



TREASURY DEPARTMENT

WASHINGTON

December 10, 1941.

MEMORANDUM FOR MR. THOMPSON.

In re: Leo J. Mullen,
New York, N. Y.
(Applicant - Collector of Internal
Revenue, Second District of New York.)

In accordance with the request contained in the memorandum addressed to you under date of November 26 by Mr. Gaston, an investigation has been made to determine the character and general fitness of Mr. Leo J. Mullen for the position of Collector of Internal Revenue for the Second District of New York, and there is attached a report of Special Agent James A. Ronayne, dated December 9, 1941, with accompanying papers.

Mr. Mullen was born in New York City on January 29, 1900, and lives with two unmarried sisters. He attended the College of the City of New York and the Columbia University Extension School and graduated from the Forham University Law School in June 1925 with the degree of LL.B. He was admitted to the bar in the year 1937. Mr. Mullen was employed in a legal capacity by the Insurance Company of North America, 99 John Street, New York City, from February 1929 until June 1940, when he resigned to accept the position of General Law Assistant, New York State Supreme Court. His salary with the Insurance Company of North America ranged from \$1700 a year to \$2400. His salary as General Law Assistant is \$6000 a year.

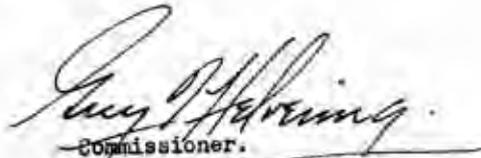
Mr. Mullen's returns for the years 1934 to 1937, inclusive, were delinquent. He stated he was only making a small salary at the time the returns were due and there was a doubt in his mind whether he was required to file such returns, believing that he was the head of the household in which he resided. In November 1938 he claims he discovered that he was in error and then took the matter up with the Collector's office. It developed, however, in the course of the investigation that no returns were

filed by him covering the years 1934 and 1935 and Mr. Mullen was surprised to hear of this fact. As soon as he learned that no record could be found for these years, he immediately went to the Collector's office and filed returns covering 1934 and 1935.

Mr. Mullen is a member of the New York Athletic Club, Friendly Sons of St. Patrick, American Irish Historical Society, Ancient Order of Hibernians, and is vice president of the Thanawaga Democratic Club and secretary of the Democratic County Committee. He states he would resign both these positions in the event of his appointment.

Mr. Mullen's character, industry, and integrity are vouched for by a large number of very prominent citizens, and while he has not had an extensive law practice and practically no experience in an executive capacity, Special Agent in Charge McQuillan of New York expresses the opinion that his education and excellent reputation will make him a satisfactory Collector.

Considering all the information shown in the special agent's report, and the further fact that this is the largest Collector's office in the United States, I am transmitting the report for such attention as may be deemed advisable.


Commissioner.

Enclosures.



INTELLIGENCE UNIT

New York

(Name of Division)

SI-23424-A-A&C

HR/cq:hnr

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TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

New York, New York

December 9, 1941



Chief, Intelligence Unit
Bureau of Internal Revenue
Washington, D. C.

In re: Leo J. Mullen
New York, New York

Applicant - Collector of Internal
Revenue, Second District

There is transmitted herewith a report by Special Agent James A. Ronayne of an investigation to determine the character, reputation and loyalty of Mr. Mullen who has been recommended for the position of Collector, Second District, New York.

As will be noted in the report, Mr. Mullen is 41 years of age, a member of the New York Bar and a brother of Judge John Mullen, General Sessions Court, New York City. His character, industry and integrity are vouched for by a large number of very prominent citizens, and while he has not been very successful as a lawyer and has had no experience in an executive capacity, it is believed that with his education and his excellent reputation he will make a satisfactory Collector. I have therefore to recommend that his application receive favorable consideration.

Hugh McQuillan
Special Agent in Charge

nci.
case jacket



TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

INTELLIGENCE UNIT

New York, N. Y., December 9, 1941.

New York
(Name of Division)

SI-23424-A-A&C

Final

JAR:ADS

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.



In re: Leo J. Mullen,
420 East 84th Street,
New York, N. Y.

Applicant: Collector of Internal Revenue,
Second District of New York.

This report relates to an investigation to determine the character, reputation and loyalty to this Government of the above named individual who has been recommended for the position of Collector of Internal Revenue, Second District of New York, located at the Custom House, New York, N. Y. Investigation was made at New York, N. Y., on December 1, 1941, and subsequent dates. The case jacket and all related papers are returned herewith.

Personal History and Appearance

Mr. Mullen was interviewed by me at his place of employment on December 3, 1941. He stated that he was born at New York, N. Y., on January 29, 1900, the youngest of five children. He is single and lives with his two unmarried sisters in a house at 420 East 84th Street, New York, N. Y., in which he has lived all his life. Both his mother and father have been dead for many years. His sisters with whom he lives are both teachers; Rosemary is Head of the Biology Department at Washington Irving High School in New York City, and Irene is a teacher in Public School 121, Manhattan, New York. One brother, Frank, is a Lieutenant Senior Grade in the United States Navy and is now in active service. His other brother, John, was elected a General Sessions Judge in the City of New York in the year 1939, which position carries a term of office for fourteen years.

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Final

Mr. Mullen is forty-one years of age, five feet nine inches tall, weighs 185 pounds, has thinning brown hair, slightly gray at the temples, blue eyes, and wears glasses. He makes a good appearance, is well dressed and carries himself well. He has a pleasant disposition, the ability to meet people and discuss their problems.

Education

After the applicant graduated from Public School 77, he entered De Witt Clinton High School, New York, N. Y., and attended from 1914 to 1918 but did not graduate. He then entered the College of the City of New York where he attended for several terms, having to leave each time because of poor eyesight. Because of his eyes he was placed in the 1918 draft in the lowest classification. He then attended the Columbia University Extension School until September 1922, when he entered Fordham University Law School where he attended for three years and graduated in June 1925 with the degree of LL.B. He was admitted to the bar in the year 1937.

Experience

The applicant began work in the year 1922 as a process server in the law office of O. J. De Brum, where he worked for about a year. Next he worked at the Berkley Irving School as a swimming instructor for about a year and a half. For the next six months he worked as a renting agent for the J. Neville Real Estate Co. and worked there until he graduated from Fordham Law School in June 1925. The applicant then was employed by the Red Cab Mutual Ins. Co. as a law clerk in the legal department until December 1925 when he went to Albany as secretary to Assemblyman Maurice Block, minority floor leader at the 1926 session of the legislature which began on January 1, 1926, and extended through March 1926. After the session was over, he was again employed by the Red Cab Mutual Insurance Co. in their legal department until the end of the year 1926. He then went with the William A. White Real Estate Co. as a renting agent, where he remained about six months. At this time his eyes began to bother him again and he suffered a nervous breakdown. He was advised to take a position requiring outside manual labor, which he did as a carpenter's helper with the firm of Hyman & Goodman where he worked till February 1929, when he took a position with the legal department of the Insurance Company of North America, 99 John Street, New York, N. Y.

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His duties with the Insurance Company of North America consisted of preparing cases for trial until the year 1937 when he was admitted to the bar and began to try cases himself. The cases were nearly all involving negligence cases where the insurance company was suing or being sued. He kept his position with the Insurance Company of North America till June 1940 when he resigned to take the position of General Law Assistant, New York State Supreme Court. His salary with the Insurance Company of North America ranged from \$1700 a year, when he began, to \$2400 a year when he left. His salary as General Law Assistant is \$6000 a year and his duties involve research on the law in close cooperation with and for the use of the judges of the New York State Supreme Court.

Filing of Returns

The following is a record of the income tax returns filed by the applicant and covers the years 1932 to 1940, inclusive:

<u>Year</u>	<u>Serial</u>	<u>District</u>	<u>Net Income Per Return</u>	<u>Tax Paid</u>
1932	628927	2 NY	--	--
1933	Jan. 7501-35L	2 NY	--	--
1934	Dec. -----41L	3 NY	1782.00	24.15
1935	Dec. -----41L	3 NY	1782.00	24.15
1936	Nov. 7520-38L	2 NY	1734.60	22.45
1937	Nov. 230-38L	2 NY	1830.88	25.91
1938	620868	2 NY	2072.25	34.60
1939	1099	2 NY	2286.60	42.32
1940	6573	2 NY	4279.27	134.25

The applicant's returns for the years 1934 to 1937, inclusive, were delinquent. The applicant stated that he was only making a small salary at the time the returns were due and had no money at the time the returns were due, and that then there was a question in his mind as to whether he was obligated to file returns at all for living with his two sisters, he believed that he was qualified as head of the household and was not required to file returns. In November 1938 he discovered that he was in error and went down to the Collector's office intending to settle for all the taxes he owed, and which he thought he did. It now developed in the course of this investigation that no returns were filed at that time covering the years 1934 and 1935 and the applicant

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Final

was surprised to hear of this fact. As soon as he learned that no record could be found for 1934 and 1935, he went immediately to the Collector's office and filed returns covering these years.

References

The following prominent men know Mr. Mullen personally in most cases for many years and have vouched for his excellent character, his industry, honesty and integrity:

Robert F. Wagner, Esq., United States Senator
 Robert F. Wagner, Jr., Esq., New York State Assemblyman
 Samuel Mandelbaum, Esq., United States District Court Judge
 Samuel Rosenman, Esq., Justice of New York Supreme Court
 Ferdinand Pecora, Esq., Justice of New York Supreme Court
 Cornelius Smith, Esq., Justice of New York Supreme Court
 Frank Hogan, Esq., District Attorney Elect of New York County
 Mr. George V. McLaughlin, President, Brooklyn Trust Co.
 Mr. Leon Fraser, President, First National Bank
 Charles Butler, Esq., Manager, Insurance Company of North America
 James I. Cuff, Esq., Attorney, General Counsel for Insurance Company of North America
 Edmund B. Butler, Esq., Attorney, Fordham University Law School Professor

General Inquiry

The records of the Daily Credit Bulletin disclose no record of any civil suits or judgments against the applicant. The records of the Police Department of the City of New York and the United States Civil Service Commission do not disclose any record of the applicant nor of his affiliation with any subversive or un-American organizations.

Mr. Mullen is a member of the New York Athletic Club, Friendly Sons of St. Patrick, American Irish Historical Society, Ancient Order of Hibernians, and is vice president of the Thanawaga Democratic Club and secretary of the Democratic County Committee. Mr. Mullen stated that he would resign both these positions if he secured the appointment.

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Final

Financial Condition

The applicant submitted a sworn net worth statement listing his assets at \$1810 with no liabilities. The assets consist principally of clothing and personal effects, cash in bank, cash surrender value of an insurance policy and 200 shares of Standard Brewing Stock which cost the applicant \$200 and which is not worth quite this amount today. Mr. Mullen stated that he acquired the brewery stock several years ago and would have sold it before this only he lost the stock certificates. He stated that he was taking steps to have new certificates issued and that when this was done to sell out his interest therein.

Conclusion and Recommendation

It is believed that the applicant is of the highest character and in the course of this investigation it was ascertained that he has an excellent reputation and there is no question but that he is a loyal and true American. It is recommended that favorable consideration be given to the applicant.

James A. Ronayne

James A. Ronayne,
Special Agent.

Enclosures.

December 5, 1941

Sworn statement of net worth of
Leo J. Muller

Cash in bank - Underwriters Trust Co. \$ 350

On hand \$ 10

Personal property, clothing, jewelry (Est.) \$ 1,000

Insurance

Metropolitan Life Insurance Co face value
Cash surrender value (Est.) \$ 250

Stock

200 shares Standard Brewing Co. \$ 200

Total assets \$ 1,810

Liabilities none

Net worth December 5 1941 \$ 1,810

Signed - Leo J. Muller

Sworn to and subscribed before me

on 5th day of December 1941

at 60 Center St. New York NY

James A. Poyage
Special agent
N.Y. Dist. Ct.

December 5, 1941

Swoon statement of net worth of
Leo J. Muller

Cash in bank - Underwriters Trust Co.	\$ 350
On hand	10
Personal property, clothing, jewelry (Est.)	1,000
Insurance	
Metropolitan Life Insurance Co face value Cash surrender value (Est.)	250
Stocks	
200 shares Standard Brewing Co.	200
Total assets	<u>\$ 1,810</u>
Liabilities	none
Net worth December 5 1941	<u><u>\$ 1,810</u></u>

Signed - Leo J. Muller

Swoon to and subscribed before me
this 5th day of December 1941
at 60 Center St. New York City

James A. Romayne
Special agent
N.Y. Dist. Ct.

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BOARD OF EDUCATION OF THE CITY OF NEW YORK
DEWITT CLINTON HIGH SCHOOL
MOSHOLU PARKWAY AND PAUL AVENUE

A. MORTIMER CLARK
PRINCIPAL

TELEPHONE
KINGSBRIDGE 3-1000

December 4, 1941

Internal Revenue Service
90 Church Street
New York City

Gentlemen:

Leo Mullen attended this school from
February 2, 1914 to January 31, 1918. He did not
graduate.

His date of birth was January 29, 1900.
The place of birth is not recorded.

Very truly yours,

F. G. Simonson

PRINCIPAL'S OFFICE

Ronayne
DEC 5 - 1941

*Insurance Company of North America**New York Office**99 John Street, New York.*TELEPHONE NUMBER
BEERMAN 3-8010

December 4, 1941

Treasury Department,
Internal Revenue Service,
New York, N. Y.Re: Leo J. Mullen
420 E. 84th Street
New York, N. Y.

Gentlemen:

Replying to your inquiry regarding the above former employee, we are pleased to inform you as follows:-

1. 11 years, 4 months, 7 days - Fr. 2/1/29 to 6/8/40

2. Legal Investigator

3. 2/1/29	\$1700.	3/1/38	\$2100.
1/1/30	1980.	3/1/39	2220.
8/1/32	1782. (General cut)	2/1/40	2370.
3/1/37	1932.		

4. Satisfactory

5. To accept better position

6. Good

7. We believe Mr. Mullen would qualify for a position with the Treasury Department.

Very truly yours,

INSURANCE COMPANY OF NORTH AMERICA,

By: *Alvin J. Jamin*
Dept. of Personnel

1005
DEC 5 - 1941
HF:LM

December 11, 1941
11:58 a.m.

HMJr: Hello.

Operator: Mr. Wilson is out of the building for about fifteen minutes. I have Mr. Murphy.

HMJr: All right. Hello.

Operator: Go ahead.

Joseph Murphy: Hello.

HMJr: Jo.

M: Yes.

HMJr: There's a Mr. Casey, who's executive assistant to the President of the United States, who came in to see me and said that he thought we ought to protect the Vice-President. I said, "Did the Vice-President ask for it?" He said, "No." Had he talked to the Vice-President - no. So I said, "Well, I'll have Chief Wilson go up and call on the Vice-President and again offer the services of our Secret Service to do that," if the Vice-President wanted it, see.

M: Yes. I'm glad you said "again", because we offered that one time, you know.

HMJr: I told that to Casey.

M: Yes.

HMJr: I told him.

M: Yes.

HMJr: But let the Chief go up this afternoon and do it once more.

M: All right. I'll see that he does. Positively.

December 11, 1941

12:00 p.m.

RE FREEZING

Present: Mr. Foley
Mr. Pehle
Mrs. Klotz

Foley: On the telegrams to the banks, in so far as the going enterprises are concerned, we made certain --

H.M.Jr: Did you talk to Shea?

Foley: Yes.

H.M.Jr: What happened?

Foley: I haven't sent it out yet. I made certain changes so that the things would be tied up until we could get personnel into these places, and I read the thing to Shea, and he said, "Send it right over and I will give you criticisms and suggestions in half an hour."

I had a call in for him when I came down here.

The changes are - I will show you. We added here "as promptly as you are able to effect the installing of representatives."

H.M.Jr: How was Shea?

Foley: He was all right.

H.M.Jr: You were worried about it?

Foley: Well --

H.M.Jr: You thought he might be nasty?

Foley: Yes. Well, I think there has been quite a change over there, and I think he has been quite chastened as a result of bringing in Crowley and so forth. We added this extra, "to keep out officials and so forth."

H.M.Jr: That is details.

Foley: Yes, they are all details, Mr. Secretary.

H.M.Jr: You know, at my press conference they pressed me on this alien property thing. They gave out a statement yesterday that Crowley was to come in to head such a bureau.

Foley: He was to head a bureau to do work similar to the work done by the Alien Property Custodian in the last war, but no Alien Property Custodian has been appointed. In other words, they have taken over the alien property work that under an Executive Order has been given to the Claims Division headed up by Shea, and they have created a new division. They have installed a businessman to head it up, and he is going to do those problems and new problems similar to those done by the Alien Property Custodian.

(Mr. Schwarz entered the conference.)

H.M.Jr: Did you catch this mistake in this thing? It is important. "Secretary Morgenthau said that

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the Treasury and the Federal Reserve had been buying some bills."

Schwarz: And the Federal Reserve Bank in New York, you said.

H.M.Jr: The Federal Reserve System, that is all right.

Schwarz: I said, "supporting the market."

H.M.Jr: All right. Did you call them?

Schwarz: Yes.

(Mr. Schwarz left the conference.)

Foley: Joe O'Connell and Dr. Wollner and seven other fellows are leaving on the one forty-five plane, and they are going to General Aniline and Film. Wollner is going to Binghamton because that is where the laboratories are. Joe is going to the main office. I have given him something to show John E. Mack when he goes in showing his authority, and we are getting up others for the other fellows that are going up with them. The other groups will have to - we will have to organize, together with the Feds, and we have talked with Irey so he can notify his coordinators in the ~~different~~ headquarters, so that is being covered. A question has come up in connection with a conflict between the trading with the Enemy Act, Section 3 (a), and our general freezing Executive Orders and powers. Biddle gave Shea this memorandum which Shea sent over to me about the problem in Los Angeles and the Foreign Exchange Committee in New York is also working on it, and they wanted to put out a statement such as this.

I am not going to bother you with it because that is going to confuse the thing. What we are doing is getting up a simple statement which says that a license under our Executive

Order shall be a license under Section 3 (a) of the Trading with the Enemy Act.

H.M. Jr:

Listen, can you handle it?

Foley:

And that is for your signature and Biddle's signature to be approved by the President and when we put that out that will clear up this question. There is nobody to administer this Section 3 (a) of the Trading with the Enemy Act and these fellows say it is in existence and we have enemies and therefore nobody can have any trade whatsoever except as it is licensed by whoever the President designates to administer the Section, so we will tie in so far as freezing control is concerned. That section into our section, and we won't try to get an Executive Order to give us the authority to administer the section or anything else. Then we would have a jurisdictional fight with Justice about whether the Alien Property Custodian or Justice or Treasury should do it. Just a simple memorandum saying that a license under our general order is a license under that thing. That will be in in just a minute. The boys are writing it up.

SEC called and said that Schram is having a meeting of the Board of Directors or Governors of the Stock Exchange this afternoon, and they want to take some kind of formal action in so far as trading in these Japanese bonds is concerned. They kind of feel lukewarm about it. They have suspended trading, but they haven't formally announced it, and there is some over-the-counter trading in these bonds and some of the members think if it is going on they ought to get the commissions and so forth.

Now, Knoke happened to be in my office, and I spoke to him about it, and he thinks that these fellows ought to forget about the commissions and--

H.M.Jr: Knoke is there?

Foley: Yes.

H.M.Jr: From New York.

Foley: Well, he has gone back. I sent him back. He happened to be down here today. He took the twelve o'clock plane to get back up there to help with this. He thinks that it would be bad to have bonds of our enemies traded in on a public exchange. He thinks all trading ought to be suspended.

H.M.Jr: Well, how about some of those standstill bonds, I mean some of those--

Pehle: Dawes-Young. They are of the same character. They are not being paid. They are all defaulted.

H.M.Jr: Whatever they are.

Foley: Well, should we tell the SEC then that we feel that the bonds of Japan and Germany and Italy should be suspended on the exchanges?

H.M.Jr: Definitely, clean cut.

Foley: Right.

H.M.Jr: While they are doing it, they might also suspend - what is Mr. Giannini's outfit?

Pehle: Bank of America?

H.M.Jr: No, the holding company. (Facetiously)

Pehle: Transamerica.

Foley: Have you got anything more to report, John?

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Pehle: No, that is all.

Foley: We have an Executive Order on this other question that came up, but I think this is better. I will bring it down as soon as it is ready.

H.M.Jr: How long before it will be ready?

Foley: It ought to be ready now.

Pehle: Well, it has to be carefully checked.

H.M.Jr: What is the order?

Foley: It is just a short memorandum which says that the purpose--

H.M.Jr: Who is writing it?

Foley: I don't know. McGuire wasn't doing it, it was being done by John DuBois' secretary.

H.M.Jr: Do they know I am waiting for it? Use my phone and see.

Pehle: I have a report on the food situation, Mr. Secretary, if you would like to hear it.

H.M.Jr: Yes, one second. All right, food on Los Angeles.

Pehle: This is a wire that came in this morning saying, "There is an extremely critical situation concerning the interruption of the flow of products to market due to the fact that a very considerable portion is produced or handled by Japanese nationals. We are advised that the deliveries of vegetables to Los Angeles markets on December 9 consisted of 25,783 crates, compared to 41,434 crates on December 5. It is estimated that prices have increased from 25 percent to 50 percent and a serious situation exists."

"Many American corporations employ Japanese labor, both in agricultural and commercial industries.

"We urgently request that every effort be made to issue such general licenses as will permit the orderly movement of fresh vegetables to markets in order to supply needs of our civilian population and military forces, and that payment of wages to Japanese nationals, as well as some provision for living expenses be given your early consideration as the exclusion of Japanese nationals from provisions of all general licenses is disrupting production and movement of many essential commodities in a serious manner.

"These problems have been discussed with Mr. Towson and his associates and they are giving them their most careful and prompt attention, and you will no doubt receive recommendations from them in this respect.

"We will forward reports at frequent intervals."

H.M.Jr:

That is signed by who?

Pehle:

Day. He is the head of the Federal Reserve Bank there. I asked him to give us a current report.

H.M.Jr:

Now, what are they going to do?

Pehle:

I don't know.

H.M.Jr:

You will know between now and two-thirty, won't you?

Pehle:

I will have a plan by two-thirty.

H.M.Jr:

O.K. What did Miss McGuire say?

Foley:

Said she would go right in there.

- H.M.Jr: What would happen if I didn't sign it until
 one o'clock? Would it slow it up any?
- Foley: I don't think so. I will bring it in after
 you come upstairs.
- H.M.Jr: Who has to sign it after it comes to me?
- Foley: Biddle signs it and then I think it ought to
 be approved by the President, and then there
 will be no question about it and we can get it
 out to all the banks and that will clean that
 thing right up.
- H.M.Jr: I can sign it at one o'clock.
- Foley: All right.

COPI

FOREIGN FUNDS CONTROL 231

2020120
Salaries and Expenses

Foreign Exchange Control 1942 -
Allot. 1-b

Dec. 11, 1941

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS:

REFERENCE IS MADE TO THE TELEGRAM OF DECEMBER 11, RELATING TO THE AMENDMENT OF LICENSES OF CERTAIN ENUMERATED GERMAN AND ITALIAN BUSINESS ENTERPRISES WHICH ARE BEING PERMITTED TO CONTINUE OPERATIONS UNDER THE SUPERVISION OF TREASURY REPRESENTATIVES. IN SUCH TELEGRAM WE QUOTED AN AMENDMENT TO BE INSERTED IN THE LICENSE OF SUCH ENTERPRISES, READING AS FOLLOWS:

"THIS LICENSE DOES NOT AUTHORIZE ANY TRANSACTION PROHIBITED BY THE TREASURY REPRESENTATIVE ASSIGNED TO THIS ENTERPRISE. NO PAYMENT, TRANSFER OR WITHDRAWAL MAY BE EFFECTED UNLESS APPROVED BY SUCH TREASURY REPRESENTATIVE".

WE ARE CONCERNED ABOUT THE POSSIBLE DISRUPTING CONSEQUENCE OF THE SECOND SENTENCE OF THE ABOVE AMENDMENT IN SUCH LICENSES PRIOR TO THE INSTALLING OF SUCH TREASURY REPRESENTATIVES, AND THE WORKING OUT OF A PROCEDURE BY THEM WITH THE ENTERPRISES AND THE BANKING INSTITUTIONS INVOLVED, SO THAT OUTSTANDING CHECKS AND OTHER ITEMS NOW OUTSTANDING AND TO BE ISSUED IN THE NEAR FUTURE, WILL BE HONORED. THEREFORE, YOU ARE REQUESTED TO WITHHOLD THE SECOND SENTENCE OF SUCH AMENDMENT AND NOT TO INSERT SAME IN THE LICENSES OF SUCH ENTERPRISES UNTIL SUCH TIME AS A SUITABLE PROCEDURE HAS BEEN WORKED OUT. IN ANY CASE WHERE IT APPEARS TO YOU THAT THE FACTS MAKE IT IMPERATIVE TO INSERT SUCH PROVISION

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IMMEDIATELY IN A PARTICULAR CASE, YOU SHOULD COMMUNICATE WITH THIS DEPARTMENT BY TELEPHONE.

IN ANY CASE WHERE THIS SENTENCE HAS ALREADY BEEN INSERTED AND WHERE THE AMENDMENT TO THE LICENSE IS NOW IN OPERATION AND WHERE NO SUITABLE PROCEDURE HAS BEEN DEvised, YOU ARE AUTHORIZED TO SUSPEND SUCH SECOND SENTENCE UNTIL SATISFACTORY PROCEDURE IS DEvised.

(Signed) E. H. Foley, Jr.

Acting SECRETARY OF THE TREASURY

Dictated by Mr. Norman Davis over the telephone - 12/11/41 - 11:35 a.m.

Proposed statement to be issued by the Foreign Exchange Committee:

"After consultation with the Treasury Department, it is suggested that until further clarification from the Treasury Department, the following procedure be adopted:

"(1) No transactions of any kind with or with the property of any enemy or ally of enemy. The word 'enemy' is defined for the purposes of the Trading with the Enemy Act as any individual, partnership or other body of individuals of any nationality resident within the territory of (or territory occupied by) any nation with which the United States is at war or resident outside of the United States and doing business within such territory and any corporation incorporated within such territory or incorporated within any country other than the United States and doing business within such territory.

"(2) No transaction with or with the property of any nationals (as defined in Executive Order No. 8389) of Germany, Italy or Japan either in the United States or elsewhere.

"(3) Operate as usual with specifically or generally licensed individual nationals here in the United States except nationals of Germany, Italy or Japan."

December 10, 1941.

MEMORANDUM FOR MR. CARUSI.

U.S. Attorney Fleet Palmer just phoned me from Los Angeles that the Federal Reserve Bank in the Los Angeles area has directed the other banks not to file any checks of Japanese in order not to violate the provisions of the Trading with the Enemy Act, and that is causing a great deal of confusion and it is hard to get vegetables; it even goes to the extent of not permitting Americans to pay their Japanese gardeners who have been with them many years; most of the Japanese farmers are not Americans; they are residents but not Americans.

I told Mr. Palmer that we would investigate and see if we cannot issue some regulation.

Francis Biddle
Attorney General.

DEC 11 1944

MEMORANDUM TO THE PRESIDENT:

The Attorney General has ruled that section 3(a) of the Trading with the enemy Act has come into effect. This section prohibits any person, except with license of the President, to trade with an enemy. Throughout the country banking and business institutions are refusing to put through transactions because they may involve German, Italian or Japanese interests. The Treasury is attempting to control the situation under the freezing control Order.

It is necessary, however, that you issue the attached general license which will have the effect of licensing all transactions under section 3(a) of the Trading with the enemy Act provided that the transactions are licensed by the Treasury under the freezing control Order. The general license has been approved by the Attorney General.

(Signed) H. Morgenthau, Jr.

not sent
See 12/13/44 esfy -

Attachment.

GENERAL LICENSE UNDER SECTION 3(a)

OF THE

TRADING WITH THE ENEMY ACT

By virtue of and pursuant to the authority vested in me by sections 3 and 5 of the Trading with the enemy Act, as amended, and by virtue of all other authority vested in me, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do prescribe the following:

A general license is hereby granted licensing any transaction or act prohibited by section 3(a) of the Trading with the enemy Act, as amended, provided, however, that such transaction or act is authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses or otherwise, pursuant to Executive Order No. 8389, as amended.

THE WHITE HOUSE

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Attorney General of the United States

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PEBLE

AS REQUESTED YOUR WIRE DECEMBER 9 CIRCULAR NO. 76, WE WISH TO REPORT AS FOLLOWS:

THERE IS AN EXTREMELY CRITICAL SITUATION CONCERNING THE INTERRUPTION OF THE FLOW OF PERISHABLE PRODUCTS TO MARKET DUE TO THE FACT THAT A VERY CONSIDERABLE PORTION IS PRODUCED OR HANDLED BY JAPANESE NATIONALS. WE ARE ADVISED THAT THE DELIVERIES OF VEGETABLES TO LOS ANGELES MARKETS ON DECEMBER 9 CONSISTED OF 25,783 CRATES, COMPARED TO 41,434 CRATES ON DECEMBER 5. IT IS ESTIMATED THAT PRICES HAVE INCREASED FROM 25 PERCENT TO 50 PERCENT AND A SERIOUS SITUATION EXISTS.

MANY AMERICAN CORPORATIONS EMPLOY JAPANESE LABOR, BOTH IN AGRICULTURAL AND COMMERCIAL INDUSTRIES.

WE URGENTLY REQUEST THAT EVERY EFFORT BE MADE TO ISSUE SUCH GENERAL LICENSES AS WILL PERMIT THE ORDERLY MOVEMENT OF FRESH VEGETABLES TO MARKETS IN ORDER TO SUPPLY NEEDS OF OUR CIVILIAN POPULATION AND MILITARY FORCES, AND THAT PAYMENT OF WAGES TO JAPANESE NATIONALS, AS WELL AS SOME PROVISION FOR LIVING EXPENSES BE GIVEN YOUR EARLY CONSIDERATION AS THE EXCLUSION OF JAPANESE NATIONALS FROM PROVISIONS OF ALL GENERAL LICENSES IS DISRUPTING PRODUCTION AND MOVEMENT OF MANY ESSENTIAL COMMODITIES IN A SERIOUS MANNER.

THESE PROBLEMS HAVE BEEN DISCUSSED WITH MR. TOWSON AND HIS ASSOCIATES AND THEY ARE GIVING THEM THEIR MOST CAREFUL AND PROMPT ATTENTION, AND YOU WILL NO DOUBT RECEIVE RECOMMENDATIONS FROM THEM IN THIS RESPECT.

WE WILL FORWARD REPORTS AT FREQUENT INTERVALS.

DAY

The New York Times.

DEC 11 1941

SEIZE 2,303 ALIENS
OF AXIS NATIONSFBI and the Military Round Up
Suspects, 1,291 Japanese,
865 Germans, 147 Italians

ALL WILL HAVE HEARINGS

Most Face Detention Camps—
Biddle Asks No Direct Action—
Crowley Gets Property Post

WASHINGTON, Dec. 10—The Federal Government has arrested 2,303 "enemy aliens," Attorney General Biddle said today. The majority of them will be sent soon to detention camps and held there under Army supervision for the duration of the war. Some may be found eligible for parole.

Axis nationals in custody include 1,291 Japanese, 865 Germans and 147 Italians. Agents of the Federal Bureau of Investigation rounded up 1,843 of them in two hours, and military intelligence affairs took the other 460 within three hours.

The arrests were made in accordance with a plan of action announced months ago after investigation of the persons concerned.

Each alien was apprehended, and will be, on the score of nationality alone," Mr. Biddle said. "One of those taken into custody had been under observation for more than a year, and had been listed either as a dangerous alien or one it was considered that it would be unwise not to apprehend.

Of course there will be some who will be paroled, following a review of their cases, and every hearing will be afforded all those whose cases merit reconsideration.

Kurt Mau Is Reported Detained

One of those taken into custody according to the German Embassy was Kurt Sell, correspondent here for the German DNB Press Agency, whose credentials were taken up on Monday. The D. N. E. refused to comment on the

"The total number of those apprehended, the Army taking over as have felt it necessary to take into permanent custody the super-custody represent but a small fraction of the 1,000,000 Axis nationals in detention camps.

now resident in the United States. To deal with the patents and continental and territorial," Mr. Biddle said at a press conference the Attorney General said that a new division would be created in which he called to outline the government's policy on alien residents. "It cannot be too strongly stated that neither these nor any other aliens, who altogether make up only 3 1/2 per cent of our total population, need fear interference by the Department of Justice or by any other agency of the Federal Government so long as they conduct themselves in accordance with law.

In addition, it was stated, Mr. Crowley will serve as the alternate of the Attorney General on the Economic Defense Board.

"Certain wartime regulations and restrictions now apply to and must be observed by aliens, but compliance with these, and they are neither numerous nor burdensome, constitutes the only differentiation that has been or will be made between them and other residents of our country."

Between enemy and other aliens, however, one distinction has been drawn. Applications for naturalization filed with the last two years by German and Italian nationals will be held up for the duration of the war. Japanese are ineligible for naturalization.

The Attorney General said that all Japanese, German and Italian residents not now in custody would be regarded as "peaceful and law-abiding" residents.

Decent Treatment Urged

"The great majority of our alien population will continue to be loyal to our democratic principles if we, the citizens of the United States, permit them to be," Mr. Biddle said.

He disclosed that 40 per cent of those eligible for citizenship had already taken steps to become citizens.

The Attorney General asked that there be no "direct action" by citizens anywhere, including State and local authorities, against suspected aliens, but that consultation be had with the F. B. I.

Hearings of the cases of those now in custody probably will begin within two weeks, Mr. Biddle said. They will be conducted informally by boards of review like those set up to consider conscientious objectors. Findings will be reported to the Attorney General, whose decision on the boards' recommendations will be final.

As in the last war, when 2,500 aliens were apprehended, the Immigration Service will have temporary custody of those arrested and complete charge of all who are

HOLD FOR RELEASE

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DECEMBER 11, 1941

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until delivery of the President's message to the Congress HAS BEGUN.

Release expected about 12:30, E. S. T.,
December 11, 1941.

CAUTION: Extreme care must be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

On the morning of December eleventh, the Government of Germany, pursuing its course of world conquest, declared war against the United States.

The long known and the long expected has thus taken place. The forces endeavoring to enslave the entire world now are moving towards this hemisphere.

Never before has there been a greater challenge to life, liberty, and civilization.

Delay invites greater danger. Rapid and united effort by all of the peoples of the world who are determined to remain free will ensure a world victory of the forces of justice and of righteousness over the forces of savagery and of barbarism.

Italy also has declared war against the United States.

I therefore request the Congress to recognize a state of war between the United States and Germany, and between the United States and Italy.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

December 11, 1941.

December 11, 1941
2:18 p.m.

Grace
Tully:

Yes.

HMJr:

The name is Morgenthau.

T:

No, really? (Laughs) Mr. Secretary, nine-
thirty tomorrow morning.

HMJr:

Really?

T:

Uh huh.

HMJr:

Wonderful.

T:

(Laughs)

HMJr:

I can't believe it.

T:

You didn't expect it in other words. (Laughs)

HMJr:

I did as long as you were on it.

T:

(Laughs) I see.

HMJr:

Listen, any time you want to rent a couple of
those soldiers, I can fix it up.

T:

Any time I want to rent them?

HMJr:

Yes.

T:

(Laughs)

HMJr:

Lend-Lease them for a night, I mean.

T:

(Laughs)

HMJr:

If you need any protection.

T:

All right, sir. I don't think I will, though.

HMJr:

You've got company there; otherwise you'd give
me a good answer.

T:

No, no I don't.

HMJr:

Well, if you think of an answer, call me back.

T: I will. It takes me a little time - I'm a little slow on the uptake these days.

HMJr: Maybe two soldiers isn't enough.

T: (Laughs) Oh, I suppose that's supposed to be a buildup. (laughs)

HMJr: If you think of a good answer, call me back.

T: All right, I will. Good-bye.

December 11, 1941
2:30 p.m.

RE FREEZING

Present: Mr. Foley
Mr. Pehle

Pehle: We have prepared a press release which will show that the Treasury is taking whatever action is necessary in order to allow the food to continue and be marketed in the regular and normal way. That, I think, will do some good. It may not cure the situation, but it will cure it as far as we are causing the situation. The rest of it remains to be seen.

Foley: O.K.

H.M.Jr: Now, did the orders go out to confine this thing to T. R. Forms?

Pehle: Yes, we talked to San Francisco several times and told them that the first responsibility was to take care of those business enterprises and that we weren't going to try to shut up every laundry and shop.

H.M.Jr: Why isn't Bernie here?

Foley: I don't know. We didn't ask him to come. I thought this was just between us.

H.M.Jr: There is no reason as far as I am concerned that

he shouldn't come to these meetings.

Foley: Well, he is busy, Mr. Secretary.

H.M.Jr: Oh, I thought maybe you asked him to stay away.

Foley: No, I did not. John and I had been in here three times. I haven't asked him to stay away. I just asked John to come.

Pehle: So the orders have gone out, and we have talked to San Francisco and told them that.

H.M.Jr: Does that ease that situation?

Pehle: Yes, it does.

H.M.Jr: Then you have got the same thing for the Germans all over the United States, German and Italian businesses.

Foley: We designated them.

Pehle: No, we haven't, Mr. Secretary. On the Germans and Italians, we didn't issue the public circular that we issued on the Japanese. We didn't revoke all the outstanding licenses. All we did was, we took one group of firms that we knew were operating under our licenses and ought to be closed. We are closing those and putting supervisors in. The second group of the bad firms that have to keep operating, we are putting supervisors in.

H.M.Jr: Well, why did you handle the Japanese thing different, say, than the German thing?

Pehle: Well, I wasn't here at the time the Japanese thing was issued, but I assume that everybody had the feeling that the Japanese do not assimilate into our population. They were in one area in which we were having difficulty on the West Coast. The Germans and Italians here very

often are the most ardent believers in what we are fighting for and to do that to the Germans and Italians, that would be a terrible mistake.

- Foley: And there are refugees here too that want to become a part of America, whereas there were no Japanese refugees over here, and they are not part of our ideology.
- H.M.Jr: We have corrected that now, haven't we?
- Foley: In the first instance we cut off everything as far as Japan was concerned.
- H.M.Jr: But you didn't do that for Germany and Italy.
- Pehle: No, we did not.
- Foley: No, and I think the situation is different.
- H.M.Jr: You mean a German alien tomorrow can still do business in this country?
- Foley: If he was here before the seventeenth of June 1940.
- H.M.Jr: He can?
- Foley: Yes, sir, just as he has in the past. We are not touching him.
- Pehle: Under our licenses. Under our licenses, if he came after the seventeenth of June - if it was before the seventeenth of June 1940, we haven't interfered with his business, but I don't think we ought to interfere with it except in specific cases where we have reason to believe something is wrong.
- Foley: And we have developed these cases in so far as all of the firms are concerned on the two lists

- 4 -

that you signed this morning.

- H.M.Jr: Well, how many were there of the Germans?
- Foley: Well, I should say on each list there were approximately twenty German firms, making about forty in all, and on each list there were approximately seven Italian outfits, making them somewhere around twelve to fourteen.
- H.M.Jr: Well, all I want to say is, you may have been too harsh on the Japanese and not harsh enough on the Germans and Italians, but let's see what happens in the next day or two. Let's see what happens in the next day or two. But the way it stands now, you are devoting your time to those Japanese people on which the banks have filed a form, is that right, on which they have this T.R. Form? Is that right?
- Pehle: That is right.
- Foley: That is right.
- H.M.Jr: And after you have got all of those under control, you will come around and see me, is that the idea.
- Pehle: They are all under control now. We have somebody in every one of those firms.
- H.M.Jr: What are you doing with the rest of it.
- Pehle: The rest of it, they are continuing what they were doing in San Francisco.
- H.M.Jr: Doing it with what they have in hand?
- Pehle: That is right.
- Foley: With what they have on hand. We have told them to forget Justice and forget help from Army and

just do it with their own people and in so far as we can do it within the limits of our personnel, it is available to them out there.

- H.M.Jr: How much personnel have you got?
- Foley: Well, they are hiring these guards all the time. They were authorized yesterday to hire - was it seven hundred?
- Pehle: Fifteen hundred altogether.
- Foley: I think it is fifteen hundred all over the country. Irey came back today and said he thought we ought to take the limit off. We ought to let the Coordinator hire what he needed for the situation in his particular district.
- H.M.Jr: Well, let me just say this. I would like a report again tomorrow morning what, if anything, of a subversive nature they find amongst these Japanese houses who are not on the T. R. Form, you see. Let's see if they find anything. I may want to stop it. I mean, what do they find? I mean they found one naval code so far, but I don't know whether that was in the T. R. Form or not.
- Foley: Probably not.
- H.M.Jr: Tell them tonight to file a report with you of what they found during the day of a suspicious nature, something that would come under espionage or subversive activities.
- Pehle: Right.
- H.M.Jr: In the non-T. R. cases.
- Foley: Yes.
- Pehle: Right.

- Foley: Little individuals that don't have to file reports.
- H.M.Jr: And tell them to do that until further notice.
- Foley: I talked to Shea again and he hasn't cleared the stuff.
- H.M.Jr: You sent it out, didn't you?
- Foley: Yes, I sent that out. I asked him if he had the memorandum for the Executive Order for the President and he said he is holding it until Biddle is available. On the telegram, he said he dictated a memorandum and he talked to Biddle and Biddle agreed with him on both points and Biddle had to go out again, and when he came back he was going to send a memorandum to you about that telegram. I didn't say anything, I didn't tell him that.
- H.M.Jr: Was he pleased or displeased?
- Foley: I gathered that they got suggestions to hold it up or not to do it.
- H.M.Jr: Well, it is gone, isn't it?
- Foley: It is gone.
- H.M.Jr: You can't run a Government like that.
- Foley: But it is very urgent that we get that other situation clarified, caused by the conflict between the Section 3 (a) of the Trading with the Enemy Act and our own act.
- H.M.Jr: Well, keep after it and see if you can't handle it without me. If you need me, I am here.
- Foley: All right.
- H.M.Jr: O.K., gents.

TREASURY DEPARTMENT
Washington

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FOR IMMEDIATE RELEASE,
Thursday, December 11, 1941.

Press Service
No. 28-97

The Treasury Department today announced regulations governing living expenses and wages for Japanese nationals in the United States and regulations governing Japanese nationals engaged in the production, marketing and distributing of food and agricultural products within the United States.

Under General License No. 11-A any Japanese national in the continental United States may receive up to \$100 per month for living and personal expenses for him and his family. This license permits such payments from either the national's bank account or from his employer in the form of wages. Banks and employers making such payments are required to make certain that the Japanese national is not drawing more than \$100 under the license. Thus a Japanese national cannot draw \$100 per month in the form of wages and at the same time withdraw \$100 per month from his bank accounts.

Under General License No. 77 Japanese nationals engaged in the business of producing, marketing or distributing food or agricultural products may, with minor exceptions, engage in all transactions incident to the normal conduct of such business. However, under the license a Japanese national cannot withdraw from his accounts during any one week for such enterprises sums in excess of his average weekly withdrawals during the last six months. Moreover, the license covers only Japanese nationals who were previously licensed under General License No. 68. This action is intended to permit the orderly movement of fresh vegetables and other food in areas such as the Pacific coast in order to supply the needs of our civilian population and military forces.

-oOo-

GENERAL LICENSE NO. 11-A
UNDER EXECUTIVE ORDER NO. 8389, APRIL
10, 1940, AS AMENDED, AND REGULATIONS
ISSUED PURSUANT THERETO, RELATING TO
TRANSACTIONS IN FOREIGN EXCHANGE, ETC.*

(1) A general license is hereby granted authorizing payments out of the blocked account of any national of Japan in the continental United States for the living and personal expenses of such national and his household; provided that the total payments under this general license from all the blocked accounts of any one national shall not exceed \$100 in any one calendar month.

(2) Banks, employers and other persons making any such payments shall satisfy themselves, through affidavits or otherwise, that payments out of blocked accounts for living expenses for any one national and his household do not exceed \$100 in any one calendar month.

E. H. Foley, Jr.,
Acting Secretary of the Treasury.

* Part 131; - Sec. 5(b), 48 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, and Ex. Order 8963, December 9, 1941; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941.

TREASURY DEPARTMENT
Office of the Secretary
December 11, 1941.

GENERAL LICENSE NO. 77
UNDER EXECUTIVE ORDER NO. 8389, APRIL
10, 1940, AS AMENDED, AND REGULATIONS
ISSUED PURSUANT THERETO, RELATING TO
TRANSACTIONS IN FOREIGN EXCHANGE, ETC.*

(1) A general license is hereby granted licensing any person engaged, prior to December 7, 1941, in the production, marketing or distribution of food products within the continental United States and who is a national of Japan to engage in all transactions ordinarily incidental to the normal conduct of their business of producing, marketing or distributing food within the continental United States, Provided, however, that this general license shall not authorize

- (a) any transaction which could not be effected without a license if such person were not a national of any blocked country.
- (b) total payments, transfers or withdrawals from blocked accounts of any such person during any one week in excess of the average weekly payments from such account during the six months' period immediately preceding the date of this license, or
- (c) any transaction by or on behalf of nationals of Japan who were not generally licensed nationals under General License No. 68 prior to December 7, 1941.

(2) Any person engaging in business pursuant to this general license shall not engage in any transaction pursuant to this general license which, directly or indirectly, substantially

* Part 131; - Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, and Ex. Order 8832, July 26, 1941; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941; Ex. Order 8963, December 9, 1941.

diminishes or imperils the assets of such person within the continental United States or otherwise prejudicially affects the financial position of such person within the continental United States.

(3) Any bank effecting any payment, transfer or withdrawal pursuant to this general license shall satisfy itself that such payment, transfer or withdrawal is being made pursuant to the terms and conditions of this general license.

(4) Where any blocked account in a bank is debited in excess of \$500 per calendar month pursuant to this general license, such bank shall file with the appropriate Federal Reserve Bank a report for such calendar month setting forth the details of the transactions in such account during the calendar month.

E. H. FOLEY, JR.
Acting Secretary of the Treasury.

December 11, 1941
3:00 p.m.

RE TAXES

Present: Mr. Paul
Mr. Kades
Mr. Viner
Mr. Blough
Mr. Tarleau
Mr. White
Mr. Sullivan
Mr. Buffington
Mrs. Klots
Mr. Graves
Mr. Odegard
Mr. Kuhn

Paul: We have a recommendation, Mr. Morgenthau; it is briefly described here on one page, for which we are grateful.

H.M.Jr: I will join the "one page club."

Paul: I think everybody is in agreement except that perhaps John has some doubts on the first point.

H.M.Jr: The reason I asked Odegard in here is, I wanted you (Odegard) to see if you thought that in any way, one, the morale of the country, and two, what effect if any it would have on our Defense Savings Bonds. You may be hearing this for the first time.

Odegard: What was this?

Viner: It is his first time. Have you got a copy of that paper for him?

Paul: Yes.

H.M.Jr: It is much better that he does hear it for the first time. Then he hasn't heard all the arguments.

Paul: Do you want to read that?

H.M.Jr: I would like you to read it, please. There are two things, Peter, when you get through, see, the country and then our own particular Defense Savings Bonds.

Paul: Let me make it clear that this is not a tax program in its entirety. It is merely an expedient in respect to collection at the source or advance payment of taxes, and it contemplates as a premise that there will be additional taxes later in the year 1942 imposed on incomes for '42 and with that understanding we go on to these points.

Also, points 4 and 5 are less important than 1, 2 and 3. I go on to point 1, "In order to expedite tax collections, ask immediately for collection at the source of a percentage of taxes on 1942 incomes, otherwise payable in 1943, the amount collected being a credit in 1943."

H.M.Jr: Now wait a minute. "Roosevelt signs war resolutions." What is that? All right.

Paul: Now, this point does not contemplate a separate or supplementary tax, but rather the advance collection of part of one integrated income tax.

Number 2: "Let the Secretary of the Treasury, perhaps with the approval of the President, have discretion as to the date when the collection at the source begins."

Three: "Let the Secretary of the Treasury have discretion, also with the approval of the

President, as to the rates of collection, or advanced payment, within limits from 2 to 10%."

Then, as I said, these next two points are less important. Four: "Let Defense Savings Stamps be acceptable in payment of taxes, -- also in payment for tax notes and Defense Bonds." They are now for Defense Bonds.

Five: "Let collectors of Internal Revenue be authorized to accept Series E savings bonds in payment of taxes according to the tables of redemption values."

Now, as I said, I don't know about Mr. Odegard, of course, but everybody else here is agreed on this - well, not you, Mr. Kuhn. I think Mr. Sullivan has some reservations. On point one perhaps he should state his own reservations, I don't know. Do you want to state them for us?

Sullivan:

Well, I have just been doing some thinking out loud, asking some questions, and the answers thus far haven't satisfied me. I mean, we have only been at work at this since we left you this morning. In the first place, this is a substitute for a direct withholding tax. Under the withholding tax you would put on, say, ten percent and that would be withdrawn from the fellow's pay check every week in '42. Then in March, 1943 he would fill out his income tax as usual and the amount of the tax that had been withheld in '42 would be a deduction. Under this system the amount that is withheld in '42 becomes a tax credit, and is deducted from the tax that is due in '43 and hence you have to raise the rates that he will pay in '43 to make up for allowing him to subtract this tax from his total '43 taxes.

H.M.Jr:

Say that again.

President, as to the rates of collection, or advanced payment, within limits from 2 to 10%."

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H.M. Jr:

Say that again.

- Sullivan: Under the original withholding proposal, the amount withheld in '42 was not a tax credit but a tax deduction.
- H.M.Jr: Yes.
- Sullivan: In other words, if the man's income was two thousand dollars and he had had withheld a hundred dollars during '42, that hundred dollars would be deducted, not from the tax due, but from his net income. Then under this proposal the hundred dollars, you would compute the tax due in '43. Suppose it is a hundred and fifty. You would then deduct from it the tax withheld under this present proposal because it is a tax credit. Then you have to raise the rates in '43 - the rates upon which he pays in March, '43 to make up for what you lost by allowing him to take it as a tax credit. It seems to me it is merely a different way of accomplishing the same purpose. There was a general feeling in the group that this was a simpler way of going about it. I can't share that view, because under both proposals you have money withheld during '42 and you have the same amount paid in '43.
- H.M.Jr: Just one minute, will you? George, just come here a minute.
- (Discussion off the record.)
- Sullivan: It seems to me the merit in this proposal is that you can do the same thing without calling it an additional tax at the present time. You call it accelerating the payment of next year's taxes, but your result and the effect upon the individual is just the same as it is under the original withholding proposal.
- H.M.Jr: Well, John, what was the original proposal? What is the alternative?
- Sullivan: That the money that was collected from the with-

holding tax was to be supplementary, additional to the money collected from the income tax.

H.M.Jr: You mean it was to be a separate tax?

Sullivan: No, in addition to it. It is based on income.

H.M.Jr: But it is really two taxes.

Sullivan: That is right.

H.M.Jr: And this way you are simply advancing it.

Sullivan: This way you advance it, allow it as a credit, and then boost your rates to make up for what you lost by allowing it as a credit.

H.M.Jr: Well, I take it this is done in order to fool the people.

Paul: No, not entirely.

Sullivan: No, I don't think that is what they had in mind at all.

H.M.Jr: Well, as Baby Snooks says, "Why, Daddy?" Why isn't it?

Paul: Why isn't it fooling the people?

H.M.Jr: Yes.

Paul: It has no meaning with respect to fooling or not fooling. The idea of this tax is simply to get collection at the source started now before we have our entire tax program in order. I would think it would be a grave mistake to impose an additional tax bearing down on the low incomes before we are ready to equally bear down on the high incomes and yet we must check inflation. Therefore, we have to take some money out of circulation immediately now, and this is a way of doing it without imposing any

additional tax burden, which the lower income brackets can say is discriminatory against them. And furthermore, this plan has the virtue of gaining us a little time, because things are moving so fast now that we can't see very far ahead. I contemplate that by May we would have an entirely different 1942 tax and what we have done under this plan is start earlier than May by advance payments of taxes, taking some money out of circulation.

H.M.Jr: Well, do I understand, John, that you are for a straight out and out supplementary withholding tax?

Sullivan: I don't see the advantage of this one over the other. There is another point here that I think is of equal importance that hasn't yet been reached. I don't want you to get the impression that I am opposed to this. Everybody else is so much for it that I perhaps have appeared to be more hostile than I really am - yes, as Paul says, "devil's advocate" is right. I have yet to be sold that the differences between the two plans favor this one over the original proposal.

Paul: There is another virtue of this plan which is this: that it is a simpler plan and tax structure. It doesn't impose an additional tax and make two twin taxes, but it integrates an advance collection into the one schedule of tax rates.

White: It has a great additional advantage of the flexibility.

(Mr. Graves entered the conference.)

H.M.Jr: Harold, did you get the message I sent out to you?

Graves: I got your message. I have asked them to send

that airmail instead of by telegram today.

H. H. Jr:

Why?

Graves:

Because the telegram facilities are already clogged everywhere, and it seemed to be wrong to put that long telegram on the wire for fifty places. I think probably airmail will get it to our people as quickly in the main as telegrams would and it will save that load.

Plotz:

They are clogged up.

Graves:

There is an endless delay now in getting telegram messages through.

H. H. Jr:

Well, anyway, go ahead.

Sullivan:

I haven't yet seen the advantage either in simplicity or in flexibility. You see, with a withholding tax, if, at the time you go to the Congress and ask for a withholding tax of one or two percent, it is made abundantly clear not only to the Congress but to the country that this is what you are asking for now and as the situation changes, in the interest of flexibility you expect to come back to the Congress many times, as many times as necessary and have that rate changed. This proposal gives discretionary authority to you to advance those rates as you see fit.

Paul:

Within limits.

Sullivan:

Within certain prescribed limits.

White:

Don't you think there is a very great difference between going to Congress and asking for what, in effect, is and will be so considered, an increase in taxes and expecting Congress to act on that with any degree of alacrity as compared with the Secretary's decision that it is

time for the rate of advance payments to be stepped up or to begin. I think there is a very great difference.

Sullivan:

Yes, the latter, Harry, would be a little bit quicker, but whether or not that saving in time would be worth whatever loss of morale you encountered, on the story that Congress had turned over the taxing power to the Administration --

Paul:

But this isn't turning over the taxing power. This has nothing to do with the taxing. It merely has to do with collection.

Sullivan:

That is right, advancing the date in collection for the fellow who works in the shop. That is all the same story. I am just wondering, here we are going into a war to fight Hitler and we are turning the money over to one man.

H.M.Jr:

You wait until you see what they turn over to the President in the next day or two. This will look like peanuts.

Sullivan:

Well, that may well be so.

H.M.Jr:

The war power that he is asking for - this is very incidental.

Viner:

I think there is one point about the two alternatives, one of the separate withholding tax and the other of the advanced payment. The advanced payment provision doesn't change your schedule of progressive rates at all, from what you want it to be. The schedule of withholding taxes makes a new schedule.

Paul:

That is right.

Viner:

Whether you like that new schedule or not, I would be disturbed, where if it were a one or two percent tax, I wouldn't care. If I knew

the withholding were going to be only one or two percent, I would make it a separate tax like gross income, but if it is going to go up to ten or fifteen or twenty percent, then I say you are adding twenty percent income tax to your present schedule, which means you are adding seventy-five percent taxes at one end and three percent at the other. It is a bit arbitrary all the way along. I suppose Mr. Sullivan would say that he has in mind that he is going to reconstruct his income tax schedule in the light of this new measure, but that is the second proposal you make to Congress and if you don't get what you want, the two together aren't going to be what you want; where if you get this alone, it hasn't in any way made your tax rate structure either better or worse than it is now.

H.M.Jr:

Jake, let me ask you a question, because to me this is terribly important. My principal objection on second thought, to the straight withholding tax, was that it bore down unmercifully on the white collar worker. This thing, if I understand it correctly, gives them the same exemptions which they enjoy now, is that right?

Viner:

Unless you want to change it in the rest of your tax program. By itself, it does nothing to their exemptions, it does nothing to their tax liability except the date of the liability.

H.M.Jr:

Again, if I understand it correctly, this group believes that we ought to move forward fairly promptly with an additional tax. If they feel that way and they feel the way Blough did this morning, that we haven't got time to rewrite the tax bill, then we most likely won't be able to rewrite it anyway. Frankly, I am afraid of the straight withholding tax for three reasons: One, I don't think it is taxing on ability to pay. I think it is unfair. Two, I don't like the people that were for it. I don't mean our

own place, I mean publicly. It is like when Monsignor Ready was here to have lunch with us some months ago. I forget what the tax was that was up, and I was under fire, and I asked him. I said, "How do you feel about it," and he said, "Well, I don't know anything about taxes, but by the people that are for it, I am against it." That is the way I feel on this fifteen percent. I mean, I am afraid of the people that are for it. I just didn't like the people who finally, after they thought it over, seemed to think that this was pretty good.

I am not being in any way personal. And I frankly feel that we have very, very dark days ahead of us and we don't yet, any of us, realize what they are. To take these six million white collar workers and do something which might get them, if their letters are any hint - I don't say it might, it would get them definitely down on Washington. I mean, the letters were the most vitriolic that I have ever received on anything. I just think it is stupid at this stage of the game, where the war news is going to be downhill, and I am not convinced that we need the money badly enough to go up against these six million people at this time. They may be in the humor that we may be desperate, where we need it, a year from now.

So, for all of those reasons, on second and third thought, I don't want to go along with the straight withholding tax. Now this thing here seems to have - I am frankly very much on the fence as to asking for anything right away, but if all of you people think that we should, I am willing to take your advice, you see. I am very much on the fence as to the necessity, but if this combined group - I don't know whether Sullivan is with them or not as to the need of some kind of taxes --

Sullivan:

Oh yes, I am.

- H.M.Jr: Well, that makes it unanimous. I say if all of you feel that way, I still am on the fence, but I ask you people to advise me and I listen. If I have a whole group who say, "You have got to have something," all right. I say to you, I won't take the straight withholding on account of bearing down too hard on the middle classes. This has the benefit of the exemptions which they enjoy now.
- Sullivan: Oh, the other does too, sir.
- H.M.Jr: Well, you can't prove that.
- Sullivan: I beg your pardon. You ask anybody in the group. The exemptions under both of these are exactly the same.
- White: I think possibly, John, that is a little bit misleading.
- H.M.Jr: They are not.
- White: The exemptions can be the same, but in the sense that you give them both a thousand or fifteen hundred dollars exemptions, but I don't think that is quite what the Secretary has in mind, that the burden is greater on the low income groups unless you offset that burden by revising the progressive rates in your tax bill.
- Sullivan: That is right.
- White: But the people getting this will feel that there is a greater burden placed on them than there is on the higher income groups.
- H.M.Jr: You have always said those progressive rates would be increased to accomplish that.
- The Navy announces, "One Jap cruiser and one Jap destroyer sunk."
- White: In addition to the battleship?

- Viner: Yes, it would be. That was the Army and this is the Navy.
- White: It goes under the name of socialist competition.
- Mr. Secretary, is it clear that in the proposal which was submitted this morning we are not agreed that these things should be called for but merely to give you the authority to do so if, when and as.
- H.M.Jr: I understand.
- White: That you might not see fit to do so until June, July or March.
- H.M.Jr: I understand.
- Paul: I think the point Jake Viner made is very important. I think White has the same idea, that this arrangement - it isn't a tax - collects some money now and takes the money out of circulation without disturbing the whole tax structure, and we don't want to disturb that structure, particularly in relation to the low income brackets, until we have got a whole tax program that bears down equally on the high incomes and the corporate incomes as well, without discrimination and we haven't got that now and we won't have it for a while, and if we are going to do something instantly we have got to do something neutral like this that merely affects collection and doesn't disturb the whole integration of the present bill.
- Sullivan: I think we ought to tell the Secretary that in so far as the six million white collar workers are concerned, they will pay exactly the same amount under this proposal as they would pay under the other in '42.
- Viner: They will pay in '42 but in '43 under this proposal they have credits to the entire amount

of their payments on this account against their taxes in 1943.

Sullivan: That is right, but in the meantime you have to increase the rates in '43 to get the same amount --

Viner: But you may not want to get it from them, whereas your method at once makes that decision and I am not saying that that is a wrong decision, but I am saying that I haven't been sold on the argument yet as to why. The point is this: Sullivan's scheme can be made to work out almost exactly the same as this, but do you want it to work out the same as this? Are you sure that the ten percent or fifteen percent additional that you collect this year you want to come as additional revenue from the persons who will pay it this year? I am not at all sure of that.

White: Moreover, you say that John Sullivan's scheme can be made to work out.

Viner: If Congress cooperates.

White: I think that is not quite stating the case clearly, that a scheme can be worked out which will be put into effect next year, which would have that effect. In other words, you are putting part of it now and you are compensating for that next year.

H.M.Jr: This is the explanation of that ticker message. The Navy announced that the defending Marine garrison on Wake Island has sunk one Japanese light cruiser and one destroyer by air action.

White: They are still on Wake Island, then?

H.M.Jr: Yes.

White: That is fine, because we thought that was gone.

- Graves: Well, maybe that occurred Monday. It could have occurred Monday.
- H.M.Jr: It doesn't say.
- Klotz: They have just announced it. It must be now.
- Viner: Everything is air.
- H.M.Jr: Peter, without - I don't know whether you want to get in to the technical thing, whether you want to say anything, but from the standpoint of the country and the standpoint of the Defense Savings Bonds, have you any feelings about this suggestion?
- Odegard: Well, I just wanted to ask some questions, Mr. Secretary. I would be wholeheartedly in favor of anything that would expedite tax collections. This is just doing in another way what the Tax Anticipation Notes undertook to do except that this would do it by administrative regulation rather than by voluntary solicitation. The question I had - the two questions I had to ask were, first, is it going to be possible to make it clear to taxpayers that this is not a new and additional tax, but is simply the payment of their current tax, currently? The reason I asked that is because inevitably there are going to be more taxes and if they pay this in advance, aren't they going to think that this is actually a new and additional tax?
- Paul: I think it can be made clear, but in so far as it can't be made clear, the scheme is no worse than the other fifteen percent and it has the advantage of deferring the incidence of the type of tax imposed.
- Odegard: It is much better than the other, I think.
- Paul: As to whether it can be made clear, probably not

to every taxpayer, but to the majority I think it can.

Odegard: I like the element of flexibility. I would ask a question - I am not clear about this - as to whether or not it is advisable to use Defense Bonds, Series E Defense Bonds, for purposes of paying taxes.

Viner: You can't stop it now.

Odegard: Well, you can't stop it.

Viner: It is one of the privileges of the taxpayer, but now he has to go to the bank and from the bank he goes to the Collector of Internal Revenue.

White: There must be some difference, or else he wouldn't advocate it.

Viner: The difference is this, that I don't want them to say --

H.M. Jr: Jake, do you mind my saying this? I want - I have an appointment with the President of the United States at 9:30 tomorrow. I am not going to bring four and five to his attention because I don't think it is important enough, you see, so I don't want to take the time now. I do, if you don't mind - I would like to settle one, two and three and I want Paul to have time to write me a paper for the President explaining why we want one, two and three, with the arguments, the pros and cons, which I can present to him. You don't mind my stopping you, Jake, do you?

Viner: Oh no.

H.M. Jr: Because I am not going to present four and five. I don't want to get into four and five with the President. I am not going to ask four and five

of George and Doughton tomorrow. It is this one, two and threes.

White: I think they all felt that, Mr. Secretary.

Paul: I said that at the beginning, that those were less important.

Viner: I think the four and five are for your benefit and your interest.

H.M.Jr: And under two, let the Secretary of the Treasury, "perhaps with the approval of the President," for God's sake, knock out the "perhaps." Do you want to go ahead, Viner?

Viner: I was saying that on four and five the question was raised as to what the effect of this would be on the Defense Savings Bonds.

H.M.Jr: That is an administrative matter.

Viner: It is inside here.

H.M.Jr: I can do that, can't I, Harold, as an administrative matter? I don't need to go to Congress on that?

Graves: I didn't understand what Dr. Viner meant when he said five was possible now.

Viner: You can go to your bank.

Graves: The Federal Reserve Bank is the only one. There is a long gap there. If you want to redeem your bond it takes you two weeks to do it.

Viner: You are not boasting about that gap.

Graves: You are not boasting but you might just as well say that you can apply a churn or washing machine and turn it in.

Viner: I say when you make a bond redeemable, you ought to facilitate the process of redemption. There

is nothing to be said for making it hard for them. You don't want to keep them in their boxes for that reason. That is a defect in the administration of the program. So if you are going to give them redemption - I don't mean by notice - but if you are going to give them redemption then you ought to speed that up as much as you can.

Graves:

Sure.

Viner:

This is one way of speeding it up.

Graves:

You can't decentralize that because --

White:

It reminds me of Dano. You can't get him to let go.

H.M.Jr:

Listen, not this afternoon, see. It is of no importance this afternoon, as far as I am concerned.

Kuhn:

Mr. Secretary, there is one --

H.M.Jr:

Excuse me, I want to go back. On the one, two and three, Odegard was asking some questions and is he finished?

Odegard:

Well, the question I asked first was whether it would be possible to explain whether this was not a new and additional tax but was merely payment of current tax obligations and I think that can be done.

The second question related to the four and five, as to whether or not that ought to be in here.

H.M.Jr:

And I struck it out for tomorrow.

- Odegard: I think it is safe to say - it is fair to say that the straight withholding tax, the announcement of the straight withholding tax of ten, fifteen percent, would seriously affect the Defense Bond program.
- H.M.Jr: Peter, how about this the way it is set up here?
- Odegard: My reaction to it would be that I would be very much in favor of it.
- H.M.Jr: That is what I wanted to know.
- Odegard: If this point could be made clear.
- Paul: Well, that is a matter of public information. It can be done, I think.
- White: May be a little bit more than that. What led you, Mr. Secretary, to say, "Aren't we fooling the public?" Isn't there something we may be overlooking?
- Sullivan: I think the worst that can be said about this, Mr. Secretary, is that this is a part payment on a tax which is going to be increased.
- H.M.Jr: But what I mean is saying - here is another message. "The garrisons have defended the island in the South Pacific, and so forth."
- What I meant that bothered you was this. When I saw Paul at lunch, he said - do you remember what you said?
- Paul: Yes, I remember.
- H.M.Jr: You say what you said and my answer. Do you remember it?
- Paul: I think you said--
- H.M.Jr: You raised it. Do you remember what the discussion

was? That is the point.

Paul: I am not sure exactly what I said. I am rather more sure of what you said. I think you said that if there is going to be an additional tax, let's not fool ourselves.

H.M.Jr: No, the way it was put was this. Paul says, "Now of course this will not be an increased tax on next year unless we increase the taxes for the succeeding year," and I said, "Well, don't at least fool me that we won't increase the taxes."

Paul: Well, I think we should say very frankly that we propose to increase the taxes, but we are not going to do it yet without an entire program, and we are doing this now and leaving the program to be reorganized after full consideration.

H.M.Jr: And if I understand Jack Viner correctly, after seeing how this falls on the white-collar classes, we may not want to tax them again in '43. Isn't that your point?

Viner: It will leave you free to have the sort of tax structure you want. This will be a collection provision and not a tax provision and will leave you perfectly free to move on your tax schedule, raising it or lowering it wherever you please, whereas the other proposal is a definite proposal now to raise the level of each rate by so - what is it? It works out - well, a varying rate. Eleven percent net of the present rate. You may or may not think that is a good thing to do.

Blough: It should be made clear in course - I am in favor of the proposal, but it should be made clear that if this is done and the tax structure was not changed in any other way, collections

would rise in '42 and fall in '43 and in order to keep them as high in '43 as they would be in '42, we would have to have stiff increases in taxes.

Viner: In other words we can't over the years get more revenue without raising our taxes.

Paul: That is right, but '43 is a year ahead. It is further than we can look now.

H.M.Jr: Well, now, Kuhn comes next.

Kuhn: I wanted to get back to our original problem of this morning and of a few days ago. You have to make up your mind before Tuesday or Wednesday as to whether you can give a pledge or commit yourself in some way, at least make up your own mind.

H.M.Jr: I have to do it tomorrow.

Kuhn: You have to do it tomorrow. The reason is that the proposed - the earlier withholding tax would have had a very bad unsettling effect on stepping up - in our efforts to step up the voluntary saving.

Now, it seems to me that in this scheme, because of all the publicity that has gone with "Know Your Taxes" and other things of the kind, people know much better than ever before how much they are going to have to pay next year. You don't add in any way to their uncertainty or unsettlement. It seems to me that this makes it possible to collect more money and at the same time to put the steam on voluntary savings quite effectively.

Viner: That is not quite--

Sullivan: No.

Kuhn: No?

Viner: No, because this does tell that the President and the Secretary are going to have the discretion to increase the tax collections.

Kuhn: Yes, but not the amount of the tax.

Viner: But from the point of buying securities, they have to watch their cash balances. This does add to their uncertainty about the cash balance.

Kuhn: I think it is much less than it would have been under the--

Odegard: It is limited to ten percent of the tax.

Viner: Yes, and the other one adds to it--

Blough: Maybe one hundred percent of the tax.

Odegard: This says ten percent.

Blough: Ten percent of income.

Kuhn: I would like to ask how Graves - whether he checks with me on that?

Graves: Well, I don't think I do.

Kuhn: You don't? You think it would add to the uncertainty?

Graves: I think very greatly.

Viner: But remember this, I am not sure that we are talking on the same issue. You don't know any way in which we can take cash out of the people without lessening their ability and willingness to subscribe to the Defense Savings Bonds do you?

Kuhn: No, but I am talking about something more than lessening their ability. I am talking about a

kind of uncertainty and unsettlement which would take away all their desire to.

Viner: That is what I tried to meet in five.

Kades: That is right.

H.M.Jr: Well, let Graves finish. He didn't finish his sentence.

Graves: I don't know that I am well enough informed to comment at all on this. For instance, I am not sure that I know exactly what the object of this is, whether it is a matter of raising money in advance or whether the object is to draw off from people's earnings in order to check inflation.

Paul: Principally the latter.

Graves: If it is principally the latter, then I would suppose that, considering the morale as well as the financial side of this thing, that this proposal would in effect be the same as a withholding tax, as an additional tax. I don't think that the kind of people that are involved in that latter point are the kind of people that will understand clearly that this is an advanced collection made currently now instead of the usual thing of collecting it a year later. I think most of the people that wear overalls and work at the bench, fellows of the kind that we are going to try to reach in order to accomplish my item two, are people who will not readily understand this matter of advanced collection, and my off-hand opinion is that by and large they will not distinguish between that and a straight withholding tax.

Paul: But will you agree that as between this and a withholding tax, this leaves the situation much more flexible for future treatment of an entire program in accordance with what we ought to do?

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The most you are saying is that these low income groups won't understand, but, in the end by this mechanism, we will get a better tax, even if they don't understand it.

- Graves: Well, I think they are going to always think of this in terms of how much tax they have to pay this year and next year and next year and the allocation of the amount they pay this year to any particular period is not a matter that they care about or know much about.
- Viner: What do you think the consequences will be of such failure on their part to understand.
- Graves: What I was saying, Dr. Viner, was that I thought by and large there would be little difference.
- Viner: They would find--
- Graves: Between this and a withholding.
- Viner: They would find a difference in '43.
- Graves: That you don't know because having found that it is possible for people to pay this much tax in 1942, I would myself doubt whether the Government would then recede in '43 and say, "You may pay less."
- Viner: I should suppose the Government isn't going to decide in '43 in terms of the amounts of credits they have on the preceding year, but in terms of some equitable schedule.
- Graves: That is right, and we will understand that but all that the fellow in the factory is going to say is, "That I paid 'X' dollars in '43 and I paid 'X' dollars in '42." He is not going to stop to think about the theoretical objections of his payments to any current period. All he

is going to think about is that he paid so much this year and so much last year. So I think it is not any better.

White: In other words, the worker will say, "Yes, I am paying in advance this year and next year you are going to make me pay in advance, too."

Graves: That is right.

Viner: Well, we will see next year whether we will or not.

Graves: Well, you know you will, Dr. Viner. You know you will take this out of the pay envelopes in 1942, and you will find it can be done in '42 and it is scarcely likely that the Government will in 1943 be satisfied with a less charge against people's cash.

Viner: No, but it won't be distributed in the same way.

Graves: They won't know that.

Viner: Of course they will, if a man has paid a hundred and twenty dollars in '42 and he finds he is only paying eighty-five while somebody is paying a hundred and forty next year, who paid a hundred and twenty, they will know it.

Odegard: He is going to regard it as a new and additional tax, isn't he, because there is going to be a new and additional tax.

Graves: That is my opinion.

H.M. Jr: You are not fooling anyone. If you are doing it, you are doing it to be clever.

White: No, I think that is disposed of a little too quickly. The question as to whether when a man pays in advance he is not going to say to himself,

as many unquestionably will, "Oh, yes, I know, and next year they will ask me to pay in advance again and next year again." However, that--

Graves: Or to increase the current rates to make up for that difference, which is perhaps more likely.

White: Yes. But the fact does remain, however, that you are not going to impose this unless you need to mop up purchasing power. Therefore, the choice is not between this and nothing. The choice is between this and the withholding tax and as between the two, I think there are a great many intelligent people who will - who can be made to understand. There will have to be some more publicity work. They can be made to understand--

Graves: That leads me to my inquiry at the outset, Harry. I was thinking that if your object is to raise funds - this is the kind of thing you can do to corporations. It is the kind of thing you can do to taxpayers who have been accustomed to pay taxes and who are familiar with these technicalities, and that, by the way, would probably result in your collection of a large proportion of the tax that would be involved, but you are talking really about applying this to a large proportion of people who have never paid taxes before or if they have, they have paid a very small amount, and they are the people who won't understand and, as a matter of fact, they are not going to produce much income for you either, as I would suppose, in relation to the total.

In other words, I was thinking perhaps of applying this principle from the top down to some exemption limit, some limit of income and leave the people who are below that limit free from the advance--

- White: You see, that doesn't meet your objective.
- Graves: It meets the objective by the Defense Bonds program.
- White: No. I think the - well.....
- Blough: The reason I like this is not because of any of this so-called cleverness, but something quite different, and that is that it gets the taxpayer caught up each year on the income tax liability which is due for that year's income. The average man with small income--
- H.M.Jr: Wait a minute. If you are going to go to the Swedish system, where they hold parliament until the last day that they pass the last appropriation bill, and say, "Then we will pass our tax bill for this year on this year's earnings," the way they do in Sweden after we know what their earnings are, that is something else again. I know what they do in Sweden, and I have always been for that.
- Blough: Well, that is not quite what I mean.
- H.M.Jr: That is what they do. They wait until the last appropriation bill is passed, and then they wait until they know what their earnings are for that year, and you pay on that year's earnings. They know exactly what they are going to get to the last dollar. That has always made sense.
- Viner: That is from the Treasury point of view. He is talking about it from the taxpayers point of view.
- H.M.Jr: That makes sense because they know how much the appropriations are and they know how much the earnings are, and they pass the tax bill on the known earnings of the corporation.

Blough: I am thinking of poor John Jones who has an income and a tax of a hundred dollars this year. Next year he has to pay that hundred dollars, but he may not have any income next year. If we can get caught up so that he can pay his tax this year while he is earning the money, and next year when he is in hard luck and doesn't have any income, he doesn't have any tax to pay, that will make it a whole lot better in my mind because at the rates we now are imposing these taxes, it is quite a hardship to pay the tax in the year in which you don't have any income and that is the reason I am for it, and not these other reasons which have been given.

White: Well, I don't think that reason is enough to justify any step at this time. I think we have got to keep our eye on the ball. The whole purpose of this kind of an arrangement is to meet the danger of possible rise in prices and the question is, how are you going to prevent it? and I think Harold's point, though well taken, overlooks one fact, that the authority will rest with the Secretary whether to put this into effect, and if your Bond program is going to be successful, he won't put it into effect. He is not putting it into effect right away. It is to give him the authority to do so if your baby bond program doesn't do the trick adequately.

Graves: I wasn't speaking with reference to that. I was speaking with reference to--

White: Well, that is--

Paul: Let's be perfectly clear.

Graves: And on Mr. Blough's point, if you will excuse me, I think that just overlooks what we all recognize as the probability, that there will be

every bit as much reason to take money away from the people in taxes in 1943 as there will be in 1942.

Blough: I am not questioning that a minute. It will be the people in '43 who have the income in '43. Not the people in '43 who don't have the income.

Graves: That is all right, the fellow at the bench and the factory, if you have taken a certain rate or amount from him in 1942, certainly there will be every reason to take that same amount in some form or other in 1943.

Blough: But if he is sick or broke his leg or lost his job--

Graves: Most of them won't be that way so they won't distinguish, that is my point.

Blough: You are quite right about that.

Sullivan: Of course this isn't going to get them caught up to date anyway. This will only bring them more nearly up to date.

Viner: If it is ten percent on the income, it will bring a lot of people up to date.

White: But that isn't the motive for this. Certainly this is not the time to take up a tax bill. If that is the motive, let's drop it.

Paul: Harry, let's get the two issues that we have before us perfectly clear. One is, whether we should do anything now, and the other is, which of two things we should do.

Viner: If we do something.

Paul: The fifteen percent tax or this arrangement.

- Viner: Or what have you.
- Paul: All that Graves said was directed to the point of whether we should do anything now.
- Graves: No, I didn't try to make that point. I was trying to say merely that I couldn't distinguish between this proposal and the withholding tax.
- Paul: But you talked about the effect upon people and whether they would understand it and that all goes to the point of how this would be received on the outside. There are many differences between the fifteen percent proposal and this proposal.
- Graves: We recognize them, but the people generally won't.
- Paul: So if we are discussing the issue which we should take, we should take all those into consideration, but there is an entirely different question of whether we should do anything at all now, and what effect this will have on the Defense Savings Bond program.
- Viner: I would like to ask Mr. Graves if he thinks they would understand the fifteen-percent one.
- Graves: They would.
- Viner: The people you are talking about wouldn't understand anything.
- Graves: They know the Government is taking something from them in the form of taxes, that they will know.
- Viner: In a vague way. They won't see its relationship

to their income or war or anything except that they are being asked to pay.

Graves: That is right.

Viner: Well, that level of illiterates--

Graves: Not illiterates.

Viner: Well, nearly. You can't explain any tax law to them.

Graves: I think it would be general with the people who have not through these years been paying income taxes, and therefore realizing that they are paying 1942 on 1941 income. That sounds very simple and easy to do, because we have been thinking about it for twenty-four years, but these people have not been accustomed to that.

Viner: All you have to tell them is: "This is going to give you a credit against your tax payment next year." If the tax rates next year should be the same as this year--

Graves: I will tell you the truth, I don't myself understand exactly what that means. You say this will give them a credit against their tax next year?

White: They are paying in advance.

Graves: And next year you will pay in advance for the following year is the way they will interpret it. I think it is quite right that way. But I think you have got to go back to the fundamental point from which we started because that has raised the whole issue. The question of the withholding tax relates to the question of inflation and taxes.

Paul: If it weren't for inflation, I wouldn't be

bothered by this program at all now. I would wait and have the whole thing done at one time.

Kuhn: Mr. Secretary, can I ask a question in the light of what Harold said?

H.M.Jr: I don't know why you can't. Everybody else has. Even Chuck Kades can ask a question. (Laughter)

White: He will answer it.

Kuhn: Would it have any good anti-inflationary effect if this scheme were limited to corporations and to the higher brackets.

H.M.Jr: No.

Kades: Mr. Secretary, let me answer that question. (Laughter) The advantage of this scheme, it seems to me, is that it is purely permissive. It gives you the authority to invoke an advance payment, a part payment of the tax in the event that the sale of tax notes and the Defense Savings Bonds doesn't go as well as you expect it to go and that is the controlling advantage.

H.M.Jr: Chuck, let me answer you. It will take me a couple of minutes. In the first place, the more I listen - I said that at lunch. The thing that I didn't like about this thing is, it is slick. And all the things - that is one of the reasons I asked Odegard to come in here, not because he was slick (Laughter) - I wanted him to see whether he got the reaction that I did. I think of all the things we don't want to be accused, certainly in the Treasury, of trying to give these people some ether and then take the thing away from them, and then next year repeat the thing, and I don't think

you can fool the people on this thing. Just to shift a minute from one argument to another, here is the thing I am afraid these fellows will say tomorrow. "Now, look, Mr. Morgenthau, you came up and saw us three months ago and you had the jitters about inflation, and you pled with us to give you something on the first of January. Well, now, today are you just as worried?"

"No."

"Well, if you are not just as worried, when you want something, come on up and tell us. We will get it through. You don't have to have this discretion. Either you think you want it or you don't."

They will think I am afraid. That is the argument they are going to give us. They will say, "If you are so worried, you come up and we have told you and here is this letter from Doughton. If you say you want it the first of January, by golly, we may not be able to give it to you then, but we will give it to you in the middle of January, but you tell us when you want it, and if you want two percent, all right. If you want five percent, all right."

- White: I think there could be an answer to that, Mr. Secretary.
- Viner: If that were the fact, I would say that would be a - I would be inclined to say, "Well, that is not too bad, if you could count on it." You ought to know from past experience.
- H.M.Jr: Well, I don't know whether you can, but at least they hold all the cards.
- Viner: Well, you ask them to show you from the past--

- H.M. Jr: Well--
- Viner: If you would have confidence in that, I would say all right.
- H.M. Jr: The answer is, Jake, pretty near every time I have asked for a sum of money, I have got pretty near the total that I have asked for.
- Viner: This is a question of the speed, not the total.
- H.M. Jr: Well, they will argue about it, but they will say, "You asked us for three and a half billion. Did we give it to you? Yes, we gave it to you. You told us what you want."
- Viner: This is a time schedule.
- H.M. Jr: I have never asked it from them on a time basis before. But they will say, "Well, when have you asked us for something we haven't got?"
- Sullivan: This year the public debt of '41 and the amendments to amortization, we got them both. We got splendid cooperation.
- H.M. Jr: You said something this morning, which, believe it or not, sunk in; the Treasury should have a program, so I would like to have a program and not trade with them.
- Paul: Then if we are going to have a program, let's be realistic about it. We won't have one for sometime. We won't have a program probably until the middle of January. Let's face that fact and tell them nothing. This whole scheme is directed to give control of inflation, and when you talk about the tax program being ready in the middle of January, that is only when we can be ready with one and how soon that will be passed,

God alone knows, maybe the middle of June, and we are trying to do something before the middle of June in respect to inflation. Now let's be perfectly realistic about that. That is the best we can do.

H.M.Jr: Well, I am trying to be realistic.

Paul: Well, excuse me, I didn't want to be too argumentative--

H.M.Jr: No, be as emphatic as you want. Don't anybody take anything personal that I am saying, but I am just trying to think. You see, when you go out to explain this thing and you say, "All this is doing, gentlemen, is asking you to anticipate '43 taxes in '42."

"All right, Mr. Morgenthau - " you use the word "anticipate" and that is the word that you people have used with me.

"That means if we pay '43 taxes in '42, we are not going to have to pay the same thing over in '43?"

"Well, I am sorry, I can't answer you."

Paul: You can answer that you are not paying the same thing, but you are not saying what you will have to pay in '43 for '42.

H.M.Jr: Because it may be more.

Sullivan: Mr. Secretary, I think that if there is any one thing that is undermining moral in this country at this time it is that the people resent being treated like a bunch of children. They think they are old enough to know what the facts are, and I think they want to know them, and I think that so far as paying the bill for defense is concerned, the country is a million miles ahead of Congress and ahead of most of

the Treasury. I think they are ready to pay, and I think they want to pay.

White: Did you read the letters that came in?

Sullivan: Yes.

White: Maybe that was before the war.

Sullivan: I have read a lot of letters that came in, Harry, but I am telling you that the rank and file of the American people want to know the bad news, and they want to get ready for it, and then they want to go ahead and do whatever is necessary.

H.M.Jr: Well, John, there is nothing in the mail to substantiate what you said.

Sullivan: I beg your pardon?

H.M.Jr: I have never received a letter that substantiates that.

White: Maybe since the war.

Paul: I am ready to agree to a large extent with what John says, but that doesn't answer the question. The question is an entire tax program here. I think they will be very loath in the low brackets to pay taxes which they see are not being imposed on the high brackets.

Sullivan: I agree with that.

Paul: And we have got to do one or two things here. We have got to have a temporary expedient and get something done right away to control inflation or we have to wait and have an entire program.

H.M.Jr: Well, Randolph, let me ask you, could you come

down as my tax adviser? You have heard all this discussion, and you keep your mind fluid, you see. After listening to all of this discussion, I am asking you, do you still recommend this or should I tell the President and Senator George and Doughton tomorrow, we don't want to make any recommendation until we are ready with a whole tax program.

Paul: I still recommend this as a temporary expedient.

H.M.Jr: You do?

Paul: Because I want to have some instrument with which to control inflation if it comes, and this doesn't oblige us to do anything. It is entirely permissive.

H.M.Jr: That is a straight answer anyway. That is what I want. I like a straight answer.

Paul: I am entirely in favor of this program as it stands on that basis, but if we don't adopt it, then I am in favor of putting off everything because this is the best program that I think can be devised on that one item of our program, the control of inflation.

H.M.Jr: Well, now, supposing these people say, "Well, we won't give it to you on a permissive basis"?

Paul: Well, then I think the answer to that is, take it on a very low basis to get your machinery set up and so on, and then you can go back to them from time to time for increased rates as inflation develops or as you don't succeed with your program of selling Savings Stamps.

Kades: Mr. Secretary, the statute could provide that this should be invoked by the Secretary of the Treasury with the approval of the President only upon a finding that it was necessary to

control inflation, and then, if your Defense Savings Stamps go, you won't need to invoke it and all the reasons--

Paul: Oh, you get all those complications.

H.M.Jr: No, you can't apply that.

Paul: It is in the Secretary's discretion or it isn't.

H.M.Jr: You can't do that, Chuck.

White: There is a lot of opinion, Mr. Secretary, and they haven't stopped having changes. We merely haven't heard them. There are a lot who still feel that there is very considerable danger of inflation and who still feel that the Treasury isn't doing anything about it and isn't preparing for it and in order to meet that large opinion--

Paul: That is right.

White: We have nothing.

Paul: That is very important.

H.M.Jr: Is it important?

Paul: I think so.

Viner: Supposing Henderson blames you in two or three months, that you left him with just the control - price control, but didn't remove the pressure on commodities. What would you answer? What have you done?

Paul: We haven't got anything.

H.M.Jr: Well, I don't like to work - I mean, that line of thinking of what Henderson is going to say about me three months from now--

- White: I don't mean the individual, I mean as a reflection and as a fact.
- Viner: If I were a price controller, I would say, "Unless the fiscal authorities cooperate with me, I can't make this thing work, and I will tell you in advance."
- H.M.Jr: This is what I think we will do. I want Paul to write me a brief just as short as possible supporting this position. I mean, long enough to cover the whole thing. I want it at nine o'clock tomorrow morning.
- Then, as I understand it, you people are meeting tonight, aren't you?
- Sullivan: That is right.
- H.M.Jr: And I had better get down here at a quarter of nine tomorrow morning.
- Mrs. Klotz, will you please take a note and see that the truck with machine guns calls for Mr. Sullivan so that he gets down at a quarter of nine.
- Sullivan: I drive that down every morning. That is why it is here so early. (Laughter)
- H.M.Jr: Anyway, we will meet at a quarter of nine tomorrow morning with a brief in support of this thing.
- The President is entitled to have this. This is the concerted opinion of the people here with possibly one or two exceptions. You may change tonight.
- Paul: Well, I hope I am still foolish enough to change my mind.

H.M.Jr: Good. I wouldn't have asked you to come down here if you hadn't been.

Paul: That is the acid test, to write it out.

H.M.Jr: I wouldn't have asked you to come down here, if I didn't think your mind would stay fluid up until the moment you were finally convinced. I have got to have a brief.

Paul: All right.

H.M.Jr: And I will be here sharply at a quarter of nine tomorrow morning to get a report on tonight's meeting, and then you present the plan, this plan, to the group tonight and see what they have to say.

Sullivan: As I understand it, Mr. Secretary, in addition to the merits of this plan, the other thing you wanted to discuss was whether or not any assurance should be given in your Chicago speech or whether we should drop that because that was the original reason.

H.M.Jr: Oh, I wouldn't bring that up.

White: I think that should be decided here.

Sullivan: I do too.

H.M.Jr: After I have seen the President and Senator George, we can settle that in five minutes. We can settle that afterward. I mean, we have got to go up against three different groups. You go up against this group tonight, the President of the United States tomorrow, and the two leaders of the Senate and the House at noon tomorrow and at which Sullivan and

and Paul will be present for lunch. Make a note, Mrs. Klotz. So there are three people who still have to see this thing, three different types of people. It is a pretty good test. Then after that, after I come back from Cabinet tomorrow, Graves and Kuhn and I can get together and we will decide what we will say in Chicago. You can have what is left of me, Graves.

MEMORANDUM

December 11, 1941.

TO: Secretary Morgenthau

FROM: Mr. Paul

Program in respect to collection
at the source

1. In order to expedite tax collections, ask immediately for collection at the source of a percentage of taxes on 1942 incomes, otherwise payable in 1943, the amount collected being a credit in 1943.

This point does not contemplate a separate or supplementary tax, but rather the advanced collection of part of one integrated income tax.

2. Let the Secretary of the Treasury, ~~perhaps~~ with the approval of the President, have discretion as to the date when the collection at the source begins.

3. Let the Secretary of the Treasury have discretion, also with the approval of the President, as to the rates of collection, or advanced payment, within limits from 2 to 10%.

4. Let defense savings stamps be acceptable in payment of taxes, -- also in payment for tax notes and defense bonds.

5. Let collectors of Internal Revenue be authorized to accept Series E savings bonds in payment of taxes according to the tables of redemption values.

December 11, 1941.

To: Secretary Morgenthau
From: Mr. Sullivan JLS
Subject: Repeal of requirement for certificates
of Government protection and nonreimburse-
ment as prerequisite to amortization
deduction.

The President has requested the Supply priorities and Allocations Board and the War and Navy Departments to submit to him a list of matters requiring immediate legislative action in view of intensification of the war effort. The War and Navy Departments are very anxious to repeal Section 124 (i) of the Internal Revenue Code. In the case of manufacturers desiring amortization and having contracts with the United States, that section provided for certificates from those Departments either that the Government's interest in facilities paid for by the Government is adequately protected or that the manufacturer is not being reimbursed through price or otherwise for the cost of any facility with respect to which amortization is desired.

I feel that there is no reason for us to oppose

repeal of Section 124(i). The revenues will not be materially affected, there will be a less onerous burden upon the Commissioner in the case of taxpayers who have not secured certificates of nonreimbursement, and finally the war effort will be materially accelerated.

You will recall that this provision was inserted by the Committee of Conference on the Second Revenue Act of 1940; that the Department was originally inclined to oppose the provision as being impracticable but that it was finally agreed at a meeting in your office not to interpose any objection.

The War and Navy Departments state (a) that this provision requires the full time services of fully two hundred officers of high rank whose abilities can be used to better advantage on more productive tasks; (b) that procurement of essential materials and construction of essential facilities is often delayed weeks and sometimes months pending determination of the questions raised by Section 124(i); (c) that 30,000 contracts are awaiting certification by the War Department alone and the backlog is materially increasing every day; and (d)

that the objectives sought to be reached by certificates of Government protection and nonreimbursement are entirely procurement objectives rather than revenue objectives, particularly since no material revenue would be lost by the elimination of these requirements.

It has been suggested that an executive order to all governmental agencies having procurement powers, requiring adequate protection where the contractor is being reimbursed for facilities through price or otherwise is a far preferable method of handling the problem. This position of the War and Navy Departments is supported by all defense agencies.

Unless you think otherwise, I will state the Treasury has no objection to the repeal of this requirement when the bill is submitted by the Bureau of the Budget.

PERSONS PRESENT AT TAX MEETING HELD AT JOHN L.
SULLIVAN'S HOUSE ON DECEMBER 11, 1941, AT 8:00 P.M.

Lauchlin Currie
Marriner Eccles
Leon Henderson
Harold Smith

John L. Sullivan
Peter Odegard
George Buffington
D. W. Bell
Charles L. Kades
Harry White
Dave Morris
Randolph Paul
Harold Graves
Jacob Viner
Herbert Gaston
Roy Blough
Ferdinand Kuhn
H. Groves
Thomas Tarleau

December 11, 1941
4:25 p.m.

HMJr: Hello.

Operator: Mr. Sproul is on his way to Washington. I have Mr. Rouse.

HMJr: That's all right.

Operator: Go ahead.

HMJr: Hello.

Robert Rouse: Hello, Mr. Secretary.

HMJr: How did the Government bond market behave?

R: It did pretty well today. It came pretty well out of it. I'm not sure that the operation is over.....

HMJr: Yeah.

R:but the substantial amount of buying came into the outstanding issues.

HMJr: Good.

R: They've gone far enough to attract it - not only the short stuff, but the longer bonds were in demand and at the prices that existed it couldn't be satisfied, and.....

HMJr: It could not be satisfied.

R: It could not be satisfied, and prices moved up in a number of cases quite - even over last night's close.

HMJr: I see.

R: The volume of bonds that we took in the one issued were substantially less - nineteen million - just under twenty million - nineteen million nine hundred odd thousand.

HMJr: How much does that make for the three days?

- 2 -

R: That would bring the.....

HMJr: Roughly.

R: The total for the three days is twenty.....

HMJr: Hello. Excluding bills.

R: Excluding bills, eighty-six million approximately.

HMJr: Eighty-six.

R: Eighty-six.

HMJr: Yeah.

R: So that's - I think that's pretty satisfactory. It was about twenty-seven million - forty, forty-three, and nineteen - that's right - ten, nineteen - that adds up to eighty-nine. It was around that figure - eighty-six, eighty-seven, in there.

HMJr: Ah.....

R: During the period from one o'clock on, we didn't - we bought very little until the close.

HMJr: Well, my statement at my press conference didn't hurt any, then.

R: It didn't hurt a bit. It was a thing that was known - hadn't been talked about - but people knew and it - I thought the timing was quite allright.

HMJr: Well, they asked me a question and I have to be.....

R: What's the use. They might as well know it.

HMJr: I'm peculiar. I happen to believe in telling the truth.

R: (Laughs)

HMJr: I'm an eccentric.

R: Well, I think, sir, that it works out very well in this timing; because there's been enough discussion of the possibility and assurances and things of that sort so that the truth might as well come out. And our statement won't show anything except the bills.

HMJr: Well, it looks as though the worst is over then, huh?

R: I think it is. If the news stays on this way - and you should have heard the cheers that went up all around on the ticker announcement as to the cruiser and the destroyer and the battleship and so on.

HMJr: I see.

R: Just a little touch of that.

HMJr: I see.

R: I think we'll have a very good report for you, too, on the sales of Defense Bonds. The response is being very great. In some cases, seven or eight hundred per cent as the banks tell us. And my wife going down to our bank in the country - a little country town - tells me that the line in front of the window was - she's never seen one before and there was one both times she's been in the bank this week.

HMJr: Well, that's fine.

R: So we have a good deal to be thankful for, I guess, after all.

HMJr: Good.

R: Well, sir, this thing's going along well.

HMJr: Thank you.

R: Yes, sir.

HMJr: Good-bye.

TREASURY DEPARTMENT

300

INTER OFFICE COMMUNICATION

DATE December 11, 1941

to Secretary Morgenthau

FROM Mr. Haas

Subject: Inconsistencies in December 10 Prices of Treasury Bonds and Notes as Indicated by a Computed Market Pattern.

- (1) An analysis of the price movements of Government securities during the past few days indicates that some issues have suffered far larger declines than others. The pegging of the prices of the two new bond issues has permitted them to make a better showing than many issues of similar maturities. This suggests that attention should be given to the possibility of extending official buying to those issues which have been getting out of line. In order to determine which issues are out of line we have developed a computed market pattern for Treasury bonds and notes.
- (2) In developing this market pattern, we have taken as benchmarks the three most recently issued securities. These are the 2's of 1951-55 and the 2-1/2's of 1967-72, both of which we have taken at par, and the Treasury note issued on November 1, which we have taken at 99-14/32 (its closing price on Tuesday night). On the basis of these benchmarks we have erected a price relationship for all Treasury bonds and notes similar to that existing last Saturday, but on the lower level of prices for the various maturity classes as indicated by the three issues.
- (3) The attached table lists each Treasury bond and note outstanding, and shows for each issue (1) the price according to our market pattern, (2) the actual closing bid price last night, and (3) the difference. These differences represent inconsistencies between our market pattern and last night's prices. In the case of most issues, it is noted, the difference is relatively small. For seven bonds, however, the difference is substantial enough to suggest that the prices are out of line. The issues involved are checked in red on the attached table.

Secretary Morgenthau - 2

- (4) For the immediate future there appears to be no reason why long-term Treasury bonds should sell on a yield basis higher than $2\frac{1}{2}$ percent. The price of the $2\frac{1}{2}$'s of 1967-72 cannot, of course, be maintained without regard to the prices of other issues. Consequently it is of the utmost importance that steps be taken to keep other issues in line with this issue. Otherwise it may soon become impractical to maintain the prices of long-bonds generally.
- (5) Official buying will be more effective if undertaken by the Federal Reserve System rather than by the Treasury. This follows from the fact that Reserve Bank buying provides a dual support for the market by reducing the supply of Government securities available to private investors on the one hand, and by increasing the volume of funds available through the resultant increase in excess reserves on the other hand.

Attachments

Inconsistencies in December 10 Prices of Treasury Bonds
and Notes Indicated by a Computed Market Pattern

(Decimals are thirty-seconds)

			: Computed :	Bid :	
			: Market :	Prices :	Difference
			: Pattern :	Dec. 10 :	
Treasury bonds:					
3-3/8%	6/15	1943-47	104.14	104.02	-.12 ✓
3-1/4%	10/15	1943-45	104.20	104.08	-.12 ✓
3-1/4%	4/15	1944-46	105.18	105.07	-.11 ✓
4%	12/15	1944-54	108.25	108.19	-.06
2-3/4%	9/15	1945-47	106.11	106.05	-.06
2-1/2%	12/15	1945	105.27	105.20	-.07
3-3/4%	3/15	1946-56	110.20	110.14	-.06
3%	6/15	1946-48	108.04	107.28	-.08
3-1/8%	6/15	1946-49	108.21	108.14	-.07
4-1/4%	10/15	1947-52	116.10	116.13	+.03
2%	12/15	1947	104.30	104.23	-.07
2%	3/15	1948-50 (T)	102.10	101.21	-.21 ✓
2-3/4%	3/15	1948-51	108.04	107.24	-.12 ✓
2-1/2%	9/15	1948	107.13	107.03	-.10
2%	12/15	1948-50	104.26	104.19	-.07
3-1/8%	12/15	1949-52	111.19	111.09	-.10
2-1/2%	12/15	1949-53	106.24	106.06	-.18 ✓
2-1/2%	9/15	1950-52	106.24	106.14	-.10
2-3/4%	6/15	1951-54	108.20	108.14	-.06
3%	9/15	1951-55	110.29	110.17	-.12 ✓
2-1/4%	12/15	1951-53	104.28	104.19	-.09
2%	12/15	1951-55 (T)	100.00	100.00	-
2-1/2%	3/15	1952-54 (T)	103.25	103.21	-.04
2%	6/15	1953-55	103.14	103.04	-.10
2-1/4%	6/15	1954-56	105.04	105.00	-.04
2-7/8%	3/15	1955-60	110.01	109.27	-.06
2-1/2%	3/15	1956-58 (T)	102.09	102.05	-.04
2-3/4%	9/15	1956-59	109.05	109.04	-.01
2-3/4%	6/15	1958-63	109.11	109.04	-.07
2-3/4%	12/15	1960-65	110.05	109.29	-.08
2-1/2%	9/15	1967-72 (T)	100.00	100.00	-
Treasury notes:					
1-3/4%	3/15	1942	100.13	100.13	-
2%	9/15	1942	101.16	101.11	-.05
1-3/4%	12/15	1942	101.24	101.17	-.07
3/4%	3/15	1943 (T)	100.10	100.07	-.03
1-1/8%	6/15	1943	101.03	100.27	-.08
1%	9/15	1943	101.00	100.25	-.07
1-1/8%	12/15	1943	101.13	101.05	-.08
1%	3/15	1944	101.00	100.25	-.07
3/4%	6/15	1944	100.11	100.05	-.06
1%	9/15	1944	100.28	100.22	-.06
3/4%	9/15	1944 (T)	99.15	99.10	-.05
3/4%	3/15	1945	100.08	100.03	-.05
3/4%	12/15	1945 (T)	99.04	99.00	-.04
1%	3/15	1946 (T)	99.14	99.10	-.04

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

December 10, 1941

(T) Taxable issue

STRICTLY CONFIDENTIAL ✓

303

File

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 11, 1941.
=

TO Mrs. Klotz
FROM H. D. White

Occasionally there are conferences in the Secretary's office which are written up for the files and are either of a special nature or do not directly concern Treasury matters. I am not certain that the Secretary wants such reports circulated to the persons usually receiving copies. The interview with Dr. Soong and the one with Ambassador Litvinov (memoranda appended) are illustrations. It would be helpful to me if you could have the Secretary indicate which of the following procedures he prefers:

1. That no exception be made to his instructions that copies be sent to the persons he has indicated.
2. That there are certain cases in which he does want exceptions made and that either
 - (a) I should submit the doubtful cases to him or you for decision as to distribution, or
 - (b) I am to use my judgment without requesting a decision from him.

This matter is not very important, but since he has indicated a procedure, I would not wish to alter it except at his direction.

12/12/41

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The Secretary left these with the
President when he saw him at 9:30 this
morning.

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TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____

BUREAU _____

CHG. APPROPRIATION _____

Expenses of Loans

U. S. GOVERNMENT PRINTING OFFICE 10-1722

COPY

December 11, 1941

Mr. Fred H. Kanne
Territorial Administrator
Defense Savings Staff
Young Hotel Building
1055 Bishop Street
Honolulu, Territory of Hawaii

Your telegram is another thrilling proof of Hawaii's patriotism and devotion. You in the front lines are setting an example to the whole country and our hats are off to you. Gladly approve your suggestion and you are hereby authorized to instruct agent banks to issue receipts for Defense Bond purchases until new supplies reach them. When transportation permits, banks might consider conveying applications and payments to Federal Reserve Bank, San Francisco, for issuance of bonds to be retained in safekeeping, safekeeping receipts to be forwarded to the agent bank for delivery to purchaser against surrender of agent's receipt.

Henry Morgenthau, Jr.
Secretary of the Treasury

Treasury Department
TELEGRAPH OFFICE

306

DN5 65 GOVT TRSY IIXTM

1941 DEC 11 AM 8 06

HONOLULU TH DEC 11 1941 0231

GOVT TRSY HONORABLE HENRY MORGENTHAU

SECY TRSY WASHN

BANKS SALES DEFENSE BONDS MONDAY TUESDAY APPROXIMATELY TEN
TIMES NORMAL RATE STOP SUPPLIES VIRTUALLY EXHAUSTED STOP
VIEW UNCERTAINTY MAINLAND TRANSPORTATION SYSTEMS ARRIVED
DATE NEXT SHIPMENTS AND UNDESIRABILITY REJECTING PROSPECTIVE
PURCHASERS BANKS ASK WHETHER YOU CAN AUTHORIZE THEM ISSUE
SPECIAL RECEIPT FORM FOR BOND PURCHASE THESE RECEIPTS
TO BE EXCHANGED FOR BONDS WHEN BONDS THEMSELVES ARRIVE

KANNE ADMR

303AM

*Reply being prepared jointly by
Mr. Kahan and Mr. Bell. Will be
given to press.*

Greene 12/11

December 11, 1941

Dear Steve:

You may be interested in this summary of how we have already intensified our Defense Bond promotion program since the outbreak of war. This redoubled effort began on Monday morning, December 8, and the results have been extremely satisfactory. We are trying consistently, especially on the radio, to emphasize that this is not just a war against Japan, but is a world-wide struggle that calls for billions of dollars and unprecedented effort from the American people.

Newspapers. On Monday a short message, "War Needs Money", was wired to all daily newspapers at our request by the Associated Press, United Press and International News Service. We have also wired 200 political cartoonists and 25 comic-strip artists, 200 chief editorial writers and 15 leading syndicated columnists, requesting all possible help in their respective fields. We also telegraphed the editors of 600 labor publications suggesting that they write editorials urging the adoption of payroll allotment plans for the regular purchase of Defense Bonds.

Radio. Three new spot announcements, written in the light of war developments, were wired to 865 radio stations for use beginning 6:00 P.M. Monday, December 8th. Reports already indicate that these are being used from seven to ten times daily, a total of more than 7,000 a day throughout the country. At the moment of writing, Bond and Stamp announcements are being heard over every station on an average of once an hour. On Monday and Tuesday of this week 72 sponsors of commercial programs used special new Defense Bond announcements. Special copy, in eight different languages, has been sent to 200 stations broadcasting foreign language programs. Every news commentator has made a personal plea to listeners on behalf of Bonds and Stamps.

The Treasury's own radio programs naturally reflect the changed conditions of war. The Treasury Hour this week included a recital by Maurice Evans of Winston Churchill's "blood, toil, tears and sweat" speech, the singing of the O.E.M. song "Keep 'em Rolling", and the singing of Irving Berlin's new Red Cross song "Angels of Mercy", with a specially written poem to accompany it.

Magazines. Telegrams were sent to leading publishers, asking them to carry on their front covers either emblems or banners urging the purchase of Defense Bonds and Stamps. Telegrams were also sent to 400 business and trade magazines requesting editorial support for the payroll allotment plan.

I thought you would like to know of these things because of your interest in the publicity aspects of our Defense Bond effort. In addition, I have asked all state chairmen and administrators to meet me in Chicago next Wednesday, December 17, when we shall launch a much more intensified selling campaign.

Sincerely,

(Signed) Henry

Honorable Stephen Early,
Secretary to the President,
The White House.

By Messenger *Shey 1:15*

December 11, 1941

Identical letters were sent to the following:

Colonel Donovan
Hon. Lowell Mellett
Hon. Archibald MacLeish

COORDINATOR OF INFORMATION
WASHINGTON, D. C.

December 11, 1941

Dear Henry:

Thanks very much for sending
me the report on the progress of
your Defense Bond program.

I am very glad to have this.

Sincerely,

Bill
William J. Donovan

The Honorable
The Secretary of the Treasury
Washington, D. C.

RECEIVED
DEC 12 1941
U. S. DEPARTMENT OF THE TREASURY

SEATTLE POST-INTELLIGENCER

1863

78th year

1941

OFFICE OF THE PUBLISHER

December 11, 1941

file

Dear Henry:

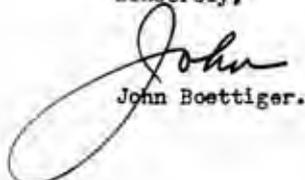
Have you had any luck getting Miss Perkins to issue proper regulations to permit payroll deductions for Defense Bond purchases to the Alaska employees of Associated Shipbuilders of Seattle?

It really wounds me not to be able to be helpful to this patriotic employer.

We are certainly having exciting times out here these days. I am sure you are too!

Our best to you always.

Sincerely,



John Boettiger.

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



Established 1863

December 11, 1941.

Memorandum

TO: Secretary Morgenthau
FROM: Mr. Gaston

Olin Dows was just in to see me (3:50 P.M.) with a list of nine artists. I sent him over to see Mr. Rosen, in Mr. Tamm's office at F.B.I., after having made an arrangement with Mr. Tamm. Six of the nine are personally known to and vouched for by Dows. As to the remaining three Dows would like a quick field check for adequate protection. Tamm has agreed to report within twenty-four hours on the six and by Monday on the remaining three, which Dows says will be entirely satisfactory.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Nine Business Days of December, November, and October, 1941
 (October 1-10, November 1-12, December 1-10)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	December	November	October	December over November	November over October	December over November	November over October
Series E - Post Offices	\$ 17,903	\$ 16,583	\$ 15,906	\$ 1,320	\$ 677	8.0%	4.3%
Series E - Banks	<u>32,572</u>	<u>27,677</u>	<u>29,798</u>	<u>4,895</u>	- <u>2,121</u>	<u>17.7</u>	- <u>7.1</u>
Series E - Total	50,475	44,260	45,705	6,215	- 1,445	14.0	- 3.2
Series F - Banks	7,463	8,019	8,559	- 556	- 540	- 6.9	- 6.3
Series G - Banks	<u>52,340</u>	<u>50,762</u>	<u>50,054</u>	<u>1,578</u>	<u>708</u>	<u>3.1</u>	<u>1.4</u>
Total	<u>\$110,278</u>	<u>\$103,041</u>	<u>\$104,317</u>	<u>\$ 7,237</u>	- <u>\$ 1,276</u>	<u>7.0%</u>	- <u>1.2%</u>

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

December 11, 1941.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - December 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
December 1941									
1	\$ 2,976	\$ 3,904	\$ 1,333	\$ 7,220	\$ 12,458	\$ 6,880	\$ 1,333	\$ 7,220	\$ 15,434
2	1,229	2,592	623	5,750	8,964	3,821	623	5,750	10,193
3	1,510	2,734	870	5,289	8,893	4,244	870	5,289	10,403
4	2,411	4,036	726	7,530	12,292	6,447	726	7,530	14,703
5	2,015	4,805	1,152	12,357	18,314	6,820	1,152	12,357	20,329
6	1,001	2,293	656	2,776	5,725	3,294	656	2,776	6,726
8	3,282	4,764	1,011	3,810	9,585	8,046	1,011	3,810	12,866
9	1,828	3,877	601	4,996	9,475	5,706	601	4,996	11,304
10	1,651	3,566	491	2,612	6,668	5,217	491	2,612	8,320
Total	\$ 17,903	\$ 32,572	\$ 7,463	\$ 52,340	\$ 92,374	\$ 50,475	\$ 7,463	\$ 52,340	\$110,278

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

December 11, 1941.

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

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

*To the Secretary
3/17/42*

DECEMBER 11, 1941

TO: HAROLD N. GRAVES
SUBJECT: PROGRESS REPORT FROM DEFENSE SAVINGS STAFF

SALES REPORT

Complete reports of sales are, of course, not available but information from a few cities indicates a sizeable increase in the sale of Bonds and Stamps.

The Federal Reserve Bank at Chicago reports - "Chicago, Detroit, Milwaukee and Indianapolis all report substantial sales of Defense Bonds as compared with any previous period. The increase in larger banks ranges from seventy to five hundred per cent. Many Chinese are purchasing Bonds today. All banks interviewed are of opinion there will be substantial increases both in number and amounts today. We can be assured of full cooperation from banks. We have been swamped with requisitions of issuing agents from all sections of district, many telephoning for us to rush shipment. First National Chicago reports this their record day and Terre Haute reports the Post Office entirely sold out. We are making shipment today of all Bonds requisitioned".

SALES REPORT (Continued)

The Federal Reserve Bank of New York reports that the "Demands have increased at least 800 per cent or even 1,000 per cent".

The Post Office Department has contacted five cities and has given the following report:

NEW YORK, NEW YORK

- Bond Sales - For three days this week have increased 100 per cent over similar period last week.
- Stamp Sales - For three days this week have increased less than one per cent over similar period last week.

CINCINNATI, OHIO

- Bond Sales - For three days this week have increased 100 per cent over similar period last week.
- Stamp Sales - For three days this week have increased 25 per cent over similar period last week.

BOSTON, MASSACHUSETTS

- Bond Sales - For three days this week have increased 95 per cent over similar period last week.
- Stamp Sales - For three days this week have increased 25 per cent over similar period last week.

SALES REPORT (Continued)

PHILADELPHIA, PENNSYLVANIA

- Bond Sales - For two days this week have increased 30 per cent over similar period last week.
- Stamp Sales - For two days this week have increased 80 per cent over similar period last week.

KANSAS CITY, MISSOURI

- Bond Sales - For three days this week have increased 85 per cent over similar period last week.
- Stamp Sales - For three days this week have increased 20 per cent over similar period last week.

A message from the Defense Savings Staff representative in Honolulu states that the sale of Bonds has increased ten times.

RETAIL ADVISORY COMMITTEE

The Treasury Retail Advisory Committee has notified us that they have set a goal of \$1,000,000,000 for 1942. This represents two per cent of the gross business of retail stores in America. The retail stores plan to sell these bonds through charge accounts and convenient purchase plans.

BOY SCOUTS OF AMERICA

Officials of the Boy Scouts of America have offered the services of the nation's 1,500,000 Scouts in every city, town and hamlet as Defense Bond and Stamp salesmen. The Scout plan calls for Scouts to take orders for both Bonds and Stamps by house-to-house canvassing. Further, the plan urges each Scout to begin systematic savings himself immediately so he may become a Bond holder as soon as possible.

WORLD'S LARGEST MURAL

The text above the World's Largest Mural, designed to promote the sale of Defense Bonds and Stamps, has been changed to read: "That the Government of the People -- Shall not perish from the Earth". The mural will be dedicated during a network broadcast on Sunday, December 14.

MAGAZINES

Telegrams were sent to leading publishers asking them to carry on front covers of their publications either emblems or banners urging purchase of Defense Bonds and Stamps.

BUSINESS PUBLICATIONS

As a result of telegrams from the Treasury, the Associated Business Papers and the National Business Papers Associations sent air mail bulletins to their member publications urging immediate strong editorial support of the Pay Roll Allotment Plan of Defense Savings, in addition to the use of the full page advertisement on Pay Roll Allotment already scheduled by the majority of these publications. The estimated combined circulation of these 186 publications exceeds 3,000,000.

LABOR

Voluntary sponsorship of the Pay Roll Allotment Plan covering the entire membership of the American Federation of Labor is expected to be acted on at the meeting of the Executive Committee of this organization on Monday, December 15, when the American Federation of Labor will determine its war time program.

PRESS

A short message, "WAR NEEDS MONEY", was sent out Monday, December 8, to all daily newspapers over the wires of the Associated Press, United Press, and the International News Service. The response has been widespread, many papers carrying first page boxes. (Sample clippings of this message from various newspapers are attached.)

This has since been supplemented by eight similar messages sent either by wire or in mats to all daily and weekly newspapers. (Samples of this copy attached.)

Two hundred political cartoonists and twenty-five comic strip artists have been contacted by telegrams asking for immediate cartoons on Defense Bonds. Similar telegrams were sent to two hundred chief editorial writers and to fifteen leading syndicated columnists. Editors of six hundred labor publications, asking for editorials urging adoption of the Pay Roll Allotment Plan, were also contacted by telegrams.

Numerous affirmative replies have been received by telegraph.

RADIO

Morning, noon and night all radio stations in the United States and its possessions now are using fifteen or more special war time Defense Bond announcements daily. There are 868 radio stations and it is estimated that more than 12,000 announcements a day are being used. (Copies of announcements attached.)

In addition, sponsors of 152 commercial radio programs have notified the Treasury that they are using special announcements on 497 commercial shows this week.

One station, WFVA at Fredericksburg, Virginia, started a direct selling campaign over the air on Tuesday, December 10, and sold \$41,640 worth of Defense Bonds and Stamps in one day. Other stations report to us that they are copying the plan of the Fredericksburg station, devoting special programs to actual selling of Stamps.

RADIO (Continued)

All stations broadcasting in foreign languages have been sent new war time announcements for translation and immediate use.

New war time Defense Bond copy was sent to radio stations and telegrams rushed out on Monday and Tuesday.

DEFENSE HOUSES

Recruiting stations were placed alongside "Defense Houses", operating as sales and information centers for Bonds and Stamps in Los Angeles, California and Oklahoma City, Oklahoma, immediately following the declaration of war Monday, December 8.

RETAIL STORES

New York City department stores announced that effective next week they will buy Defense Bonds for charge account customers on a regular monthly basis. The plan calls for customers to add an additional amount to monthly remittance checks. Customers also will be asked to buy Defense Savings Stamps to be delivered with merchandise and charged to their accounts.

RETAIL STORES (Continued)

Pamphlets explaining details of procedure are now in production and will be sent to all leading department stores in the nation.

FIELD ORGANIZATION

Plans for an intensive campaign will be launched at a special meeting in Chicago on Tuesday, December 16. Secretary Morgenthau will speak.

DIRECT MAIL

The Mail Order Division has prepared a new letter with stronger appeal for use in mailings to approximately 12,000,000 customers and prospects in January and February. A war enclosure to strengthen the tone of folders to be used in these same mailings has also been prepared. These enclosures will make effective 8,000,000 folders already off the press. All additional printing of folders has been cancelled and new ones are in preparation.

NEWSPAPER CARRIER PLAN

The number of daily newspapers participating in the Carrier Plan to sell Defense Savings Stamps is now 664. Approximately 225,000 newspaper carrier boys are now selling stamps to the customers on their routes. A total of 4,250,000 albums have been issued to newspapers.

ENTERTAINMENT

Arrangements are being made for Defense Bonds and Stamps to be promoted in vaudeville theaters, legitimate theaters, cafes, hotel dining rooms, ball rooms, etc. The plans call for entertainers interrupting their regular shows with an appeal to patrons to purchase Bonds and Stamps on a systematic basis.

POSTERS

Seven posters are now in preparation. They are being done by several of America's top artists, in addition to members of the Treasury staff.

-11-

NEWSPAPER ADVERTISEMENTS

Newspaper advertisements are now being prepared. There will be seven in all, three full page and the balance smaller units.

Already newspapers have been asking for advertisements. Space will be donated.

SAMPLES OF "WAR" COPY ON DEFENSE SAVINGS
BONDS AND STAMPS SENT TO ALL NEWSPAPERS

HOW TO DO YOUR PART - Americans, your lives are at stake! Our treacherous enemies hold nothing sacred. They bomb without warning. We must answer with action. Protect your homes and your families by buying U. S. Defense Bonds and Stamps NOW! Make our armed forces so strong that aggressors will never rise to attack us again. Get Defense Bonds and Stamps to strengthen your country and yourself. Make America the greatest force for freedom in the world!

LET YOUR ANSWER TO BOMBS BE BONDS! - A dastardly blow has been struck while our hand was extended in peace. We must answer swiftly, blow for blow. Let your answer be bonds -- the quickest, surest way that everyone can help. You can start buying Defense Bonds by buying Defense Stamps -- as little as ten cents. Start today!

WAR NEEDS MONEY - YOURS! - This is war, grim and to the death. War that calls for every ounce of energy, every dime and dollar we can muster for ships - and planes - and guns. Hit the enemy with a \$25.00 Bond. Smash him with a \$50.00 Bond. Blow him sky-high with a \$100.00 or \$1,000.00 Bond. Don't delay - every hour counts. Buy U. S. Defense Bonds and Stamps TODAY.

HIT THEM WHERE IT HURTS - BUY BONDS! - Make no mistake -- this is a life or death struggle. Men are dying in your defense. Dying that America may be safe! Give our fighting men the guns, the planes, the tanks they need! Bonds buy bombs. Every dime, every dollar you put into Defense Bonds and Stamps is a blow at the enemy. Hit them where it hurts -- buy bonds! Bonds cost as little as \$18.75 up -- Stamps as little as ten cents, up.

SAMPLES OF "WAR DEFENSE BOND" COPY
SENT TO ALL RADIO STATIONS

WAR NEEDS MONEY - Adolph Hitler has said "two worlds are in conflict and one must break asunder"...Americans, I ask you...which world shall break? Ours? Or Hitler's? Pour out your dollars in reply. Pour them out in a steady never-ending stream that fills the war chest of our nation and keeps it flowing over. Put every dollar you can into Defense Bonds...sold by any bank, post office, or savings and loan association...Put every possible dime into Defense Stamps...sold by retail merchants and even by newspaper carrier boys. Buy a Bond now and every pay day hereafter. Make your regular Bond buying answer Adolph Hitler's boast.

WAR NEEDS MONEY - What is America? It's the house you live in. It's the place where you work at your job. It's the little plot of ground where your grandparents lie in everlasting sleep. It's the school where your children learn to be citizens of the future. This is the America that Hitler would destroy. It's what you have to defend. Only a constant flow of dollars can keep America's War Chest filled. Pledge yourself to put every possible dollar into Defense Bonds now. Every pay day, buy more and keep buying! Get Defense Bonds and Stamps at your bank, post office, or savings and loan association...Buy Defense Stamps from your newspaper carrier boy or your retail dealer...Buy as many as you can, as often as you can.

WAR NEEDS MONEY - Enemy planes bombing our air fields in the Pacific roar "Wake Up Americans! You have a job to do... a big job!" Well, we had better wake up for if we'd roll the Grand Coulee and Boulder Dam and the TVA all into one... it would be just a morning's work compared to the job ahead of us. That job takes men...and material...and money, and the money must come from you...money put into United States Bonds...put in every week, every pay day, repeatedly and steadily.

No one man built Boulder Dam...but many, working together... Do your part to build the Defense of America...with United States Defense Bonds...Buy them from your bank, post office, or savings and loan association...Get Defense Stamps from your retailer and from your newspaper carrier boy. Buy as many as you can, as often as you can.

WAR NEEDS MONEY - Every man, woman and child is a partner in the most tremendous undertaking of our American history. We must share together the bad news and the good news... the defeat and the victory...the changing "fortunes of the War". Among the items of good news include word that you and every other patriotic American is buying Defense Bonds as never before. Join the lines in banks, post offices, and savings and loan associations. Buy Defense Bonds repeatedly and to the utmost of your ability...And remember to get Defense Stamps from your newspaper carrier boy and your retail dealer.

THE WASHINGTON POST - 12/9/41

War Needs Money!

The Treasury Department has requested The Washington Post and other newspapers to publish the following:

War needs money!

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

DAILY MIRROR - 12/9/41

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your Government calls on you to help NOW.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps may also be purchased at retail stores and from your newspaper carrier boy.

The Daily Mirror urges all Americans to support your Government with your dollars.

CLEVELAND NEWS 12/10/41

TODAY'S ONE-SENTENCE EDITORIAL

Buy your Defense Bonds or Stamps today because this war will cost money.—THE NEWS.

I am continuing this daily

—W. R. Howard, editor

314-0
THE EVENING STAR - 12/10/41



It will cost money to defeat Japan. Your Government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

Support your Government with your dollars.

N.Y. JOURNAL AMERICAN - 12/9/41

314-P

Stamps and Bonds Stamp Out Bombs

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your Government calls on YOU to help NOW.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents.

Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The New York Journal-American urges all Americans to support your Government with your dollars.

N.Y. HERALD TRIBUNE 12/9/41

P. 9

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents.

Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

All Americans are urged to support their government with their dollars.

N.Y. HERALD TRIBUNE - 12/9/41

P. 6

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents.

Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

All Americans are urged to support their government with their dollars.

N.Y. HERALD TRIBUNE - 12/9/41

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75.

Stamps come as low as 10 cents.

Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

All Americans are urged to support their government with their dollars.

PM - 12/9/41

Buy Defense Bonds

War needs money.

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy Defense Bonds or Stamps today. Buy them every day if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense Bonds and Stamps can be bought at all banks and post offices, and Stamps can also be purchased at all retail stores.

PM urged all Americans to support your Government with your dollars.

N.Y. HERALD TRIBUNE - 12/2/41

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75.

Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

All Americans are urged to support their government with their dollars.

WASHINGTON DAILY NEWS - 12/9/41

Buy Defense Stamps!

War needs money!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75.

Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The Washington Daily News urges all Americans to support your government with your dollars.

N.Y. HERALD TRIBUNE - 12/9/41

P. 25

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents.

Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

All Americans are urged to support their government with their dollars.

THE NEWS URGES ALL AMERICANS TO SUPPORT UNCLE SAM WITH YOUR DOLLARS

THE FOLLOWING message has been received over the Associated Press wires in The News office and it is a personal message to every News reader and every loyal American.

"The United States Treasury Department has asked transmission of the following message."

"Beginning immediately we would appreciate your publishing prominently—and as often as possible—the following:

"War needs money!"

"It will cost money to defeat Japan. Your government calls on you to help now.

"Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

"Bonds cost as little as \$18.75. stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

"The News urges all Americans to support your government with your dollars."

Secretary Morgenthau announced long ago that the Treasury Department would seek to finance defense emergency efforts, as far as borrowing money is concerned, without the drives and fanfare which accompanied the sale of Liberty bonds in the World War.

Government obligations were to be made available, and through quiet but persistent work of citizen committees and emphasis upon the desirability of the investment, it was hoped that they would be bought in sufficient quantities without high pressure, quotas, etc.

That is a large undertaking, in view of the billions to be found before the job is done. Not many citizens who have had experience in money-raising campaigns would gamble heavily upon the success of undertaking to do it without hue and cry procedure.

It would be greatly to the credit of the people of the United States if that could be done. It would be fine to see the nation's pocketbooks spring to its defense, as Mr. Bryan said volunteers would, overnight. History has seen such things. When Germany exacted an indemnity from France after 1870, the French peasants dug into their hoarded stores of gold coins and provided the billion francs that were demanded.

This country undoubtedly could, if it would, buy without pressure-prodding all the bonds it will purchase if such procedure has to be used. — **CONT'D ABOVE**

One of the moves to bring that about, and one which may be as important for its stimulating effect as because of the amount of lending to the government it produces, is the sale of Defense Stamps by newspaper boys. Such an undertaking may arouse grown ups to feel that they are not going to sit idly by while the children line up to help their country.

Carrier boys of The News have joined the movement. Each one participating will wear a badge and will offer to his customers, and to others who want to buy, Defense Stamps at 10 cents each.

It can be taken for granted that these lads will put into their efforts the enthusiasm that

goes with youth. That may have a leavening effect, as well as result in very considerable sales of the stamps, which have a cash value or, accumulated, can be changed into bonds.

It was a boy that saved Holland when the dike sprang a leak. Maybe the carrier boys of America, in this emergency, are going to set the pace in this part of saving the country from danger or harm.

THE TULSA TRIBUNE - 12/9/41

War Needs Money!

It will cost money to defeat Japan. Your government calls on you to help now.



Buy defense bonds or stamps today. Buy them every day, if you can.

But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores.

The Tulsa Tribune urges all Americans to support your government with your dollars.

THE MILWAUKEE JOURNAL 315-R

Buy Bonds, Is Plea

The United States treasury department has requested distribution of the following message:

"War needs money!"

"It will cost money to defeat Japan. Your government calls on you to help now."

"Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis."

"Bonds cost as little as \$18.75. Stamps come as low as 10c. Defense bonds and stamps can be bought at all banks and post offices and stamps can also be purchased at retail stores and from your newspaper carrier box."

THE AMERICAN POSTIN - 12/9/41

Put Faith, Cash Into Defense Bonds, Stamps, Mayor Urges

"What can I do to help?"

Like all good Americans, the citizens of Austin are asking that today as news of Japan's attack on the United States unfurls and our country is brought into war.

From Mayor Tom Miller comes word of what any citizen do to help—

Put your faith and money into America's defense effort. The quickest and the best way to do that?

Buy American defense bonds and stamps!

For as little as a dime, you can buy a defense stamp. There's a stamp or a bond that will match whatever you can invest in America, however little or however large.

Bonds may be secured at all local banks and at the post-office.

Stamps may be secured at banks, the postoffice and at most local stores.

P. M. 12/9/41

Buy Defense Bonds

War needs money.

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy Defense Bonds or Stamps today. Buy them every day if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense Bonds and Stamps can be bought at all banks and post offices, and Stamps can also be purchased at all retail stores.

PM urged all Americans to support your Government with your dollars.

MINNEAPOLIS STAR JOURNAL - 12/9/41

War Needs Money

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post-offices, and stamps can also be purchased at retail stores.

N.Y. HERALD TRIBUNE - 12/9/41

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

All Americans are urged to support their government with their dollars.

PG. 3

N.Y. WORLD-TELEGRAM
12/10/41

Your Country Needs Money

War Needs Money!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices and stamps can also be purchased at retail stores.

The New York World-Telegram urges all Americans to support your government with your dollars.

LOWELL SUN + CITIZENS LEDGER 314.5
12/9/41

"War Needs Money"

The United States treasury department has asked International News Service to transmit to you the following message:

"Beginning immediately we would appreciate your publishing prominently—and as often as possible—the following:

"WAR NEEDS MONEY!"

"It will cost money to defeat Japan. Your government calls on you to help now.

"Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

"Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The Lowell Sun urges all Americans to support your government with your dollars."

International News Service, Washington.

N.Y. DAILY MIRROR
12/11/41

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your Government calls on you to help NOW.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks, and at post offices, and stamps may also be purchased at retail stores and from your newspaper carrier boy.

The Daily Mirror urges all Americans to support your Government with your dollars.

WHEELING NEWS REGISTER 12/9/41

BACK YOUR TEAM!

War needs money!

It will cost money to defeat Japan. Your government calls on you to help.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The News-Register urges all Americans to support your government with dollars.

EVENING TRIBUNE - 12/9/41
LAWRENCE

WAR NEEDS MONEY

War needs Money!

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy Defense Bonds or Stamps today. Buy them every day, if you can. Buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense Bonds and Stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The Eagle-Tribune management urges all Americans to support your Government with your dollars.

PITTSBURGH POST GAZETTE - 12/10/41

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post-offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The Post-Gazette urges all Americans to support your Government with your dollars.

N.Y. HERALD TRIBUNE - 12/11/41 314-T

P. 6

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post-offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

All Americans are urged to support their government with their dollars.

BIRMINGHAM NEWS - 12/11/41

N.Y. TIMES - 12/11/41

INDIANAPOLIS NEWS - 12/9/41

Your Dollars Are Needed To Whip Japan

It will cost money to defeat Japan. Your government calls on YOU to help NOW.

Buy Defense Bonds or Stamps today.

Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75; Stamps come as low as 10 cents. Defense Bonds and Stamps can be bought at all banks and post-offices, and Stamps can also be purchased at retail stores and from your newspaper carrier boy.

The Birmingham News urges all Americans to support their government with their dollars.

NEW YORK TIMES, T.

FOR DEFENSE



BUY UNITED STATES SAVINGS BONDS AND STAMPS

War Needs Money

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post-offices, and stamps can also be purchased at retail stores.

The Indianapolis News urges all Americans to support your government with your dollars.

LOUISVILLE NEWS - 12/11/41

'Buy Bonds' Is U.S. Plea

Washington, Dec. 9 (AP)—The Treasury Department today issued the following appeal:

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy Defense Bonds or Stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post-offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

CLEVELAND NEWS - 12/11/41

FOR DEFENSE



BUY UNITED STATES SAVINGS BONDS AND STAMPS

N.Y. TIMES - 12/13/41

FOR DEFENSE



BUY UNITED STATES SAVINGS BONDS AND STAMPS

ERIE DISPATCH-HERALD-12/9/41

314-U

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on **YOU** to help **NOW**.

Buy defense bonds or stamps today. Buy them every day, if you can.

But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The Erie Dispatch-Herald urges all Americans to support your government with your dollars.

Your Country Needs Money

It will cost money to defeat Japan. Your Government calls on **YOU** to help **NOW**.

Buy defense bonds or stamps today. Buy them every day, if you can.

But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores.

The Morning Call urges all Americans to support your Government with your dollars.

The Morning Call, Allentown, Pa. 12/10/41

THE-MORNING-CALL

ALLENTOWN, PA.

12/10/41

N.Y. TIMES - 12/10/41

N.Y. TIMES - 12/2/41



 A rectangular poster with a black border. At the top, it says "FOR DEFENSE" in bold, capital letters. Below this is a black and white illustration of a minuteman soldier standing with a rifle. To the right of the illustration, the text reads "BUY UNITED STATES SAVINGS BONDS AND STAMPS" in bold, capital letters.

It will cost money to defeat Japan. Our government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores.

WAR NEEDS MONEY
 It will cost money to defeat Japan.
 Your government calls on you to help now.
 Buy defense bonds or stamps today.
 Buy them every day, if you can.
 But buy them on a regular basis.
 Bonds cost as little as \$18.75.
 Stamps come as low as 10 cents.
 Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.
 All Americans are urged to support their government with their dollars.

HERALD-TRIBUNE
 N. Y. 12/10/41

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can, but buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your Star carrier boy in the near future.

The Terre Haute Star urges all Americans to support your government with your dollars.

THE TERRE HAUTE STAR-12/9/41

Invest in Defense Bonds

THE practice of investing public funds in federal defense savings bonds is growing rapidly among local governments, the Municipal Finance Officers association of the United States and Canada has reported.

Spreading also is use of voluntary allotment plans by city employes, who authorize the setting aside by city officials of a portion of their pay toward purchase of defense bonds. In some cities, the official makes the actual purchase when allotments total the price of a bond.

Three cities, two counties and a state are among governmental units investing their own funds in these bonds within the last month. Fresno, Calif., has purchased \$25,000 worth of bonds for its city employes' retirement fund. West Hartford, Conn., recently bought \$50,000 worth for its sinking fund. This amount is the limit now set by federal authorities for municipal investments in defense bonds.

The city council of Haverhill, Mass., voted to purchase bonds with \$48,275 of municipal hospital funds. The Haverhill treasurer pointed out that if the money were invested in defense bonds it would earn 2 1/2 per cent interest, while if the funds were left in savings banks the earnings would amount to only two per cent.

In Barnwell county, N. C., \$35,000 in proceeds from sale of improvement bonds—authorized by the county board to meet courthouse renovation expenses—were taken from a local bank and invested in defense bonds. County officials had decided it was inadvisable to undertake construction at this time. Interest from the bonds will meet interest charges on the improvement bonds and leave the county a slight surplus. Moffat county, Colo., last month invested \$30,000 of its surplus funds in defense bonds.

The state of Idaho has purchased half a million dollars' worth of defense bonds. Washington state previously bought \$325,000 worth.

Winston-Salem, N. C., has joined the list of cities providing a voluntary pay allotment plan, enabling city employes to participate conveniently in the federal defense savings program. Other municipalities installing allotment plans recently include: Jersey City and Perth Amboy, N. J., and New Smyrna Beach, Fla. Hendry county Fla., was first in the state to report that every employe in its school system had invested in defense stamps or bonds.

Eight states now report employe purchase plans. They are Connecticut, Florida, Massachusetts, Michigan, Missouri, Montana, New Mexico and Washington.

12/3/41
**Money To Defeat Japs
 Needed By Government**

It will cost money to defeat Japan. Your government calls on YOU to help NOW.

Buy defense bonds or stamps today. Buy them every day, if you can, but buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The Springfield Daily News and Sun urge all Americans to support your government with your dollars.

THE HERALD DISPATCH

12/3/41
For Victory

WAR NEEDS MONEY!

It will cost money to defeat Japan. Your government calls on YOU to help NOW.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices and stamps can also be purchased at most retail stores.

The Herald-Dispatch urges all Americans to support your government with your dollars.

War Needs Money!

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy Defense Bonds or Stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little at \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

They Atlanta Journal urges all Americans to support your Government with your dollars.

314-X

Cleveland News
12/9/41

FOR DEFENSE



**BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS**

CLEVELAND NEWS 12/9

N.Y. Times 12/10/41

FOR DEFENSE



**BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS**

It will cost money to defeat Japan. Our government calls on you to help now.
Buy defense bonds or stamps today. Buy them every day if you can. But buy them on a regular basis.
Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores.

N.Y. TIMES-12/10

War Needs Money!

The Treasury Department has requested The Washington Post and other newspapers to publish the following:

War needs money!

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and postoffices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

12/10/41

WASH. DC. POST 12/11/41

**U.S. Needs War Funds!
Buy Bonds and Stamps**

"War needs money!

"It will cost money to defeat Japan. Your government calls on you to help now.

"Buy defense bonds or stamps today. Buy them every day, if you can, but buy them on a regular basis.

"Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

"THE DENVER POST urges all Americans to support your government with your dollars."

DENVER POST-12/9/41

War Needs MONEY

War needs money!

It will cost money to defeat Japan. Your Government calls on you to help now.

Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

Bonds cost as little as \$18.75. Stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post-offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

The Detroit Free Press urges all Americans to support your Government with your dollars.

DETROIT-FREE-PRESS

12/10/41

"WAR NEEDS MONEY!"

"It will cost money to defeat Japan. Your Government calls on you to help now.

"Buy defense bonds or stamps today. Buy them every day, if you can. But buy them on a regular basis.

"Bonds cost as little as \$18.75, stamps come as low as 10 cents. Defense bonds and stamps can be bought at all banks and post-offices, and stamps can also be purchased at retail stores and from your newspaper carrier boy.

"The Post-Gazette urges all Americans to support your Government with your dollars."

PITTSBURGH-POST-GAZETTE-12/10/41



Office of the Attorney General
Washington, D. C.

December 11, 1941

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

Reference is made to your proposed telegram of December 9, 1941, a copy of which is attached.

1. In respect of paragraph 1 of your telegram, I assume that the purpose is to prevent access to the plant to persons who are likely to commit acts of sabotage. This is a responsibility which by Presidential directive has been lodged in the Federal Bureau of Investigation. I suggest therefore that a representative of the Federal Bureau of Investigation be designated to refuse admissions to persons who are deemed dangerous.

He will be instructed to consult with your representative and give your representative full cooperation. It should be understood, however, that the sole responsibility and the sole power for excluding persons from the plant is lodged in the F.B.I. Agent, so far as that power is being exercised by the Government.

2. In respect of your paragraph numbered 2, I think it very doubtful whether a Treasury official has authority to impound books and records. However, it will be a simple matter in my judgment to secure an order of the Court authorizing it. I am willing that your men should be instructed to go in at once, provided however it be understood that they will not do so in such a way as to lead to altercations or violence of any character. We will proceed immediately to secure orders authorizing this action.

3. In respect of your paragraph numbered 3, it appears to me that if all mail has to be routed through your representatives it will make it impossible for these businesses to function. Some of the businesses that you have set forth in your telegram are carrying out important defense orders for the United States. I

-2-

should think that in this light the instructions of your telegram would be highly undesirable. We will include in the order which we propose to secure under numbered paragraph 2 above authority for representatives of the Department of Justice and the Treasury to look at the mail coming into these corporations. However, it should be understood that this does not mean that I agree that all mail should be routed through these representatives or opened by them or that it shall not be distributed until they authorize or approve it. As I stated above, I fear that the consequences of such an order would be to tie up essential defense industries.

4. I think paragraph numbered 4 is all right, provided sufficient personnel is put on the job and it behaves sensibly enough so that normal business can go forward. The thing which I fear is that really adequate personnel will not be available to handle problems on such a wide scale, and some of the people who are appointed may hold up normal transactions until they can clear them with the consequence that the activities of the company will pile up on the desks of one or two men and the company will not be able to operate with any degree of efficiency. We must be careful that defense industries are not slowed down. In short, I am willing to approve this as a matter of policy but unwilling to take responsibility as to its administration.

5. In respect to paragraphs numbered 5 and 7, I am willing that a representative should be appointed jointly by the Secretary of State, Secretary of the Treasury, and the Attorney General to whom the field representatives may make recommendations as to the appointment and discharge of personnel and the disapproval of transactions opposed to national interest. I am unwilling to approve the placing of final authority in the hands of field representatives. Any necessary emergency action can be handled through the local police or the F.B.I.

6. In respect to paragraph numbered 6, there is no objection to this provision in principle, except that representatives of the Department of Justice should, of course, be given equal access in the performance of their duties. Care should be taken in administering this provision to prevent any disruption of normal business operations through the prevention of necessary access to books and records by employees of the business concerned.

Respectfully,

Francis Biddle

Francis Biddle
Attorney General

FOREIGN FUNDS CONTROL
2020120
Salaries and Expenses

COPY

Foreign Exchange Control 1942 - Allot. 1-b

DECEMBER 11, 1941.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS:

YOU ARE INSTRUCTED TO ADD THE FOLLOWING AMENDMENT "THIS LICENSE DOES NOT AUTHORIZE ANY TRANSACTION PROHIBITED BY THE TREASURY REPRESENTATIVE ASSIGNED TO THIS ENTERPRISE. NO PAYMENT, TRANSFER OR WITHDRAWAL MAY BE EFFECTED UNLESS APPROVED BY SUCH TREASURY REPRESENTATIVE." TO LICENSES IN YOUR DISTRICT IN THE NAMES OF THE FOLLOWING BUSINESS ENTERPRISES AS PROMPTLY AS YOU ARE ABLE TO EFFECT THE INSTALLING OF TREASURY REPRESENTATIVES IN SUCH BUSINESS ENTERPRISES.

GENERAL ANILINE & FILM CORPORATION,
Rensselaer, New York
Johnson City, New York
Binghamton, New York
Grasselli, New Jersey
230 Park Avenue, New York City

AGFA RAW FILM CORPORATION,
245 West 55th Street, New York City
Hollywood, California

AJAX TRANSPORTATION COMPANY,
Atlanta, Georgia

GENERAL DYE STUFF CORPORATION,
435 Hudson Street, New York City

HARVARD BREWING COMPANY,
Boston, Massachusetts

SCHERING CORPORATION,
Bloomfield, New Jersey

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS:

2.

SHERKA CORPORATION, INC.
Bloomfield, New Jersey

PHARMEK, INC.
Bloomfield, New Jersey

SCHLOEMANN ENGINEERING COMPANY,
1101 Empire Building
Pittsburgh, Pennsylvania

SPUR DISTRIBUTING COMPANY,
Nashville, Tennessee

UFA FILMS, INC.
1270 Sixth Avenue, New York City

CARLEKISS,
485 Fifth Avenue, New York City

E. LEITZ,
New York City

ROHM AND HAAS COMPANY,
222 West Washington Square, Philadelphia

HEIDELBERG PRINTING MACHINERY CORPORATION,
228 East 45th Street, New York City
300 South Los Angeles Street, Los Angeles

WESTMINSTER INDUSTRIAL CORPORATION,
630 Fifth Avenue, New York City

ERGO MACHINE WORKS,
500 Washington,
Dunellen, New Jersey

AMERLAGENE, INC.
Shreveport, Louisiana

AMERICAN VOITH CONTACT COMPANY, INC.
405 Lexington Avenue, New York City

DELTA PHARMACEUTICAL COMPANY,
Bloomfield, New Jersey

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS:

3

ADVANCE SOLVENTS & CHEMICAL COMPANY,
245 Fifth Avenue, New York City

JUNGMANN & COMPANY, INC.,
157 Chambers Street, New York City

INTER-AMERICAN CHEMICALS, INC.,
157 Chambers Street, New York City

B. WESTERMANN, INC.
18 to 20 West 48th Street, New York City

GENERAL CERAMICS COMPANY,
Crows Mill Road, Keasbey, New Jersey

ASKANIA REGULATOR COMPANY,
1603 South Michigan Avenue, Chicago, Illinois

J. H. LEHMANN COMPANY,
248 West Broadway, New York City

THESE REPRESENTATIVES MAY BE NATIONAL BANK EXAMINERS, CUSTOMS OFFICERS, TREASURY INVESTIGATORS, OR ANY OTHER AVAILABLE TREASURY PERSONNEL ALL OF WHOM ARE BEING INSTRUCTED TO GET IN TOUCH WITH YOU IMMEDIATELY AND BE AT YOUR DISPOSAL IN THIS CONNECTION. SUCH REPRESENTATIVES SHALL BE GUIDED BY THE FOLLOWING GENERAL INSTRUCTIONS:

(1) NO PERSON SHALL BE PERMITTED INTO OR OUT OF THE PREMISES OF SUCH ENTERPRISES WITHOUT APPROVAL OF THE TREASURY REPRESENTATIVE. DO NOT KEEP OUT OFFICIALS, EMPLOYEES AND OTHERS ON A WHOLESALE BASIS BUT MERELY THOSE INDIVIDUALS WHOM YOU HAVE REASON TO BELIEVE TO BE DANGEROUS.

(2) TREASURY REPRESENTATIVES SHALL DETERMINE THE NUMBER AND LOCATION OF BOOKS AND RECORDS AND ACCESS TO OR USE OF SUCH BOOKS AND RECORDS SHALL BE UNDER SURVEILLANCE OF THE TREASURY REPRESENTATIVES. NO BOOKS OR RECORDS SHALL BE DESTROYED, EFFACED, NOR SHALL ANY RECORDS BE REMOVED FROM THE PREMISES WITHOUT THE PERMISSION OF THE TREASURY REPRESENTATIVE.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS:

4.

(3) NO MAIL SHALL BE DELIVERED TO SUCH ENTERPRISES OR OPENED EXCEPT IN THE PRESENCE OF OR AS AUTHORIZED BY THE TREASURY REPRESENTATIVE WHO SHALL HAVE THE RIGHT TO INSPECT ALL INCOMING AND OUTGOING MAIL.

(4) NO PAYMENTS, TRANSFERS OR WITHDRAWALS OF FUNDS FROM BANK ACCOUNTS OR OTHERWISE SHALL BE PERMITTED EXCEPT WITH THE PRIOR APPROVAL OF THE TREASURY REPRESENTATIVE. APPROVAL SHALL NOT BE GIVEN EXCEPT FOR PAYMENTS, TRANSFERS OR WITHDRAWALS IN THE NORMAL COURSE OF THE LEGITIMATE BUSINESS OF THE ENTERPRISE. APPROVAL FOR NORMAL EXPENDITURES SHALL BE GIVEN PROMPTLY.

(5) NO CHANGES IN PERSONNEL SHALL BE MADE WITHOUT THE PRIOR APPROVAL OF THE TREASURY REPRESENTATIVE.

(6) AS SOON AS SUFFICIENT TREASURY PERSONNEL FOR THE PURPOSE IS MADE AVAILABLE THE TREASURY REPRESENTATIVE AND HIS STAFF SHALL BEGIN A CAREFUL STUDY OF ALL BOOKS, FILES, CORRESPONDENCE, AND ALL OTHER RECORDS. THE OBJECT OF SUCH A STUDY WILL BE TO DETERMINE WHAT TRANSACTIONS, RELATIONSHIPS, ACTIVITIES AND PERSONNEL OF THE BUSINESS ENTERPRISE ARE OPPOSED TO THE NATIONAL INTEREST.

(7) ANY TRANSACTIONS, RELATIONSHIPS OR ACTIVITIES OPPOSED TO THE NATIONAL INTEREST SHALL BE PROHIBITED BY THE TREASURY REPRESENTATIVE. APPROPRIATE MEASURES SHALL BE TAKEN WITH REFERENCE TO PERSONNEL WHOSE CONTINUED EMPLOYMENT IS OPPOSED TO THE NATIONAL INTEREST.

(Signed) H. Morgenthau, Jr.
SECRETARY OF THE TREASURY.



*For Mr. Attorney General
Daily General Support
12-13-41 (Tom)*

THE SECRETARY OF THE TREASURY
WASHINGTON

December 12, 1941.

My dear Mr. Attorney General:

Your memorandum of December 11 in regard to my proposed telegram to the Presidents of the Federal Reserve Banks arrived late yesterday afternoon after I had left the office.

When Mr. Foley furnished a copy of the proposed telegram early yesterday morning to Mr. Shea, as you suggested, Mr. Shea indicated that he hoped to be able to give us a reply within an hour or so. Not having received any word by the middle of the afternoon, I sent out the telegrams.

As I explained to Mr. Hoover the other night, I welcome help and cooperation not only from the F.B.I. but from all other agencies of the Government in the protection of the American interests arising out of the administration of Foreign Funds Control. I have told our men in the field to call in the F.B.I. in connection with all matters within the jurisdiction of that Bureau.

As to the matter of court orders, I shall be very glad to let you know should any situation arise which would make such action appropriate.

Needless to say, we hope to be able to handle this problem in an intelligent manner.

Sincerely yours,

Secretary of the Treasury.

The Honorable

The Attorney General.



Office of the Attorney General
Washington, D.C.

December 11, 1941.

My dear Mr. Secretary:

I understand from members of your Department that difficulties are being encountered throughout the Country because various banks have taken the position that they will not allow transactions with nationals or citizens of countries with which we are at war who reside in the United States.

The problem as originally presented to me was most acute in respect of transactions with individuals such as Japanese farmers on the West Coast. This problem can be taken care of by appropriate instructions pursuant to the opinion which I enclose. This opinion concludes that domestic transactions with nationals and citizens of countries with which we are at war who are resident in the United States are not prohibited because no proclamation has been issued under Section 2 of the Trading with the Enemy Act.

I am informed by representatives of your Department that there is a residue of problems which this does not solve.

In connection with these problems I am giving further consideration to the general license which you have proposed. It would be very helpful to me if you would indicate the scope of the problem involved, which the proposed general license is intended to meet. We should like if possible to have reasonably full information on this matter.

Respectfully,

Attorney General

The Honorable
The Secretary of the Treasury,
Washington, D.C.



Office of the Attorney General
Washington, D.C.

December 11, 1941.

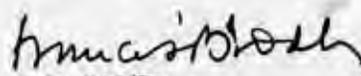
My dear Mr. Secretary:

I refer to your informal inquiry as to whether or not Section 3 of the Trading with the Enemy Act prevents domestic transactions with citizens or nationals of countries with which we are at war who are resident in this country.

In my opinion, under the terms of the Trading with the Enemy Act, as amended, such transactions are prohibited only if a Presidential proclamation has been issued pursuant to Section 2 of that Act, and then only to the extent of the coverage of such proclamation. No such proclamation has been issued. Therefore, under the terms of the Act, domestic transactions with such citizens and nationals of enemy states, residing in the United States, may be carried on except insofar as Section 5(b) of the Trading with the Enemy Act prohibits such transactions. Any domestic transactions which it is desirable to permit, therefore, may be carried on pursuant to Treasury License under Section 5(b) unless and until a proclamation is issued by the President pursuant to Section 2 of the Act.

This opinion has no reference to corporations organized or doing business in enemy territory, or to individuals doing business within enemy territory.

Respectfully,


Francis Biddle
Attorney General

The Honorable
The Secretary of the Treasury
Washington, D.C.



*Not used
Army Memorial
Signed General
R-13-41 (Korn)*

THE SECRETARY OF THE TREASURY
WASHINGTON

December 12, 1941.

My dear Mr. Attorney General:

I have your letters of December 11.

I agree with your conclusion that Section 3(a) of the Trading with the Enemy Act does not prohibit transactions with people in this country who are nationals of countries with whom we are at war unless a proclamation is issued by the President. This, however, is not a full answer to the problems which have arisen.

The problem principally is a practical one. The banks, particularly in New York, are very concerned that many transactions which they are authorized to engage in under our Freezing Control violate Section 3(a) because there may be directly or indirectly involved in the transaction an interest in an alien enemy within the meaning of the Trading with the Enemy Act who is not a resident in the United States. The facts of a few typical cases have been given to us by the Federals over the telephone. We feel, however, that the situation is so urgent that we ought not wait to canvass the whole range of specific cases that are being raised.

I suggest that the proposed general license submitted by me yesterday be re-examined and, if it does not create difficulties, that it be submitted to the President for signature. I am sure this will allay the apprehensions of banking institutions pending the passage of the omnibus legislation and the formalization of the administration of the Trading with the Enemy Act.

I hope you will be able to give this your immediate personal attention.

Sincerely yours,

Secretary of the Treasury.

The Honorable
The Attorney General.

COPY

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W.T.1105/68/41

BY SAFE HAND

BRITISH EMBASSY,
WASHINGTON, D.C.
December 11, 1941

Dear Mr. Cochran,

Application of Trading with the Enemy Act to the
Far East

I am enclosing herewith copies of two letters
which Mr. Hall has today addressed to Mr. Acheson.

Yours sincerely,

(Signed) R. J. Stopford

Mr. Merle Cochran,
Room 279,
U.S. Treasury Department,
Washington, D.C.

Copy:ec
12-15-41

SAFE HANDURGENTBRITISH EMBASSY
WASHINGTON D.C.

December 11th, 1941.

Dear Mr. Acheson:

With reference to my letter of today's date regarding the application of the Trading with the Enemy Act in the Far East, I have received a further telegram from London to the effect that in accordance with the usual practice all Japanese concerns and individuals placed upon the Proclaimed List, who do not already appear upon the Statutory List, will be included in the next Amendment to the Statutory List. An Amendment to the Statutory List containing a considerable number of Japanese firms was published on December 9th. The names of the Japanese concerns included in this Amendment have already been communicated to Mr. Dickey and their names are among those published in the 5th Supplement to the Proclaimed List issued on December 9th.

London believe, therefore, that the Trading With the Enemy Act will cover the situation as regards all important Japanese interests in Latin America. They are, however, instructing H.M. Missions in Latin America to request British firms not, without the Missions' permission, to have any further dealings with any Japanese nationals whether included in any list or not. They are further instructing H.M. Missions that where application is made to deal with a firm on the Statutory List they should refer the application to London and that in granting permission in other cases they should apply similar principles to those laid down for the guidance of U.S. Missions in granting licenses to U.S. firms to deal with firms on the Proclaimed List.

Copies of this letter are being sent to Mr. Cochran and Mr. Pehle.

Yours sincerely,

Mr. Dean Acheson,
Assistant Secretary of State,
Washington D.C.

AEH:OTC:TD

Copy:ec:12-15-41

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SAFE HAND

URGENT

BRITISH EMBASSY,
WASHINGTON, D.C.
December 11, 1941.

Dear Mr. Acheson,

Application of Trading with the Enemy Act in the Far East.

I have to inform you that according to a telegram received from London, His Majesty's Government has applied the Trading with the Enemy Act to Japanese Empire, Manchukuo, Indo-China and the whole coast line of China including International Settlement and French Concession Shanghai. All outstanding authorities under Chinese (as well as Japanese) freezing have been revoked pending reconsideration by the Bank of England and Trading with the Enemy Branch in the light of possible enemy benefit.

The United States Department of Justice knows from recent discussions with Mr. McCombe that our system is on the basis of residence not nationality, but we think that it can be and is being so applied as to prevent the enemy from deriving any benefit. United Kingdom banks in Latin America have been requested to refuse facilities to any Japanese national which are or would be refused to such an individual by United States or Canadian banks. This should cover the whole field.

The following is text of the instructions to all United Kingdom Missions in all Latin American countries in which United Kingdom banks have branches.

"Having regard to application of trading with the enemy act to Japan, I refer to my letter of Sept. 30th 1941 to you dealing with operations of branches of United Kingdom banks carrying on business in territories of republics of American continent in relation to persons of concerns on Statutory List or United States List of Proclaimed Nationals.

The action set out in second paragraph of my letter under reference should now be taken in relation to any Japanese concerns, which are customers of your bank in those territories and, in conformity with instructions, which have now been given by United States to United States banks carrying on business in American republics, it is desired that no British bank should accord facilities to any Japanese national, which on enquiry it has been ascertained are being or would be denied to that individual by any United States bank or Canadian bank, operating in same territory.

The condition and exceptions mentioned in 3rd and 4th paragraphs of my letter of Sept. 30th will apply mutatis mutandis in the cases dealt

- 2 -

with above, and your managers should consult with British Mission in their territory in any cases of doubt."

I am sending copies of this letter to Mr. Cochran and Mr. Pehle.

Mr. Hume Wrong of the Canadian Legation has also been informed.

Yours sincerely,

(Signed) N. Hall

Mr. Dean Acheson,
U.S. Department of State,
Division of Commercial Affairs,
Washington, D.C.

NH:QB:MLC:EMO

Copy:vw:12-15-41

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THE WHITE HOUSE
WASHINGTON

December 11, 1941.

MEMORANDUM FOR

SECRETARY MORGENTHAU:

FOR YOUR INFORMATION.

F.D.R.

Per filed

DEPARTMENT OF STATE
THE SECRETARY

December 9, 1941

MEMORANDUM FOR THE PRESIDENT

In returning the enclosed letter for your files I attach a subsequent telegram from Casablanca, dated December 6, 1941, stating that the previous contact apparently exaggerated.

A careful recheck shows 63 tons gold having a present value of 25,000,000,000 francs. Eighty millions of these are understood to have been utilized for payment of Portuguese textiles. It is thought that the balance is going to France by plan in small installments.

TREASURY DEPARTMENT

331

INTER OFFICE COMMUNICATION

DATE DEC 11 1941

TO Secretary Morgenthau
FROM Mr. Foley

Attached is a summary of the Omnibus River and Harbor bill (H.R. 5993) recently reported in the House, which you requested in your memorandum of October 17 in relation to your work as a member of Joint Senate and House Committee on economy.

We are continuing our check on other bills.

On the floor of the House on Monday, December 1, Representative McCormack said he doubted if the Rivers and Harbors bill will come up until January (Cong. Rec., p. 9495).

S-11. 76

Summary of Omnibus River and Harbor Bill - H.R. 5993

This bill was introduced in the House November 10, 1941 and referred to the Committee on Rivers and Harbors, from which Committee on November 21, 1941 was submitted Report No. 1431 explaining the measure.

The bill adopts and authorizes the construction of 236 projects with a total estimated cost of \$987,645,731.67. The Committee pointed out that this is the first such bill presented to Congress in about 3-1/2 years. Of these projects, 39 entail estimated expenditures exceeding \$1,000,000 each, and two projects for Cape Fear, N.C. together total \$1,465,000. The committee report points out that 36 projects of the 236 have been certified as necessary in the national defense.

As to early appropriation for these projects, the report states (p. 2):

"It is not intended or expected that any of the other projects which this bill would authorize will be appropriated for or constructed until the present national emergency is past unless during that period some of them should develop as necessary in the national defense."

- 2 -

"The committee wishes to emphasize the obvious fact that this bill is purely an authorization measure and that with the exception of the projects certified as essential to the national defense no appropriations are expected to be requested of Congress until the present emergency is definitely over. The committee feels, however, that it would be wise public policy for the Congress at this time to authorize the projects in the bill in order to create a reservoir or backlog of sound public works which can be entered upon without delay when the time comes, both as a means of meeting the inevitable large unemployment problem and, also, to stimulate and promote the further material progress and economic development of our great country."

In support of the bill as a whole, the report states (p. 4):

"Your committee wishes to call attention to the great convenience and enormous savings in transportation costs resulting to the United States in the movement of materials, both raw and finished, used in the construction of military bases and for the manufacture of all manner of equipment by reason of the availability and use of existing federally improved waterways. This only serves to verify the contention that river and harbor improvements in general are of inestimable value in any emergency."

The minority report (submitted by Representatives Schulte, Carter, Beiter, Dondero, Rodgers, Hall, Bell, and Osmera) emphasizes the length of time required to complete most projects, the necessity that efforts be directed toward the defense program, the magnitude of financial burdens, and that although the projects in the bill entail a total authorization approaching

one billion dollars, the potential authorization connected therewith is far in excess of that amount, and that increased annual maintenance charges will approximate five million dollars.

For example, the committee report puts the Snake River project at \$30,200,000 but House Document No. 704 (75th Cong., 3d Sess.) reveals this is part of a plan of development of the Columbia and Snake Rivers, which it was estimated would cost \$138,000,000 without power facilities, and the Beaver-Mahoning project is part of the greater waterway estimated to cost \$207,000,000, as is revealed on page 83 of the committee report.

Further, the minority questions the necessity and wisdom of the language of the first paragraph of the bill authorizing the chief of engineers to construct power houses and install power machinery and appurtenances for the development of hydroelectric power at any dam heretofore or hereafter authorized by Congress.

Relative to the "authorization not appropriation" contention, the minority state (p. 157):

"It is contended by proponents of this measure that it is merely an authorization and that it makes no appropriation. This contention, however, is not well taken. Authorization is the first step to appropriation. If appropriations are not to follow,

- 4 -

no defense can be given to making the authorization. Let no one be deceived."

With reference to the Florida Ship Canal mentioned in Secretary Morgenthau's memorandum of October 17, 1941, the committee report on page 51 quotes from a letter to the chairman of the committee, dated January 16, 1939, the following statement of the President:

"It has long been my belief that a Florida ship canal will be built one of these days and that the building of it is justified today by commercial and military needs."

Several of the principal projects are stated either in the reports on the basic investigations or in the committee report on the bill to be of importance for national defense by reason of facilitation of transportation and navigation, need for hydroelectric power for defense industries or control of the water to prevent floods or for other purposes. Only in the East River, N. Y., project, however, is the national defense angle the all-important feature. This project, in two parts, proposes increasing the depth of the channel to the Brooklyn Navy Yard from 35 to 40 feet primarily to provide "safe navigation for combat ships, naval auxiliaries,

- 5 -

and merchant ships * * * (quoted from page 3 of H. Doc. 554, 76th Cong.).

Attached are brief explanations of the projects involving more than \$10,000,000 each.

Projects Involving More Than \$10,000,000

(The amounts shown are taken from the table on pages 5-9 of H.R. Rep. No. 1431 (copy attached) on H.R. 5993. The first figure is the estimated first cost, and the second figure is the estimated annual or increased annual maintenance cost. The page number refers to the page of the report where the Committee's summary of the project is stated. The document number of the previous reports on investigations is given in parentheses).

The St. Lawrence Seaway and Power Project, page 105.

\$277,056,515, none stated.

This project has the approval of the President as a national defense undertaking. An extended discussion of opposition views is printed in the committee report on pages 121-147.

Atlantic-Gulf Ship Canal across Florida, page 48 (H. Doc. 194, 75th Cong.)

\$197,921,000, \$649,000.

This project proposes a sea level canal across the Florida peninsula. A temporary barge canal during construction of the ship canal is provided for and is given national defense support by the Secretary of War (see page 50, committee report) and the President is quoted as believing the canal is justified by commercial and military needs (page 51 of the committee report).

Waterway Connecting the Tombigbee and Tennessee Rivers,
page 62 (H. Doc. 269, 76th Cong.)

\$66,000,000, \$500,000.

This provides for a 9-foot channel connecting these two rivers. The President is quoted in the committee report as approving the survey report for the waterway.

Alabama and Coosa Rivers and Tributaries, Georgia and Alabama, page 60 (H. Doc. 414, 77th Cong.)

\$60,000,000, maintenance costs covered by receipts from power sale.

The committee report reveals that this authorization is for "the initiation and partial accomplishment of the ultimate plan", a comprehensive project of development in this river basin. Construction of navigation and power dams, including authority for power houses and machinery found desirable by the Secretary of War, is proposed to be authorized presently.

Columbia River (Umatilla Dam), Oreg. and Wash., page 98
(H. Doc. 704, 75th Cong.)

- 3 -

\$49,470,000, \$315,000.

This authorizes construction of a dam valuable for navigation, irrigation, and power purposes. The preliminary report reveals this is part of a program of development of the Columbia and Snake Rivers which will total \$138,000,000 without power facilities, and will include Snake River development mentioned below.

Beaver and Mahoning Rivers, Pa. and Ohio, page 83

(H. Doc. 178, 76th Cong.)

\$48,179,000, \$523,000.

This proposes construction of a waterway as part of a project which will total \$207,000,000. A letter dated February 16, 1939 from Chairman Delano of the Advisory Committee, National Resources Committee, printed at page xvii of H. Doc. 178, supra, reveals that Committee is not convinced the project is meritorious. Digest of opposition to views on this authorization is set forth in the committee report on pages 149-153.

East River, N. Y., page 21 (H. Doc. 554, 76th Cong.)
\$34,509,000, \$7,500.

Proposes making the channel extending to the Brooklyn Navy Yard generally 40 feet deep at mean low water. (There is also another authorization of \$1,800,000 for East River, page 22 of report).

Snake River, Oreg., Wash., and Idaho, page 97 (H. Doc. 704, 75th Cong.)

\$30,200,000, \$255,000.

This proposes construction of four locks and dams to facilitate navigation of the Snake River as part of a larger \$138,000,000 program of development in the Columbia and Snake Rivers which includes the Umatilla dam mentioned above.

Savannah River and Clark Hill Reservoir, Ga., page 45
(S. Doc. 66, 76th Cong.)

\$28,000,000, maintenance costs covered by receipts from power sale.

Proposes construction of the Clark Hill Reservoir for the regulation of stream flow for navigation and power purposes. The Office Production Management points out that the project has national defense value because it will provide additional power, although the power cannot be available for defense purposes until early in 1944.

Illinois Waterway (Calumet-Sag Channel, Ill., and Indiana Harbor and Canal, Ind.), page 81 (H. Doc. 145, 76th Cong.)

\$25,900,000, \$179,000.

This recommends further improvement of the Illinois waterway to provide adequate channels to serve the South Chicago area.

Neches and Angelina Rivers, Tex., page 70 (S. Doc. 98, 76th Cong.)

\$23,000,000, \$200,000.

This proposes construction of two reservoirs and two dams on the Neches River to promote navigation, alleviate flood hazards, and control the supply of water to the lower valley.

Trinity River and Tributaries, Tex., page 71 (H. Doc. 403, 77th Cong.)

\$15,000,000, \$155,000.

This authorizes construction of certain reservoirs, modification of the Garza Dam, and improvement of levees and floodways for flood protection and water conservation, and provision of a navigable channel. Certain portions should not be undertaken, concludes the committee, until the ratio of benefits to cost establishes economic justification.

Connecticut River above Hartford, Conn., page 17 (H. Doc. 165, 76th Cong.)

\$12,344,000, \$200,000.

This proposes construction of a lock, dam, and power plant at Enfield Rapids and alteration of bridges. The committee reports state Federal operation of a power supply in this area would be an aid to national defense.

Mississippi River between Ohio River and mouth of Missouri River, page 77 (H. Doc. 231, 76th Cong.)

\$10,290,000, \$70,000.

This proposes creation of a lateral canal 9 feet deep to avoid a bottle-neck in navigation of the river at the Chain of Rocks. Acting Secretary of Commerce Taylor in a letter dated June 18, 1941, expressed the opinion that improvement of the Chain of Rocks section is essential to national defense (page 79 of report).



GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

DEC 11 1944

My dear Mr. Secretary:

You have asked for an opinion on questions arising out of a proposed gift of the Widener Art Collection to the National Gallery of Art. The gift will be made by Joseph E. Widener in exercise of a power of appointment created by the will of his father, Peter A. B. Widener, who died in 1915.

In his will, Peter Widener provided that the articles of household use and ornament belonging to his estate be divided into two classes: ordinary and extraordinary, the determination of the classification to rest with Joseph, his son. The extraordinary articles indicated were the art objects - paintings, sculpture, etc. - here in question. The will declared that the extraordinary articles should constitute part of the residuary estate, which was bequeathed and devised to executors in trust for sons of the testator and their descendants per stirpes until twenty-one years after the decease of the last survivor of Peter's descendants alive at the time of his death. The treatment of the extraordinary articles as part of the residuary estate was subject to certain powers granted to Joseph. Joseph was given the care, custody, and control of the articles and was authorized to give them either by inter vivos or testamentary gift to a museum in the cities of Philadelphia,

Washington, or New York, with the provision, however, that such gift must not subject Peter's estate to the payment of any death duties, succession or inheritance taxes, and that if any such taxes should be imposed on the gift, they must be met and discharged by the beneficiary. It was further provided that if a museum in Philadelphia were the donee, Joseph was authorized to take out of the residuary estate a sum of money for the erection of a proper building for the housing of the collection and endowment thereof. With reference to the gift to a museum, the following clause appears in the will:

"In case my son should at any time determine to make disposition of said extraordinary articles under the authority herein granted, then I give and bequeath to him absolutely all of the said pictures, and such sum as he may demand as aforesaid; and his receipt to the Executors shall be a full discharge to them for the said extraordinary articles and for the said sum of money; and he shall not be held accountable either to my Executors or to any other person or persons whatsoever with respect to his disposition and use of the money and works of art when so received."

Joseph was also empowered to dispose of the articles at public or private sale, the net amount received to be added to the residuary estate. If Joseph failed to dispose of the articles under the foregoing powers (i.e., by inter vivos or testamentary appointment to a museum or by sale), then on his

death the executors and trustees of Peter were to sell the articles and add the proceeds to the residuary estate. Joseph and the testator's grandson, George Widener, were named as executors and trustees in the will. Pursuant to the terms of the will, two co-executors were appointed.

Peter was domiciled in Pennsylvania, and Joseph is also a resident of that State.

Questions:

I. Is any tax payable and if so, at what rate, if Joseph Widener presents the collection to the National Gallery of Art by (a) inter vivos gift, (b) testamentary gift?

II. What authority exists for payment of such tax by the United States?

I. Whether a tax is payable on the gift; rate of tax applicable.

The National Gallery of Art is established as a bureau in the Smithsonian Institution and is administered by a Board of Trustees. Section 2 of the Act of March 24, 1937, 50 Stat. 52 (U.S.C., Sup. V, title 20, sec. 72). The Smithsonian Institution is an establishment of the United States Government. Section 5579 of Rev. Stat. of 1873 (U.S.C. title 20, sec. 41); Opinion of the General Counsel to an Assistant to the Secretary of the Treasury, dated September 17, 1940.

There is no question here of a Federal estate or gift tax, since section 812(d) of the Internal Revenue Code (estate tax) provides for the deduction from the gross estate of the amount of all bequests, legacies, devises, or transfers, to or for the use of the United States for exclusively public purposes, and under section 1004(a)(2) of the Internal Revenue Code (gift tax) the amount of all gifts made during a year to or for the use of the United States, for exclusively public purposes, is deductible.^{1/} The Commonwealth of Pennsylvania imposes no tax on inter vivos gifts. It has an inheritance tax law, however, which taxes transfers intended to take effect at the death of the grantor to any person or persons or to bodies corporate or politic, and which would thus be applicable to a gift to the Smithsonian Institution or the Trustees of the National Gallery of Art. It contains no general exemption for gifts to the United States or for gifts to a public, religious, charitable, or educational organization. Particular exemptions are provided for estates consisting of works of art, etc., passing by will to any municipality, corporation, or unincorporated body for free exhibition within Pennsylvania (Act of July 9, 1919, P.L. 794, as amended) and for gifts and bequests

^{1/} The deduction contained in the cited sections for gifts for religious, charitable, scientific, literary, or educational purposes would also be applicable.

to a national library (section 27 of the Act of July 20, 1917, P.L. 1143, as amended). It is plain that neither exemption applies to a gift to the National Gallery of Art.^{2/} The question, then, is one concerning the applicability of the Pennsylvania inheritance tax.

It is the rule in Pennsylvania that the person to whom property is appointed takes under the will of the donor of the power of appointment and not under that of the donee of the power. Commonwealth v. William's Executors, (1849) 13 Pa. St. 29; Commonwealth v. Taylor, (1922) 3 Pa. Dist. & Co. Rep. 306; Power's Estate, (1922) 2 Pa. Dist. & Co. Rep. 461; Heas's Estate, (1928) 11 Pa. Dist. & Co. Rep. 311; Lisle's Estate, (1903) 22 Pa. Super. 262; cf. Pennsylvania Company for Insurance on Lives and Granting Annuities v. Lederer, (E.D. Pa. 1921) 292 Fed. 629; Fidelity-Philadelphia Trust Co. v. McCaughn, (C.C.A. 3d, 1929) 34 F.(2d) 600.^{3/} The rule applies whether the power is general or specific. Since the donee of the power who exercises it is regarded as merely the conduit through which the property passes from the

^{2/} Even if the gift did fall within the exemption for gifts to a national library it is doubtful whether it would be tax free, since the statute containing the exemption was passed after Peter's death, and probably would not apply to gifts made in exercise of a power of appointment contained in his will. See cases cited infra. No such doubt exists in respect of the exemption for gifts to municipalities, etc., for exhibition in Pennsylvania; for the Act of July 9, 1939, P.L. 794, has been amended to apply the exemption to estates passing by exercise of a power of appointment, whether the donor of the power died before or after the date of the Act. Act of June 12, 1931, P.L. 553; Act of June 24, 1939, P.L. 724.

^{3/} Cert. denied (1929) 280 U.S. 602.

original donor of the power to the appointee, the applicable inheritance tax is the one in effect at the time of the donor's death, whatever amendments might have been passed prior to exercise of the power by the donee.

The inheritance tax statute in effect at the time of the death of Peter Widener, the donor of the power here under consideration, was the Act of May 6, 1887, P.L. 79, which provided for a 5% tax on estates transferred to take effect after the death of the grantor "to any person or persons, or to bodies corporate or politic" (with exceptions for certain members of the grantor's family).^{4/}

The Act of June 20, 1919, P.L. 521, as amended, imposes a collateral inheritance tax of 10% on, inter alia, "property transferred pursuant to a power of appointment contained in any instrument taking effect after the passage of this act." It is further provided that the property transferred pursuant to powers of appointment "shall, in all cases where the power is hereafter exercised, be taxed as of the estate of the donor, notwithstanding any blending of such property with the property of the donee."^{5/}

^{4/} The Act of May 6, 1887 and its amendments and supplements were repealed by section 47 of the Act of June 20, 1919, P.L. 521, with the provision, however, that such repeal should not affect or impair the lien of any taxes previously assessed, or any tax due, or relieve any person from any tax imposed by those acts.

^{5/} The statute thus changes the "blending" rule exemplified in In re McCord's Estate, (Pa. 1923) 120 Atl. 413, In re Forney's Estate, (Pa. 1924) 124 Atl. 424, and In re Twitchell's Estate, (Pa. 1925) 130 Atl. 324.

It is abundantly clear, under the statute and the decisions interpreting it, that the 10% rate applies to appointed property only where the power of appointment was created after the enactment of the statute in 1919.^{6/}

It follows, therefore, that the transfer of the art collection to the National Gallery of Art through Joseph Widener's exercise, either by deed or will, of the power of appointment granted under his father's will, will be subject to a 5% inheritance tax.^{7/}

Some doubt may be cast on this conclusion by the suggestion that the clause in Peter's will, quoted on page 2, supra, bequeathing the property to Joseph absolutely on his determination to give it to a museum, has the effect of an absolute gift to Joseph, and that Joseph, in disposing of the collection, disposes of his own property. If that interpretation could be sustained, two results would follow, depending on the method by which Joseph made disposition:

1. If Joseph gave the property to the National Gallery by inter vivos gift, no tax would be payable, because, at the

^{6/} Power's Estate, (1922) 2 Pa. Dist. & Co. Rep. 461; Commonwealth v. Taylor, (1922) 3 Pa. Dist. & Co. Rep. 306.

^{7/} The foregoing discussion refers only to the art collection left by Peter Widener and over which Joseph Widener had a power of appointment. Additions made to the collection by Joseph and included in a testamentary gift to the National Gallery, would, of course, be subject to a 10% inheritance tax, or, if given inter vivos, would not be taxable at all.

time Peter's will took effect, there was no inheritance tax on gifts to lineal descendants; and because Joseph's inter vivos gift of his own property to an establishment of the United States would be tax-free.

2. Under the assumed interpretation, if Joseph gave the property to the National Gallery by will, a 10% inheritance tax would be payable under Pennsylvania law. At the time Peter's will became effective, only a 5% tax was payable on testamentary gifts to collaterals (Act of May 6, 1887, P. L. 79, as amended). However, in 1919, after Peter's death, the law was amended to impose a tax at the rate of 10% (Act of June 20, 1919, P.L. 521, as amended), which would be applicable to devises made by Joseph's will, since Joseph, under the supposition stated, would be making a disposition of the collection as his own property, independent of his father's will.

While the provision in question is somewhat difficult to analyze, I think it is clear that it was not intended to give Joseph an absolute estate in the property so that he could dispose of it as his own in any way he saw fit. It is axiomatic that the intention of the testator must be gathered from the four corners of the will and not from specific clauses. Here, if the entire will is viewed, it may be seen that the testator did not intend Joseph to have an uncontrolled power of disposition over the

collection. The limitations with which he surrounded the disposition of the art objects are inconsistent with the grant of an absolute estate to Joseph.^{§/} Joseph can sell, but not for his own benefit; the proceeds must go into the residuary estate and be controlled by the provisions of the trust. He can give the property away, by deed or will, only to a museum in one of three cities. So much is clear. What, then, is the meaning of the seemingly inconsistent clause providing that if Joseph determines to give to a museum, the property becomes his absolutely? The fact that the articles were declared to be part of the residuary estate which was devised in trust, and that Joseph was made a trustee as well as one of the beneficiaries is significant. It suggests that the provision in question was merely intended to segregate the art collection from the trust res upon Joseph's determination to give it to a museum, vesting in him the whole legal title, so that his disposition would be entirely independent of the other trustees and executors and so that he would not be

§/ In Smith v. Bell, (U.S. 1832) 6 Pet. 68, a devise to a wife "absolutely" was held to be merely a life estate, since the will also provided a gift of the "remainder" to a son.

In the instant case, Joseph was not given as many powers as are often given to life tenants. Cf. In re Ramsey's Estate, (Pa. 1926) 135 Atl. 119; In re Cooksey's Estate, (Iowa 1925) 208 N.W. 337; Gildersleeve v. Lee, (Ore. 1921) 198 Pac. 246.

responsible to any other cestui.^{2/} The clause was doubtless unnecessary to accomplish the desired result and was probably inserted in an excess of caution to assure Joseph an uncontrolled discretion with respect to his making the gift to a museum. It vested complete title in him, not for the purpose of giving him the benefit thereof, for his own personal advantage, but for the purpose of allowing him to convey the property without further responsibility to anyone. Moreover, it had the effect of relieving the co-executors and co-trustees, as such, of any responsibility for the property, if any beneficiary should question the propriety of the transfer.

That the word "absolutely" used by Peter may be interpreted as having been employed in contradistinction to the words "in trust" used in connection with the residuary estate, finds support in Watkins v. Bigelow, (Minn. 1904) 100 N.W. 1104. The court there said (at page 1109):

^{2/} It is usual to construe grants to several trustees as creating a joint tenancy between them, if a contrary intent is not expressed. Joint action by the co-trustees would thus ordinarily be necessary in conveying away the estate or any part thereof. 1 Bogert, The Law of Trusts and Trustees (1935) sec. 145. The same is true where some of the trustees are also beneficiaries. 1 Restatement of the Law of Trusts (1935) sec. 99, comment (b). But the settler can provide for a conveyance by one trustee, and since he had done that here, the clause under consideration seems unnecessary.

"* * * The term 'absolute gift,' as used in this opinion and in former decisions of this court, does not mean * * * that the gift must be without any conditions or limitations as to the time and manner of the use of the subject-matter of the gift. The term was and is used in contradistinction to 'a gift in trust'."

It is my conclusion that Joseph did not obtain an absolute estate in the property by the clause referred to, and that his disposition of it, pursuant to the terms of his father's will, must be construed as an exercise of the power of appointment conferred by that will and not an independent disposition of his own. Thus, if he grants the collection to the National Gallery by inter vivos gift, the gift will be taxable as a testamentary disposition by the donor of the power, his father. If he grants the collection by will, it is not regarded as passing under his will, but under the will of his father, and the 5% rate will be payable.

II. Authority for payment of tax by United States.

The power to appoint to a museum granted to Joseph by his father's will is expressly conditioned on payment of transfer taxes, if any should be imposed, by the beneficiary of the gift. Joseph has already provided in his will for exercise of the power in favor of the Smithsonian Institution and the Trustees of the National Gallery of Art, provided that the taxes assessed against

the Peter Widener Estate and his estate^{10/} as a result of the gift be paid by the Institution and Trustees to the Widener Estate and to Joseph's executors. The gift is open for acceptance for one year following Joseph's death, or if the Congress shall not have been in session continuously for at least three months within that period, the time for acceptance is extended until such time as the Congress has been in session for three months continuously. On failure of the Institution and Trustees to accept the gift within the stated period, the will provides that the collection shall be given to the Philadelphia Museum of Art.

If the collection for the National Gallery is to be accepted then, authority for payment of the taxes must be found.

The appropriations for the National Gallery cover only administrative expenses and costs of operation and maintenance, and do not include expenditures for acquisition of art objects. See the appropriation for the Smithsonian Institution in the Independent Offices Appropriation Act, 1942, Act of April 5, 1941 (Public, No. 28, 77th Congress).

^{10/} It might be suggested to Mr. Widener that he make an inter vivos gift of the articles belonging to him, which otherwise will pass by will and be subject to a 10% inheritance tax. See note 7, supra. If the gift were not held to be in contemplation of the death of the grantor within the terms of section 1(c) of the Pennsylvania inheritance tax law, Act of June 20, 1919, P.L. 521, no tax would be payable thereon.

The Board of Trustees of the National Gallery is authorized to accept and administer gifts, bequests, or devises of money or other property for the National Gallery. Section 4(b) of the Act of March 24, 1937, 50 Stat. 52, as amended (U.S.C., Sup. V, title 20, sec. 74(b)). That authority, however, does not include authority to obligate the United States. Conditional gifts which involve the United States in expense and burden can not be accepted without statutory authority. Unless funds exist, use of which for the acquisition of the Widener Collection is authorized, resort must be had to the Congress for an authorization and appropriation covering the amount of the taxes payable.

I may suggest possible sources of payment which might obviate the necessity of asking the Congress for funds to acquire the gift, or which might, at least, reduce the amount to be supplied by the Congress. Mr. Mellon's gift to the United States included not only the Gallery building and his art collection, but also a \$5,000,000 endowment fund, the income from which was intended for payment of the salaries of certain officers of the Gallery and for future art acquisitions. See Mr. A. W. Mellon's letter to the President, dated December 31, 1936, H.R. Doc. No. 139, 75th Cong., 1st Sess.; (1937) Sen. Rep. No. 114, 75th Cong., 1st Sess. 2; Hearing on S.J. Res. 73, 75th Cong., 1st Sess. (1937) 6; Hearing on H.J. Res. 217, 75th Cong., 1st Sess. (1937) 7.

Section 4 of the Act of March 24, 1937, 50 Stat. 52
(U.S.C., Sup. V, title 20, sec. 74) provides, in part:

"(b) The board is authorized to accept for the Smithsonian Institution and to hold and administer gifts, bequests, or devises of money, securities, or other property of whatsoever character for the benefit of the National Gallery of Art. Unless otherwise restricted by the terms of the gift, bequest, or devise, the board is authorized to sell or exchange and to invest or reinvest in such investments as it may determine from time to time the moneys, securities, or other property composing trust funds given, bequeathed, or devised to or for the benefit of the National Gallery of Art. The income as and when collected shall be placed in such depositories as the board shall determine and shall be subject to expenditure by the board.

* * *

"(d) The actions of the board, including any payment made or directed to be made by it from any trust funds, shall not be subject to review by any officer or agency other than a court of law."

The Board of Trustees is thus clearly authorized to use the income from trust funds it administers for payment of the taxes on the Widener gift. Article XIII, section 2, of the By-Laws for the Trustees of the National Gallery of Art (1938) provides that no work of art, the acquisition of which involves financial obligation upon the Board, the Bureau, or the Smithsonian Institution, shall be acquired unless at the time the obligation is incurred its discharge can be properly effected under the

then existing budget or unless provision for the proper discharge thereof may otherwise exist. Since it would seem possible to include in each year's budget a sum to be put aside in contemplated payment of the tax, that Article of the By-Laws offers no obstacle to the proposal to pay part or, perhaps, all of the tax.

Trust funds administered by the Smithsonian Institution are another possible source of payment of the tax. Section 5590 of Rev. Stat. of 1873 (U.S.C. title 20, sec. 54) provides that 6% interest on the Smithsonian legacy is appropriated for the perpetual maintenance and support of the Institution, and that all expenditures and appropriations to be made for the purposes of the Institution shall be paid from the accruing interest. It is further provided, in section 5592 of Rev. Stat. of 1873 (U.S.C. title 20, sec. 56), that the Regents may make "such disposal of any other moneys which have accrued, or shall hereafter accrue, as interest upon the Smithsonian fund, not herein appropriated, or not required for the purposes herein provided, as they shall deem best suited for the promotion of the purpose of the testator."

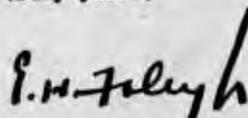
The gift of the testator, James Smithson, was intended for the foundation of "an establishment for the increase and diffusion of knowledge among men." The acquisition of an art collection for the National Gallery of Art, a bureau within the Institution founded to carry out the terms of the gift, is manifestly in furtherance of the purpose of that gift; and a

contribution toward the tax imposed on transfer of the Widener Collection could, in the discretion of the Regents, be made from the interest on the Smithson legacy.

Moreover, other sums which have been donated to the Institution in terms which do not exclude use for the advancement of knowledge in the field of fine arts, may be used to aid in the acquisition of the Widener Collection; for, under section 5591 of Rev. Stat. of 1873, as amended (U.S.C. title 20, sec. 55), the Institution is authorized "to receive money or other property by gift, bequest, or devise, and to hold and dispose of the same in promotion of the purposes thereof."

The above suggestions are made, not with the idea that enough trust fund income would be available for payment of the tax in its entirety, but merely to point out possible contributory sources which, if used, would at least reduce the amount which it would be necessary to obtain from the Congress.

Very truly yours,



General Counsel.

The Honorable

The Secretary of the Treasury.

WAR DEPARTMENT
WASHINGTON

Carlson 360
Dr Haas
12/12/41

DEC 11 1941

Dear Mr. Secretary:

I thank you for the copy of the chart which you enclosed with your letter of December 5.

My Assistant Secretary for Air is making arrangements for the submission of figures necessary for the preparation of monthly charts. These figures will be submitted direct to Mr. Haas.

Sincerely yours,

Henry L. Stimson

Secretary of War.

The Honorable,

The Secretary of the Treasury.

FEDERAL RESERVE BANK
OF NEW YORK

December 11, 1941

CONFIDENTIAL

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

I am enclosing our compilation for the week ended December 3, 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. Eucke,

L. W. Eucke,
Vice President.

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

Enclosure

Copy: vw:12-16-41

STATEMENT OF CANADIAN AND AUSTRALIAN ACCOUNTS

(in millions of dollars)

Bank Total

Strictly

PERIOD	BANK OF CANADA (and Canadian Government)									COMMERCIAL BANKS							
	DEBITS				CREDITS					Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Total Debits		Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
					For Own A/C	For French A/C											
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	20.0	6.1	+ 4.9	
War period through December, 1940	477.2	16.6	460.6	707.4	524.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5	
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0	
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9	
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2	
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3	
Dec. 4 - Dec. 31 1941																	
1942																	
Nov. 5	9.0	0.1	8.9	6.1	3.2	-	-	2.9	- 2.9	2.1	-	2.1	0.5	-	0.5	- 1.6	
12	8.0	-	8.0	4.5	3.6	-	-	0.9	- 3.5	0.1	-	0.1	6.2	5.6	0.6	+ 6.1	
19	12.7	-	12.7	3.2	2.1	-	-	1.1	- 9.5	3.5	3.5	-	0.7	-	0.7	- 2.8	
26	8.7	-	8.7	9.9	3.7	-	-	6.2	+ 1.2	2.6	2.5	0.1	0.5	-	0.5	- 2.1	
Dec. 3	14.4	-	14.4	8.8	6.7	-	-	2.1	- 5.6	2.0	0.9	1.1	3.7	3.4	0.3	+ 1.7	

Monthly Average of Total Debits Since Outbreak of War through December 3, 1941 \$ 7.5 million
 * For monthly breakdown see tabulations prior to April 23, 1941.
 ** For monthly breakdown see tabulations prior to October 8, 1941.

STATEMENTS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended December 3, 1941

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)							BANK OF FRANCE							
	DEBITS			CREDITS				Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)		Total Debits	Gov't Expendi- tures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.6(e)	449.7	1,095.3(e)	900.2	195.1(e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	98.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31															
1942															
WEAK ENDED:															
Nov. 5	16.5	29.2	17.3	16.2	-	-	16.2	- 30.1	0.1	-	0.1	0.1	-	0.1	-
12	20.2	16.0	4.2	16.4	-	-	16.4	- 3.8	0.7	-	0.7	0.1	-	0.1	- 0.6
19	29.6	21.1	9.5	25.3	-	-	25.4	- 4.3	15.1	-	15.1	-	-	-	- 15.1
26	20.6	14.2	6.4	9.1	-	1.0	8.1	- 11.5	-	-	-	0.1	-	0.1	+ 0.1
Dec. 3	39.2	32.1	7.1	67.6	-	-	67.6(f)	+ 28.4	0.2	-	0.2	0.1	-	0.1	- 0.1

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940)	\$17.6 million
England (through June 19, 1940)	27.6 million
England (since June 19, 1940)	42.6 million

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended December 3, 1941	\$ -	million
Cumulation from July 6, 1940	\$ 162.7	million

*For monthly breakdown see tabulations prior to April 23, 1941.
**For monthly breakdown see tabulations prior to October 6, 1941.
(See attached sheet for other footnotes)

- (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 \$284 million.
- (c) Includes about \$25 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:
- (1) \$50 million received from R. F. C. as further advance on \$425 million loan secured by British-owned securities and direct investments in U. S. (Total extended so far \$350 million.);
 - (2) \$7 million received from New York accounts of British authorized banks;
 - (3) \$1.8 million presumably representing proceeds of wool exports to U. S.;
 - (4) \$0.9 million transferred from account of Commonwealth Bank of Australia;
 - (5) \$1 million from account of Central Bank of Turkey.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

AM 365

DATE December 11, 1941

TO Secretary Morgenthau
FROM Mr. Kamarok

Subject: Plane Shipments to British Forces

1. In the week ending December 2, a total of 137 planes, (73 combat planes) were shipped to the British.

2. For the first time, there is mentioned a shipment of planes for British forces in Russia. In this week, four Douglas Boston III medium bombers were sent to Russia via the Persian Gulf port of Basra.

3. Since February 1, 167 American combat planes have been added to the British Pacific forces. These are mostly at Singapore. In addition, 93 trainers have been sent to the New Zealand air force.

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

366

	<u>Week ending December 2</u>	<u>Total Reported to Date</u>
<u>To the United Kingdom</u>		
Light and medium bombers	1	1,022
Heavy bombers	4	94
Naval patrol bombers	0	82
Pursuit	21	222
Army Cooperation	<u>0</u>	<u>15</u>
Total to the United Kingdom	26	1,435
<u>To the Middle East</u>		
Light and medium bombers	14	279
Heavy bombers	2	4
Pursuit	22	739
Trainers	<u>0</u>	<u>80</u>
Total to the Middle East	38	1,102
<u>To the British Pacific Forces</u>		
Light and medium bombers	0	36
Naval patrol bombers	0	12
Pursuit	0	119
Trainers	<u>38</u>	<u>93</u>
Total to Pacific Forces	38	260
<u>To the British Forces in Russia</u>		
Light and medium bombers	<u>4</u>	<u>4</u>
	4	4
<u>To the Canadian Forces</u>		
Light and medium bombers	0	38
Naval patrol bombers	1	13
Pursuit	4	33
Trainers	<u>26</u>	<u>1,066</u>
Total to Canadian Forces	31	1,150
<u>Totals</u>		
Light and medium bombers	19	1,379
Heavy bombers	6	98
Naval patrol bombers	1	107
Pursuit	47	1,113
Army Cooperation	0	15
Trainers	<u>64</u>	<u>1,239</u>
Total	137	3,951

Table B - Shipments by Types
(From February 1, 1941)

	<u>Week ending December 2</u>	<u>Total Reported to Date</u>
Bell Airacobra	0	154
Boeing B-17	0	21
Boston III	0	24
Brewster Buffalo	0	119
Cessna T-50	17	513
Consolidated Catalina	1	107
Liberator I	0	22
Liberator II	6	55
Curtiss Kittyhawk	26	364
Tomahawk	0	416
Douglas Boston II	0	29
Boston III	5	420
Fairchild-24	0	6
Glenn Martin Baltimore	14	52
Maryland I	0	114
Maryland II	0	1
Grumman Martlet II	0	9
Lockheed Hudson II	0	1
Hudson III	0	297
Hudson IV	0	9
Hudson V	0	380
North American Harvard II	47	726
Mustang	21	51
Pitcairn Autogiro	0	5
United Chesapeake	0	52
Vultee Stinson-049	0	4
Grand Total - All Types	137	3,951

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
<hr/>							
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
November 18, 1941	5	7	1	67	0	38	118
November 25, 1941	6	5	0	23	3	28	65
December 2, 1941	<u>19</u>	<u>6</u>	<u>1</u>	<u>47</u>	<u>0</u>	<u>64</u>	<u>137</u>
February 1-December 2, 1941 - Total	1,379	98	107	1,113	15	1,239	3,951

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

C
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THE CHASE NATIONAL BANK
of the City of New York

December 11, 1941

2-10-PL

Mr. L.W.Knoke, Vice President,
Federal Reserve Bank,
33 Liberty Street,
New York City.

Dear Mr. Knoke:

Pursuant to our letter of December 10th, we are pleased to quote herewith, for your information, the following telegram received by us from our San Francisco Representative:

"TRANSBALT SHIPMENT WEIGHED 194,708.88 OUNCES ESTIMATED
VALUE \$6,813,447."

Yours very truly,

(Signed) E.C.Funck

E.C.Funck
Second Vice President

js

Copy:ec
12-12-41

December 11, 1941

Mr. Livesey

Mr. Dietrich

Will you please send the following cablegram to American Embassy.

Chungking:

"For Fax from Secretary of the Treasury.

Your TW-8, December 9, 11 a.m. Did Hsi To Men and wife,
Fress and Taylor arrive in Chungking safely?"

ED:cmk:vw:12-11-41

JV

TELEGRAM SENT
GRAY

December 11, 1941

Rec'd 5 p.m.

AMERICAN EMPASSY,
CHUNGKING, (CHINA) Via N.R.

296

FOR FOX FROM SECRETARY OF THE TREASURY

QUOTE. Your TF-S, December 9, 11 a.m. Did Hsi
Te Mou and wife, Fress and Taylor arrive in
Chungking safely? UNQUOTE.HULL
(FL)

FD:FL:BMcB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China.

DATE: December 11, 1941, 11 a.m.

NO.: 484.

This telegram, No. TF-R, is in strict confidence for the Secretary of the Treasury from Mr. A. Manuel Fox.

The delay in submitting the required monthly reports of the Board as of October 31 and November 30 and the first quarterly report has been unavoidable. It was due to the following:

- (a) Too much other work in connection with adopting procedures relating to new licenses, and so forth;
- (b) Some banks have been slow in sending in required reports concerning their setoffs and acquisitions of exchange;
- (c) Problems in regard to the allocation of the Board's expenses as between the Chinese Government and the two funds.

BOARD OPERATIONS

	U. S. Currency	Sterling
Approved-Applications	\$15,740,582	£2,111,306
Payments made by the Board against Approved Applications	\$13,021,667	£1,789,510
Bank Setoffs and Exchange Repurchased by Board against Approved Applications.	\$2,206,217	£261,972
Balances of Approved Applications.	\$ 512,688	£59,518

A summary

A summary of the action on applications by the Board in accord with major phases of its program is as follows:

1. OPERATIONS IN SHANGHAI

Approved Applications	U.S. Currency	Sterling
	\$14,154,017	£1,907,012
Rejected Applications	\$13,798,138	£713,826

2. OPERATIONS IN KUNMING

Approved Applications	U.S. Currency	Sterling
	\$1,586,544	£128,331
Rejected Applications	\$252,665	£32,721

Of the approvals in Kunming there were made before the 22nd of October £15,507 and \$193,722; the rest were from the 22nd of October to the 24th of November.

3. APPLICATIONS FOR COVER FOR UNFREEZING CHINA NATIONAL DOLLAR DEPOSITS IN HONG KONG

Approved	U.S. Currency	Sterling
		£63,473
Rejected		£92,223

4. COVER TO HONG KONG BANKS AGAINST DRAFTS DRAWN ON THEM BY THEIR CORRESPONDENTS ABROAD IN CHINESE NATIONAL DOLLAR DRAFTS

Sterling
£12,487

Applications approved by Chungking Office for November 7, the date it opened, to November 29, in the following

following amounts are additional to the above totals:

Hong Kong	U.S. Currency	Sterling
166,755	\$54,539	£38

GAUSS

TREASURY DEPARTMENT

375

INTER-OFFICE COMMUNICATION

DATE December 11, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	\$31,000
Purchased from commercial concerns	£5,000

Open market sterling was quoted at $4.03\frac{3}{4}$, and there were no reported transactions.

Continuing its improvement, the Argentine free peso advanced to a high of .2396, and closed at .2395. At the end of last week, that currency was quoted at .2370.

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

Canadian dollar	11-11/16 ⁶ discount
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2055
Uruguayan peso (free)	.5275
Venezuelan bolivar	.2625
Cuban peso	1/32 ⁶ discount

The New York banks reported that they would no longer sell drafts in Swiss francs, but cable transfers in that currency could still be purchased from them.

We sold \$4,000,000 in gold to the Central Bank of the Argentine Republic, which was added to its earmarked account.

The Federal Reserve Bank of New York reported that Barclays Bank, Montreal, shipped \$42,000 in gold from Canada to the Bankers Trust Company, New York, for sale to the New York Assay Office.

In London, spot and forward silver were again fixed at 23-1/2d, equivalent to 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Gandy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

BRITISH EMBASSY
WASHINGTON, D.C.

December 11, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 27

Information received up to 0700 9th December, 1941.

(I) NAVAL

On evening of 8th enemy aircraft attacked minesweeping trawlers off East Coast Scotland. 1 was sunk and another badly damaged.

A British submarine attacked an unidentified destroyer off West Coast of GREECE obtaining 4 hits by gunfire.

HONGKONG. On 8th in a raid on KOWLOON by Japanese aircraft 29 persons were killed. Shore batteries and naval units were also attacked but no damage or casualties are reported.

Same day a flying boat dropped bombs on OCEAN ISLAND Southern Pacific. No details are known.

A small British merchant ship was sunk by mines yesterday off CROMER.

(II) MILITARY

LIBYA. 6th. Our forces established contact with TOBRUK garrison on BARDIA - TOBRUK road and in SIDI RAZEZH area, where 700 New Zealand casualties were recovered.

7th. West of EL GOBI 5 enemy tanks and much M.T. were destroyed and 8 tanks probably destroyed, 3 of ours were slightly damaged.

8th. Our troops from TOBRUK engaged, 2 miles North of EL ADEM an enemy force of approximately 2000 infantry and some tanks which were advancing from South. The results of this engagement are not yet known.

MALAYA. There is no further (?) information about operations in addition to that which was reported in yesterday's summary.

RUSSIA. There are indications that in KLIN and KURSK areas the Germans are meeting determined Russian resistance and that the state of roads in former area is very bad.

(III) AIR OPERATIONS.

7th/8th. Aircraft from 2 R.C.A.F. and 2 R.A.A.F. squadrons took part in night's operations. 46 aircraft dropped 50 tons high explosive on AACHEW. Visibility was bad but bursts and a blazing factory were seen in town. 43 tons were dropped at HREST and some bombs fell on or near battle cruisers. 23 aircraft attacked CALAIS docks under good conditions and smaller number bombed docks

at OSTENEL, DUNKIRK and BOULOGNE. A total of 62 aircraft bombed other various targets. 5 bombers are missing and 1 crashed.

9th. 8 Hurricane bombers, sent to attack an alcoholic distillery bombed a saw mill in Northern France and Spitfires destroyed 2 Me. 109's on ground. In air fight 5 enemy fighters were destroyed, 1 by a R.C.A.F. Squadron and 4 damaged. 10 Spitfires are missing.

LIBYA. 7th. 2 Maryland squadrons attacked ACROMA and M.T. south of town; 1 tank lorry and many vehicles were destroyed. Our fighters shot down 2 dive bombers and 6 fighters, probably destroyed 1 dive bomber and 1 fighter and damaged 2 fighters. 5 Hurricanes are missing and also 2 Bostons from reconnaissance.

7th/8th. A strong force of Wellingtons attacked enemy transports on ACROMA - GAZAIA road starting large fires where M.T. were blocked. South of GAZAIA Inlet. Other M.T. 15 miles East of GAZAIA was also attacked. BENDHAZI and CASTEL BENITO aerodrome were bombed effectively.

MALAYA. 7th/8th. Our aircraft attacked Japanese ships engaged in landing operations, 2 of which were set on fire.

8th. An aircraft reconnoitring SINGARA was attacked by 6 enemy fighters but returned safely; 2 Hudsons and one Catalina are missing.

(IV) ENEMY ACTIVITY U.K.

8th/9th. 50 enemy aircraft of which about 12 came inland were operating.

MALAYA. 8th. Enemy aircraft attacked our aerodromes in Northern Malaya and at SINGAPORE; no appreciable damage is reported.

HONGKONG. On same day enemy A/C attacked aerodromes; 3 of our aircraft were put out of action.

HAWAII. 7th. U.S. losses were 63 fighters, 4 light bombers, 28 heavy bombers and 5 fortress aircraft.

(V) AIRCRAFT CASUALTIES IN OPERATIONS OVER AND FROM BRITISH ISLES

German, 5 destroyed, 4 damaged. British, 7th/8th, 5 bombers, 8th, 10 fighters, total 15.

(VI) HOME SECURITY

8th/9th. Some bombs were dropped in Northumberland and Durham; insignificant industry damage, 5 fatal service and 6 civilian casualties.

(VII) SICILY

30 JU 88's recently withdrawn from HOLLAND have arrived. It is estimated there are about 70 of this type now in SICILY comprising 30 long range bombers and about 40 long range night fighters.

(VIII) FINLAND

The fats ration has recently been cut from 600 to 150 grammes a month reducing Finnish rations to only about 12 per cent of British or German rations.

COPY NO. 14

BRITISH MOST SECRET

(U.S. SECRET).

DEC 10 1941

OPTTEL NO. 29.

MALAYA: Situation 9 a.m. Local Time 9th December.

Now 3 reinforced land operations: Right KOTA BHARU, Centre Northeast of KROH 50 miles northeast of PENANG, Left South SIAM immediately north of Kedah Frontier. Right as enemy land forces threatened KOTA BHARU Aerodrome all our A/C left (? there) 8th December and Aerodrome was demolished at 3 a.m. 9th December. Indian Troops holding a line just north of KOTA BHARU but position confused with considerable enemy (? infiltration). Centre of our troops crossed frontier p.m. 8th December advance being opposed initially by Siamese Police.

Left our reconnaissance unit crossed frontier making contact with enemy at BAN SADAQ 40 miles North of ALORSTAR. After inflicting casualties on the enemy who had 10 armoured fighting vehicles, our forces withdrew destroying 2 major road bridges between BAN SADAQ and frontier. Railway bridge also destroyed.

AIR: Enemy has concentrated on our aerodromes in Northern Malaya. Heaviest attack at SUNGEI PATANI to Northeast of Penang, and at ALORSTAR. At former several of our fighters were destroyed on the ground.

HONG KONG: 3 p.m. 8th December enemy crossed frontier on broad front during morning our troops withdrew according to plan - all demolitions successful.

BRITISH EMBASSY
WASHINGTON, D.C.

PERSONAL AND
SECRET

December 11th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

BRITISH MOST SECRET

U.S. SECRET

OPTEL No. 28

Following is supplementary resume of operational events covering period November 27th - 4th December.

(I) NAVAL

E-boats were active off East Coast and our H.T.B's and Motor Gun Boats on 3 nights attacked E-B cats and Armed Escort of Merchant ships in Straits of Dover with inconclusive results.

Extensive sea and air searches have failed to locate any survivors of S.M.A.S. SYDNEY.

There was no submarine activity on North Atlantic convoy routes and U-Boats are now concentrated in an area East and West of Gibraltar. At least four are operating in South Atlantic.

Our shipping losses though somewhat heavier than of late were moderate. A report has recently been received that two medium sized British merchant vessels on passage on Government service from MALTA to GIBRALTAR were sunk by aircraft off TUNISIA on November 14th and 15th and that French naval units picked up survivors.

TRADE. During the week ending December 3rd 972 ships were convoyed. Imports into U.K. during week ending November 29th were one million two thousand tons which includes 358,779 tankers imports.

(II) MILITARY

LIBYA. The enemy was evidently surprised by our preliminary move and General Rommel's armoured forces were brought to battle and a great part of them destroyed. On other hand the fight has been bitter and casualties heavy and enemy was able to cut TOBRUK corridor and reconcentrate those parts of two German armoured divisions which survived first 14 days of campaign. The opposing forces have now fallen apart without a decision being reached both forces having fought themselves temporarily to a standstill. Meanwhile our patrol and mobile columns are constantly harassing and inflicting losses upon enemy prior to next phase of operations.

RUSSIA. The situation in MOSCOW sector still gives cause for anxiety. The Germans have gained ground at three points (a) at KLIN, (b) from West of city, (c) East of TULA. The last named of these gains is the most serious for not only has it cut KASHIRA railway (though not the more important KOLOMNA-RYAZAN railway further North East) but also it forms an advanced pincer towards

encirclement of HIBORON itself. It thus has been to check advance through heavy snow any form into deep drifts which would hamper tank movements. Russian resistance continues stubbornly and German progress consequently slow. In ROSSOV sector the Russian counter attack towards TOLMARIO is of great importance in as much as it retards by at least three weeks and possibly much longer the German timetable for a subsequent move into OLRONSKI.

YERQ STAVVA. The revolt is continuing.

ROMANIA. The rise in level of the Lower DANUBE owing to heavy rainfall indicates that river is unlikely to freeze early this winter.

BAIKAL SECTORS. It is estimated that total number of German divisions in BAITANS is still 14 although a certain amount of reshuffling of units has been and still is taking place.

SPAIN. Battle casualties and sickness have reduced Spanish division in RUSSIA from about 20,000 to less than 14,000. This division is believed to be now employed on line of communication duty in Southern sector.

WLAWA. 2 Field Regiments armed with 25 pounders have arrived. Volunteer Force were mobilised on 1st December.

(III) AIR OPERATIONS

UNITED KINGDOM. Bad weather prevailed throughout most of weakly night bombing operations were only possible on two occasions. Attacks were made upon HAMBURG, EISEN and DUESSELDORF, a total of 396 tons of H.E. and nearly 25,000 incendiaries being dropped.

In spite of unfavourable weather aircraft of Coastal and Fighter Commands continued to harass enemy shipping both in daylight and by night; it is estimated that 8,500 tons were sunk and 28,000 tons damaged.

German Air Force activity was almost entirely directed against our shipping with little success. From character of German Air Force operations during past few weeks it appears that policy of saving their long range bombing force on Western Front is still being vigorously pursued.

GENERAL MEDITERRANEAN. A 10,000 ton laden tanker was seriously damaged by bombs and subsequently sunk by our Naval forces; in addition it is estimated that 11,000 tons of enemy shipping was sunk or damaged by our aircraft.

LIBYA. Our aircraft dominates the battle area and provides close support for our ground forces in spite of rain and low cloud conditions. Operations were mainly directed against enemy's supply system over a wide area.

The German Air Force failed to maintain a high level of activity probably due to supply difficulties, our successful attack on their aerodromes,

and their lack of fighters. A few large enemy formations were met but our continuous fighter sweeps and numerous bombing attacks met with relatively little opposition. Operations by long range bombers were confined to small scale raids against our railway communications. This week effort appears to indicate a difficulty in maintaining the serviceability of the JU 88 under desert conditions.

RUSSIA. German Air Force. The continued low scale of German air operations on all sectors of Russian fronts is probably due to prolonged bad weather and withdrawal of all types of units to Germany for refitting. This decrease in German air strength has deprived their ground forces of their habitual scale of air support and at the same time has enabled the Russian Air Force to be employed with increasing effect. The German Air Force no longer retains air superiority in certain sectors.

The Russian success at ROSTOV is likely to affect considerably the air situation in this area. An important advanced air base has been established at TAGANROG and if dislodged from here, the German Air Force will no longer be able to operate so effectively against ROSTOV area and military objectives to the East and South except with long-range bombers; moreover the loss of supplies and equipment of all kinds accumulated in this forward area must inevitably have a delaying effect on further air operations directed towards CAUCASIA.

(IV) Extracts from photographic and Intelligence reports on result of R.A.F. air attacks on enemy territory in EUROPE.

BERLIN. November 7th/8th. The SPANDAU Power Station was hit.

OCCUPIED FRANCE. Over 1,900 tons of alcohol were destroyed in one of our daylight fighter-bomber attacks.

NAPLES. A large canning factory has been destroyed.

(V) OPERATIONAL AIRCRAFT BATTLE CASUALTIES.

METROPOLITAN AREA. British in the air: Bombers, 18, Fighters, 3, Coastal 6, Army Co-operation 1, total 28.

<u>GERMAN</u>	Destroyed	Damaged
Bombers	5	4
Fighters	2	-
Totals	7	4

No account is taken of aircraft destroyed on ground.

MIDDLE EAST. British in the air: Bombers, 5, Fighters, 19, total 24.

- 4 -

German and Italian

	Destroyed	Probably Destroyed	Damaged
Bombers	8	-	10
Fighters	21	5	11
Miscellaneous	<u>-</u>	<u>-</u>	<u>1</u>
Total	29	5	22

In addition at least 82 were destroyed or damaged on the ground.

(VI) HOME SECURITY

Estimated civilian casualties for the week ending 6 a.m. 3rd December were two killed, 11 seriously wounded.

Copy No. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 31

10 December, 1941.

MALAYA. Up to 4 a.m. 10th December. 9th. Air reconnaissance reported 1 battleship, 2 cruisers, 7 destroyers and a number of transports off KOTA BHARU, 1 transport off KUANTAN and 15 transports and 1 aircraft carrier off SINGORA.

11 Blenheims bombed SINGORA aerodrome where 40 bombers were seen on the ground and about 40 fighters in air (?). Result unobserved. Heavy air attacks on our aerodromes in Northern MALAYA. At SUNGAI PATANI 5 enemy aircraft brought down by our anti-aircraft fire. KUANTAN aerodrome was evacuated by our aircraft.

Reinforcements have reached KELANTAN sector. In centre our troops were just across THAILAND Frontier on evening of the 9th. On left at KEDAH no change: 7 enemy light tanks destroyed.

A small enemy force which landed near KUANTAN at 10 p.m. on 9th was driven off and all was quiet on morning of the 10th.

HONG KONG. Situation satisfactory. Our line intact except for 1 Redoubt captured by enemy during the night of the 9th/10th.

DEC 11 1941

My dear Captain Roosevelt:

Thank you for sending me a copy of the new summary for the G.O.I. Report, No. 29, "The Problem of German Occupation of Northwest Africa".

This study is most timely and I have found it of considerable interest.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Captain James Roosevelt,
United States Marine Corps
Coordinator of Information,
Washington, D. C.

By Messenger

Dixon 4³⁰

AMK/221
12/12/41

COORDINATOR OF INFORMATION
WASHINGTON, D. C.

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December 6, 1941

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

My dear Mr. Morgenthau:

Enclosed is a copy of a new summary for the COI Report, No. 29, "The Problem of German Occupation of Northwest Africa". The note attached to this new summary explains the necessity for revision -- in the light of recent happenings.

I wonder if you would be good enough to detach the old summary from the report and either return it to me by the courier who brings the new one, or destroy it.

Sincerely yours,

James Roosevelt
JAMES ROOSEVELT
Captain, U.S.M.C.

Enclosures

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SECRET

Coordinator of Information

THE WAR THIS WEEK

No. 9

December 4 - 11, 1941

No. 8

Secretary of the Treasury

Coordinator of Information

SECRET

THE WAR THIS WEEK

No. 9

December 4-11, 1941

At dawn on Sunday the war reached out to engulf the Western Hemisphere. Using the now classic Axis technique, the *attaque brusquee*, the Japanese struck without warning and with terrific power. Their objective was the United States air and naval forces at Pearl Harbor, 3800 miles from Yokohama. The magnitude of the ensuing naval disaster has altered the face of the war. It was followed three days later by the Japanese destruction of two British capital ships, the *Prince of Wales* and the *Repulse* off Malaya, and finally by declarations of war on the United States by Japan's Axis partners, Germany and Italy.

These unparalleled Japanese successes have given the Axis powers the unquestioned initiative just at the time when the German drive in the east had seemingly spent its power. The momentary fluidity of the international situation makes prediction dangerous, but the following generalizations seem to satisfy most completely the implications of recent events as read in the light of the disasters in Hawaii and Malaya.

WINTER STABILIZATION IN RUSSIA?

Unless the momentum of fresh Russian counter-offensives can be sustained, it appears likely that the Russian front will soon be stabilized for the winter months. This would be indicated by the statement of a German Army spokesman who declared on Monday that no new large scale offensives would be undertaken by reason of the weather. At Leningrad it is so cold that not only are lubricants frozen and engines stalled, he said, but infantrymen taking cover along the ground face the danger of death from freezing.

The inability of Nazi spearheads to break the iron ring about Moscow would be reason enough for German announcements of stability on that front. In the south they must concentrate new forces in order to bring the Russian drive at Rostov to a halt, an unwelcome task for which they have already attempted to win the reluctant Roumanians, apparently in vain.

The public declaration of the German spokesman poses an enigma. Have the Germans surrendered the initiative openly in order to reassure their own people? Or do they seek an understanding with the Russians?

Whatever the purposes of the Germans, the facts suggest that the Nazi machine has bogged down in the Russian winter.

NORTH AFRICA NEXT?

With a stalemate in Russia, North Africa is the next logical field for German operations. The indecisive status of the Libyan campaign invites drastic Nazi reinforcements, while the acquisition of bases on the western shores of Morocco would give the Germans new facilities for the acceleration of the Battle of the Atlantic.

Recent evidence suggests that moves on Africa are already under weigh. From Rome MID hears that "large numbers" of German planes are flying south and that troops and supplies are moving through Italy at an increased tempo. Preparations in central and southern Italy also suggest that very important additions to the Nazi air-force there are imminent.

The initial British reports gave a far too optimistic impression of the Libyan offensive, BBC commentators are now admitting. But they insist that the final outcome must depend on supplies, and that the latter are denied the Axis by the British Navy. It remains of course to be seen whether this situation will not be drastically altered by overwhelming air attack of planes released from Russia.

VICHY "RESISTANCE" DECLINES AGAIN

Nazi action against French North Africa is also made likely by the only too obvious weakness of Vichy. Our ambassador believes that if future demands are backed by adequate pressure, Petain will yield. A *modus vivendi* which might bring the anxious Italians once more into the limelight has been suggested by a news report credited to "diplomatic sources" at Bern. Under German pressure, France is to allow Italy the use of the Bizerta naval base and possibly also the use of some units of the French fleet for convoy duty in the Mediterranean. In return, the Italians would "renounce" territorial claims against France. Some support for this story is to be found in the urgent call of Ciano for a meeting with Darlan at Turin scheduled for last Tuesday. And there is word also of active French military and naval preparations at Tunis and Bizerta. Under the impetus of the Hawaiian and Malayan debacles, the Axis subjects at Vichy and Rome might now be hustled into an agreement suitable for the present purposes of the New Order.

Meanwhile reports from our embassy at Bern declare that German E-boats are being shipped to Marseille with the consent of Vichy, that certain railroads in southern France have been placed at the disposal of the Germans for troop movements, and that Nazi troops have appeared at Bizerta.

THE MILITARY PROBLEM OF A CONQUEST OF NORTHWEST AFRICA

The actual conquest of French North Africa would probably take the form of a pincer movement and, according to informed opinion, would present no serious obstacles to the Germans. It is contemplated that one German force would move south through Spain, while the second, landing at Bizerta, would advance westward. If Spanish collaboration and *full French resistance* are assumed (and the latter is very unlikely), the Germans could execute the campaign with somewhere between nine and twenty divisions and a sufficient number of planes for air superiority.

Once landed, the Germans would have at their disposal a transport net sufficient for any invader. The road system is excellent, the railroad system adequate, and the air facilities, except for the shortage of gasoline and lubricants, sufficient. The road and railroad net has been built primarily for military purposes, so that the east-west line of communication is served by hard surfaced, double-width highways and a standard gauge railroad. On the other hand, the north-south roads, which were designed primarily to implement the economic exploitation of the interior, are generally of second quality, and the railroads, except the Oujda-Kenadsa line, are narrow gauge.

Although the roadways, airfields, and railroads themselves have not deteriorated noticeably under the stringencies of war, their usefulness is, nevertheless, seriously impaired by an almost desperate fuel shortage. Gasoline and oil are rigorously rationed and many automobiles are running on alcohol distilled from local wine. The railways are likewise crippled from a lack of fuel.

Although Africa has been called the natural habitat of the airplane, there is a paucity of well equipped airports. The latter are to be found only near the larger cities. The invader will find them useful *qua* airdromes but must bring with him not merely his planes, fuel, oil, bombs, but also, and above all, his own repair facilities.

THE JAPS TAKE OVER THAILAND

After a token resistance the Thai have ceased fighting and permitted Japanese forces to enter the country. Indeed, they are now reported by Tokyo to be giving the invader active cooperation. The Thai collapse will permit the rapid occupation of the northern "bulge" of the country at the same time that the Japanese are establishing bridgeheads further down the peninsula in the direction of Singapore. (They have already taken the important air base at Kota Bharu.)

The invasion of this northern area puts the Japanese in possession of the important strategic route leading to northern Burma and eventually to Lashio at the western end of the Burma Road. This route consists of a motor road from the Siamraap and Battambang area in southwest Indochina to the Thai railhead at Aranypradet, thence by rail west to Bangkok and north to Lampang, and thence northward by excellent motor road to Kengtung in Burma. From Kengtung to Lashio is about 400 miles, and half of the road leads over very difficult terrain. In any event this route opens up relatively rapid access for the Japanese to northern Burma and the possible strangulation of the Burma supply line to China.

STRATEGIC ADVANTAGES

The complete occupation of Thailand would also present the Japanese with extensive airfield facilities for attacks on Singapore, Burma, and the Burma Road; a railroad to British Malaya; and a naval base near Prachuab Khirikan and within striking distance of Singapore. The occupation gives them a psychological lever which may enable them to persuade the Burmans, who are anti-Chinese and anti-British, to assist in action against the Burma Road as a bid for independence.

ECONOMIC IMPLICATIONS

The economic implications of the occupation are also important. The Japanese will secure rice and fruit in abundance; tin, which they desperately need; and rubber (they have been receiving much of the rice and rubber, but the British have managed to prevent them from securing the tin). Bumper rice crops for the current year will in fact give the Thai an exportable surplus, which, together with a smaller surplus from Indochina, will exceed the estimated deficit in Japan and other areas under Japanese control.

The Japanese will also in the long run secure an enormously profitable retail trade, now in the hands of the Chinese; the banking system, now British and Chinese; and a country which is underpopulated, which has considerable mineral wealth, and which can eventually produce new crops needed by the conqueror (e. g., cotton, tobacco, sugar).

JAPAN AND HEMISPHERE SOLIDARITY

The Japanese attack has created Pan-American solidarity to a degree hitherto unknown. Declarations of war have been made by all the Central American countries and by Cuba, Haiti, and Bolivia. All the other countries of Latin

America have declared their support of the United States, and even Argentina, which first took a position of strict neutrality, has now granted permission to American war vessels to make use of Argentine ports without time restriction. Ecuadorians and Peruvians have expressed their desire to reach as rapidly as possible a basis for concluding their boundary dispute, and Ecuador also asks that the Galapagos Islands be brought under the protection of the United States.

RESTRICTED

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G-2/2657-220; No. 566 M.I.D., W.D. 11:00 A.M., December 11, 1941

SITUATION REPORT

I. Pacific Theater.

General: Germany and Italy have declared war on the United States. Philippines: Continual attempts at landing are being made by Japanese in northern Luzon. One Japanese battleship, the Haruna, 29,000 tons, was sunk yesterday by American Air Force north of Luzon. Hawaii: Naval action is reported off the coast of Hawaii. Wake, Midway, and Guam: Situation is still obscure with air raids reported in progress. Malaya: The Japanese have landed about three divisions north of Kota Baru. Heavy resistance by British continues. Hong Kong: The British are holding against Japanese attacks.

II. Eastern Theater.

Ground: There is no change in the situation on the Russian front. Because of lack of information, no situation map will be issued today.

Air: In the Kalinin sector, Russia claims that one Soviet air unit destroyed 600 Nazi soldiers and considerable material of war in a single day of fighting.

III. Western Theater.

Air: According to the British Air Ministry, the fact that the Russians now claim air superiority over the entire Soviet-German battle front is considered by some quarters in London to be a bad sign, as it is thought that the Germans may be withdrawing planes from Russia for a renewal of heavy assaults on England.

IV. Middle Eastern Theater.

Ground: Axis withdrawal northwest from El Adem and Dir El Gobi continues. British Army maintaining contact with Armored Car Patrols and small task forces. Axis rear guards have thus far prevented large-scale pursuits and are effectively covering withdrawal. German High Command has admitted defeat in northern Africa. Axis now holds only three points in frontier area: Halfia, Bardia, Mizwet, El Gherbiya.

Air: A British cruiser was hit in an attack by Axis torpedo-carrying planes during the shelling of the Libyan port of Derna by British naval units yesterday.

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