	357	34	-	24	25	44	97	99	85	76	7
Total (equals total cash deficiency)	1,188	396	285	413	96	68	79	45	91	87	110	85	131	6
<u>OFFICIAL AND PRIVATE LIQUID RESERVES</u>														
Held at beginning of period:														
Official: - gold	205	205	156	156	156	156	156	156	156	156	156	156	156	9
U.S. dollar balances	56	56	194	65	60	194	141	119	122	85	105	104	114	10
Total (a)	261	261	350	221	205	330	277	255	258	221	241	240	250	11
Private (b)	130	130	--	--	--	--	--	--	--	--	--	--	--	12
Total liquid reserves	391	391	350	221	205	330	277	255	258	221	241	240	250	13
Net increase or decrease during period	-238	-61	-109	-16	-52	-53	-22	3	-37	20	-1	10	-45	14
Held at end of period	153	330	221	205	153	277	255	258	221	241	240	250	153	15

(a) Total "official" holdings - Foreign Exchange Control Board, Minister of Finance and Bank of Canada.

(b) Total holdings of U.S. dollars by all other residents of Canada, excluding Canadian banks and insurance companies whose holdings of U.S. dollars are required for the purposes of their U.S. business. The totals shown are exclusive of \$20 million in minimum working balances.

Forecast of Canada's Foreign Exchange Position

Revised
Nov. 1, 1941

TABLE Ia: EFFECT OF HYDE PARK AGREEMENT

(In millions of U.S. dollars)

Item	Canadian Fiscal Years (Apr.-Mar.)		Calendar Years		Calendar Years by Quarters										Item
	1941-42	1942-43	1941	1942	1941				1942				1943		
					I	II	III	IV	I	II	III	IV	I		
1	Exports of defence articles and aluminum ^(a)	81	394	14	391	-	-	-	14	67	116	109	99	60	1
2	Deduct: U.S.-dollar content of such exports ^(b)	29	52	15	52	-	1	4	10	14	12	12	14	14	2
3	Net exports	52	332	- 1	339	-	- 1	- 4	4	53	104	97	85	46	3
4	Adjustment for down payments and progress payments	116	- 80	82	- 30	-	20	25	32	34	- 18	- 24	- 22	- 16	4
5	Net cash receipts of U.S. dollars from such exports	168	252	81	309	-	24	21	36	87	86	73	63	30	5
6	Defence articles imported from U.S.A. by U.K. under Lend-Lease (in re Canadian war production for U.K.) ^(b)	22	42	12	48	-	-	4	8	10	13	12	15	4	6
7	Net effect on Canada's U.S.-dollar balances	190	294	93	357	-	24	25	44	97	99	85	76	34	7
8	Net cash receipts or outgo (-) excluding Hyde Park	- 226	- 392	- 202	- 373	- 53	- 46	- 22	- 81	- 77	- 100	- 75	- 121	- 86	8
9	Net cash receipts or outgo including Hyde Park	- 36	- 86	- 109	- 16	- 53	- 22	3	- 37	20	- 1	10	- 45	- 52	9

(a) Including Canadian freight to border; no metals other than aluminum have been included here, as it is not possible to ascertain what proportion, if any, of other metal exports should be designated as "Hyde Park" in the sense of creating additional foreign exchange for Canada.

(b) Including U. S. freight to border.

Forecast of Canada's Foreign Exchange Position

Revised
NOVEMBER 1, 1941

TABLE II: IMPORTS FROM U.S.A. OF MUNITIONS AND MATERIALS FOR CANADIAN WAR PRODUCTION

(In millions of U. S. dollars)

Item	Canadian Fiscal years (Apr-Mar)		Calendar Years		Calendar Years by Quarters										Item
	1941-42	1942-43	1941	1942	1941				1942				1943		
					I	II	III	IV	I	II	III	IV			
SUMMARY															
1	Expenditures of U.S. dollars by Canada for the U.K. (a)	231	228	207	242	38	51	56	62	62	61	61	58	46	1
2	Expenditures for Canada's own war requirements	128	204	107	193	20	25	29	33	39	40	50	54	50	2
3	Expenditures by War Supplies Limited (re: sales to U.S.A.)	27	48	14	42	-	1	4	9	13	11	11	13	13	3
4	Total	386	480	328	483	58	77	89	104	114	122	122	125	111	4
5	Deduct: Imports to Canada obtained by U.K. under Lend-Lease (in re Canadian war production for U.K.)	-20	-39	-11	-44	-	-	-4	-7	-9	-12	-11	-12	-4	5
6	Net expenditures of U.S. dollars by Canada	364	441	317	439	58	77	85	97	105	110	111	113	107	6
7	Less: Imports for non-war purposes	492	465	499	485	122	127	128	122	115	125	125	120	115	7
8	Total imports (as in Table III)	856	926	816	924	180	204	213	219	220	235	236	233	222	8
TOTAL EXPENDITURES BY CATEGORIES (b)															
9	Aircraft	115	130	87	139	12	19	25	33	38	35	34	32	29	9
10	Ships	20	25	16	24	2	4	5	5	6	6	6	6	7	10
11	Tanks, universal carriers, mechanical transport	115	184	91	176	18	19	22	32	40	43	44	42	46	11
12	Guns and ammunition	52	85	38	81	4	7	12	15	18	20	21	22	22	12
13	Machine tools, machinery, factory equipment	70	40	74	48	20	23	16	16	16	13	10	9	8	13
14	Miscellaneous	56	57	52	58	12	13	15	14	16	14	14	14	15	14
15	Total including U.S. freight to border	436	521	358	526	68	84	91	115	134	131	129	132	129	15
16	Deduct freight	-34	-43	-30	-43	-4	-7	-10	-9	-8	-11	-14	-10	-8	16
17	Adjust for seasonal character of coal and oil imports	-6	2	-	-	-6	-	3	-2	-12	2	7	3	-10	17
18	Total as in item 4	386	480	328	483	58	77	89	104	114	122	122	125	111	18

(a) Includes \$15 million in 1941 and \$16 million in 1942
for British Empire other than the United Kingdom.(b) The categories are the end products in Canada, for which
various imports are required, including raw materials
and fuel.

Forecast of Canada's Foreign Exchange Position

Revised
Nov. 1, 1941

TABLE III: RECEIPTS AND EXPENDITURES OF GOLD AND U.S. DOLLARS

(In millions of U. S. dollars)

Item	Canadian Fiscal Years (Apr.-Mar.)		Calendar Years		Calendar Years by Quarters										Year
	1941-42	1942-43	1941	1942	1941				1942				1943		
					I	II	III	IV	I	II	III	IV			
SUMMARY															
Total estimated receipts	1,278	1,308	1,160	1,370	218	309	334	302	333	356	360	321	271	1	
Total estimated expenditures	1,314	1,396	1,266	1,390	269	333	320	344	317	367	350	366	323	2	
Estimated surplus or deficit	- 36	- 88	- 106	- 20	-54	-24	14	-42	16	- 1	10	-45	-52	3	
Lag or acceleration in cash payments ^(a)	-	-	- 5	4	1	3	-11	5	4	-	-	-	-	4	
Actual and forecast net cash receipts or outgo ^(b)	- 36	- 88	- 109	- 16	-53	-22	3	-37	20	- 1	10	-45	-52	5	
RECEIPTS: Receipts by Canada from U. S. A.															
Exports ^(c)	589	966	501	873	97	122	143	139	185	237	235	216	198	6	
Newly-mined gold	185	177	187	161	49	45	46	47	47	45	45	44	43	7	
Interest and dividends	27	24	28	24	6	6	6	6	5	7	5	7	5	8	
Tourist travel	91	91	91	91	10	20	45	16	10	20	45	16	10	9	
Freight	55	67	52	67	11	13	14	14	14	18	18	17	14	10	
Other services, miscellaneous income, etc. ^(d)	47	43	45	43	9	16	10	10	11	12	10	10	11	11	
Sales of U.S. securities and other U.S. assets ^(e)	34	20	40	20	11	14	10	5	5	5	5	5	5	12	
Sales of Canadian securities and other investment in Canada ^(e)	42	20	41	20	4	19	13	5	5	5	5	5	5	13	
Advance payments on certain exports ^(f)	116	- 80	82	- 30	-	25	25	32	34	-18	-24	-22	-16	14	
Total receipts from U. S. A.	1,186	1,228	1,067	1,389	197	282	312	276	316	331	344	296	255	15	
Newfoundland's net receipts of U.S. dollars	14	9	13	10	2	2	5	4	3	3	2	2	2	16	
Receipts from U.K. and other sterling-area countries	7	7	7	7	nil	nil	nil	7	7	7	7	7	7	17	
Receipts from other countries ^(g)	98	71	80	71	16	25	17	22	14	22	14	21	14	18	
Total receipts by Canada of gold and U.S. dollars	1,278	1,308	1,160	1,370	218	309	334	302	333	356	360	321	271	19	

This is a balancing item, the difference between net receipts as estimated on an accrual basis and as realized on a cash basis. Besides errors and omissions, it reflects the various lags and accelerations in cash payments.

Monthly figures for 1941: J: -18; F: -19; M: -16; Total: -53; A: -3; M: -24; J: 5; Total: -22; J: -8; A: -9; S: 20; Total: 3; O: -16; N: 4(est.); D: -25(E); Total: -37

Assumes that the sale of ships (\$160 million) arranged under Hyde Park agreement will be consummated; formal contract not yet signed.

Includes business and professional services, rents, royalties, insurance transactions (including profits of insurance companies), current expenditures of foreign diplomatic representatives, profits of all kinds (if not paid as interest or dividends), family and church remittances, etc.

Forecasts of future receipts are purely provisional, and probably on the conservative side.

Assumes down-payments or progress-payments of \$20 million on ordnance and \$48 million on ships, in addition to \$50 million already received on aluminum; figure for first quarter of 1942 is net after deducting \$2 million applicable to aluminum exports.

In 1941, exports 50, other 30 (chiefly dividends from oil companies and electric utilities).

Forecast of Canada's Foreign Exchange Position

Revised
Nov. 1, 1941

TABLE III (CONT'D): RECEIPTS AND EXPENDITURES OF GOLD AND U.S. DOLLARS

(In millions of U.S. dollars)

	Canadian Fiscal Years (Apr.-Mar.)		Calendar Years		Calendar Years by Quarters									Items	
	1941-42	1942-43	1941	1942	1941				1942				1943		
					I	II	III	IV	I	II	III	IV	I		
EXPENDITURES: Expenditures by Canada in U. S. A.															
Imports (h)	856	926	816	924	180	204	213	219	220	236	236	233	222	20	
Interest	85	83	86	83	19	25	17	25	18	24	17	24	18	21	
Dividends	111	107	112	107	21	34	23	34	20	32	22	33	20	22	
Tourist travel	20	20	20	20	6	5	3	6	6	5	3	6	6	23	
Freight	75	83	72	82	12	18	24	18	15	21	27	19	16	24	
Other services, miscellaneous income, etc. (i)	55	56	52	56	11	14	13	14	14	14	14	14	14	25	
Bond maturities	32	45	27	42	2	13	3	9	7	7	10	18	10	26	
Other debt repayments	4	4	6	4	3	-	2	1	1	1	1	1	1	27	
Total expenditures in U. S. A.	1,238	1,324	1,191	1,318	254	313	298	326	301	339	330	348	307	28	
Expenditures in other countries outside sterling area (j)	76	72	75	72	15	20	22	18	16	18	20	18	16	29	
Total expenditures by Canada of gold and U.S. dollars	1,314	1,396	1,266	1,390	269	333	320	344	317	357	350	366	323	30	

Trade returns adjusted for overvaluation, imports not paid for by Canada, etc. (e.g. imports on U.K., Norwegian, Belgian, Dutch or Polish account, paid for by the country concerned or obtained by it under the Lend-Lease Act.) Includes business and professional services, rents, royalties, insurance transactions (including profits of insurance companies) current expenditures of Canadian diplomatic representatives, profits of all kinds (if not paid as interest or dividends), family and church remittances, etc. In 1941, imports 70, other 5 (chiefly Chinese remittances).

TREASURY DEPARTMENT
UNITED STATES MINT SERVICE
San Francisco, Calif.

November 17, 1941

Secretary of the Treasury,
Treasury Department,
Washington, D.C.

Dear Sir:

Attention Frank Dietrich

I am enclosing copy of a letter which I have today handed to the Federal Reserve Bank with check - also six copies of memorandum form 42-R.

Hoping you will find everything in order, and assuring you that I am glad of the opportunity of serving you at any time, I am

Respectfully,

(signed) P. Haggerty

Superintendent

November 17, 1941

Federal Reserve Bank,
San Francisco, California.

Gentlemen:

There was on November 6, 1941, delivered to the U. S. Mint, San Francisco 160,428.51 ounces of gold which arrived in San Francisco on the SS "Azerbaidjan" for the account of the State Bank of the U.S.S.R., Moscow. We were instructed by telegram from D. W. Bell, Acting Secretary of the Treasury (copy of which is attached) to instruct the Federal Reserve Bank of San Francisco to transfer by telegram to the Federal Reserve Bank of New York, for credit of the Secretary of the Treasury, Special Account, and to include in the telegram the number of -

Fine ounces	160,399.616
Dollar value	\$ 5,613,986.56
Mint charges	\$ 160.50
Net amount	\$ 5,613,826.06

for which latter amount we are delivering you our check.

The amount of one-fourth of one per-cent ($1/4\%$) handling charge is \$14,034.97.

Yours very truly,

Superintendent

Copy:vw:11-21-41

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San Francisco, Calif.

1:30 p.m., Nov. 17, 1941

D. W. Bell

Washington

I have today delivered to Federal Reserve Bank, San Francisco, check for five million six hundred thirteen thousand eight hundred twenty six dollars six cents for credit of the Secretary's Special Account.

Haggerty

Supt.

COPY - dm - 11/18/41

DEPARTMENT OF STATE

Washington

In reply refer to
Bu 859A.5151/5

November 17, 1941

My dear Mr. Secretary:

With reference to a telephone conversation of November 13, 1941 between Mr. Dietrich of the Treasury Department and an officer of the Division of European Affairs, there is quoted for your information the following self-explanatory paraphrase of a telegram no. 111, dated November 12, 7 p.m., from the American Minister at Reykjavik, Iceland:

"I have now been assured by the Foreign Office that the inadequacy of Icelandic currency has only existed with respect to coins of small denomination and that an adequate supply of Icelandic currency is now available. I doubt, however, whether in giving me these assurances, the Icelandic officials have given adequate weight to the fact that the increase in the numbers of American troops here will occasion an increasing need for Icelandic currency. They probably also have not given sufficient consideration to the factor of nonrecovery of coins of such small value as to be of no use to our soldiers. Since

General

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

General Bonesteel has taken precautions to prevent dollar currency from falling into the hands of Icelanders contrary to Icelandic law, I recommend that serious consideration be given by the State, War and Treasury Departments to the contents of a telegram which the General is today sending to the Chief of Staff, setting forth the many valid reasons against payments to the United States forces in kronur."

Sincerely yours,

For the Secretary of State:

(signed) A. A. Berle, Jr.

Assistant Secretary

Copy:ec:11-18-41

DEPARTMENT OF STATE
Washington

412

In reply refer to
FF

November 17, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of a circular telegram sent to Diplomatic Missions in Central and South America, November 14, 1941, regarding gold shipments from Japan.

Enclosure:

To the Diplomatic Missions
in Central and South America,
November 14, 1941.

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11-17-41

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PARAPHRASE OF TELEGRAM SENT

TO: The Diplomatic Missions in Central and South America.
DATE: November 14, 1941, 6 p.m.
NO. : (CIRCULAR)

For transmittal to the Treasury, it is requested that the Department be informed with regard to all future shipments, and any recent shipments, of gold from Japan. It is desirable to know if the shipments in question are in payment for goods delivered or for the establishment of exchange assets for purchases in the future. This information is needed immediately.

HULL
(FL)

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11-17-41

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF

November 17, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram no. 1747, dated November 15, 1941, from the American Embassy, Rio de Janeiro, Brazil, concerning the transfer of funds by the Vichy Government to the Empresas Brasileiro de Aguas and to the Banco Portuguese.

Enclosure:

Copies of paraphrase of telegram no. 1747 from Rio de Janeiro, dated November 15, 1941.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil.

DATE: November 15, 1941, 4 p.m.

NO. : 1747

This is in further reference to my telegram of the 8th of November, 4 p.m., no. 1693.

Information has now been received that Combescot, who is now in Vichy, has advised the Banco Espirito Santo of Portugal that 65,000,000 escudos for the account of Empresas Brasileiro de Aguas will be transferred to said bank by the Vichy Government. Instructions will also be given to the bank to transfer to Banco Portuguese in Rio de Janeiro for the water works program 10,000 contos, and upon the consummation of the contract, the balance will be transferred.

CAFFERY

Copy:bj:11-18-41

DEPARTMENT OF STATE
WashingtonIn reply refer to
FF

November 17, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram no. 1150, dated November 15, 1941, to the American Embassy, Rio de Janeiro, Brazil, concerning the present status of certain vessels to be transferred to Panamanian registry by the American Baltic Chartering and Shipping Company, Inc.

Enclosure:

To Rio de Janeiro,
no. 1150, November 15,
1941.

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11-17-41

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PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro, Brazil.

DATE: November 15, 1941.

NO.: 1150

This is in reply to your despatch of October 8, 1941, No. 5543.

It is requested that you telegraph the present status of the CALIFORNIA, NEVADA AND ARIZONA, in view of the applications made to the United States Department of Treasury for the unblocking of funds for the transfer of these vessels to registry in Panama which has been contemplated by the American Baltic Chartering and Shipping Company, Inc.

HULL
(TB)

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11-17-41

C O P Y

418

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro
TO : Secretary of State, Washington
DATED: November 17, 1941, 8 p.m.
NUMBER: 1759

Referring to Department's telegram no. 1150 of November 15.

The Embassy has been informed that the Director of the Brazilian Maritime is not aware of any negotiations contemplating the transfer of the California, Arizona, and Nevada to Panamanian registry. Negotiations for the vessels referred to were temporarily suspended by the Commission pending the conclusion of negotiations for the Italian ships. When this latter deal is concluded it is expected that an offer will be made for the Danish ships calling for (1) their transfer to Brazilian flag with provision for resale after the war, (2) form of payment will be a non-negotiable credit in the Bank of Brazil, no transfer of cash involved, and (3) after the war is over an equitable share of the profits will be given to the Danish interests.

The Embassy assumes that the block funds referred to in the Department's telegram are needed in connection with expenditures for repairs made on these vessels in Brazilian shipyards.

CAFFERY

Copy:bj:12-12-41

DEPARTMENT OF STATE
WashingtonIn reply refer to
FF

November 17, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith copies of the paraphrase of telegram no. 178 from the American Embassy, Habana, Cuba, dated November 15, 1941, in reply to a circular instruction of November 14, 1941 regarding gold imports from Japan.

Enclosure:

From Embassy, Habana
no. 178, November 15, 1941.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Habana, Cuba

DATE: November 15, 1941, 1 p.m.

NO. : 178

This is in reply to the circular telegram of the Department sent at 1 p.m. on the 14th of November.

There have not been any gold imports from Japan into Cuba during the past few years according to information which was supplied by sources in the Treasury Department and which were confirmed by leading bank officials.

MESSERSMITH

eh: copy
11-17-41

DEPARTMENT OF STATE
WashingtonIn reply refer to
FF

November 17, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith copies of the paraphrase of telegram no. 217, dated November 15, 1941, from the American Legation, Ciudad Trujillo, Dominican Republic, in reply to a circular instruction of November 14, 1941 regarding gold imports from Japan.

Enclosure:

From Legation, Ciudad
Trujillo, no. 217,
November 15, 1941.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Ciudad Trujillo, Dominican Republic

DATE: November 15, 1941, noon.

NO. : 217

This is in reply to the circular telegram of the Department sent at 1 p.m. on the 14th of November.

Recently there have been no shipments of gold imported from any source into the Dominican Republic. No imports of gold in the near future are anticipated.

LAWTON

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11-17-41

DEPARTMENT OF STATE
WASHINGTON

423

In reply refer to
FF

November 17, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram no. 92, dated November 15, 1941, from the American Legation, San Salvador, El Salvador, in reply to a circular telegram of November 14, 1941 regarding gold imports from Japan.

Enclosure:

From Legation, San
Salvador, no. 92,
November 15, 1941.

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11-17-41

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, San Salvador, El Salvador

DATE: November 15, 1941, 11 a.m.

NO. : 92

This is in reply to the circular telegram of the Department received at 6 p.m. on the 14th of November 1941.

There have not been any such shipments here and there are none expected.

FRAZER.

eh:copy
11-17-41

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DEPARTMENT OF STATE
WASHINGTON

November 17, 1941

In reply refer to
FF 894.515/77

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of an undated telegram no. 189, received November 15, 1941, from the American Legation, Asuncion, Paraguay, in reply to a circular instruction of November 14, 1941 regarding gold imports from Japan.

Enclosure:

From Asuncion, no. 189,
undated.

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BS

PLAIN

Asuncion

Undated

Rec'd. November 15, 1941

10:44 p.m.

Secretary of State,
Washington.

189.

Reference Department Circular November 14,
6 p.m.

Officials state no such shipments received
or contemplated.

FROST

WWC

Copy:bj:11-18-41

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to
FF 894/515/78

November 17, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram no. 616, dated November 15, 1941, from the American Embassy, Lima, Peru, in reply to a circular instruction of November 14, 1941 regarding gold imports from Japan.

Enclosure:

From Embassy, Lima,
No. 616, dated
November 15, 1941.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Lima, Peru

DATE: November 15, 1941, 4 p.m.

NO.: 616

This is in reply to the circular telegram of the Department dated 5 p.m. November 14, 1941.

According to the Central Reserve Bank, two shipments of gold have been received from Japan during the present year. A detailed description of the first shipment was given in despatches dated September 26 and October 3 and numbered 1819 and 1892 respectively. The other shipment to which reference was made in despatch of October 3, 1941, no. 1892, arrived on October 20 on the steamship TERUKAWA MARU in the amount of 557.7317 kilograms, in 38 bars. These shipments were both to pay for goods which were partly delivered and to be delivered in the future, in connection with purchases which were being and are to be made. Your strictly confidential instruction of the 5th of November, no. 712, is also answered by this telegram.

NORWEB

Copy:lc:11/17/41

TREASURY DEPARTMENT

429

INTER-OFFICE COMMUNICATION

DATE November 17, 1941

For Miss Chauncey.
 TO Secretary Morgenthau
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£124,000
Purchased from commercial concerns	£ 53,000

Open market sterling closed at 4.03-1/2. The only reported transaction consisted of £4,000 sold to a commercial concern.

The Canadian dollar discount widened to 11-3/4% at the close. A week ago, that currency was quoted at 11-3/16%.

Continuing its improvement, the Uruguayan free peso rose 50 points (1/2¢) to reach a new high of .4850. The current upward movement began October 1, at which time the peso was quoted in the neighborhood of .4425.

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

Argentine peso (free)	.2388
Brazilian milreis (free)	.0515
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2550
Cuban peso	1/8% discount

We sold \$19,950,000 in gold to the Swiss National Bank, which was added to its earmarked account.

The State Department forwarded a cable to us reporting the following gold shipments from Australia, both of which are for sale to the San Francisco Mint:

\$3,588,000 Shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.

145,000 Shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.

\$3,733,000 Total

In London, spot and forward silver remained at 23-1/2d, equivalent to 42.67¢.

- 2 -

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 200,000 ounces of silver from the Bank of Canada. Today's was the first purchase from that source during November under our regular monthly agreement to buy up to 1,200,000 ounces.

**CONFIDENTIAL**

RESTRICTED

G-2/2657-220; No. 546 M.I.D., W.D. 11:00 A.M., November 17, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Local Russian counterattacks continue along the Moscow front from Tula to Kalinin.

There is no information covering military operations in the Donets Basin.

In the Crimea the German High Command claims to have entered Kerch. The siege of Sevastopol continues.

Air: Germany reports heavy activity in the Crimea and the bombing of both Leningrad and Moscow.

II. Western Theater.

Air: No reports have been received of activity in this theater.

III. Middle Eastern Theater.

Ground: Nothing of importance.

RESTRICTED