1 amortization deduction provided in subsection (a), using
2 an amortization period beginning with the month follow-
3 ing the month in which the emergency facility was com-
4 pleted or acquired and ending as of the end of the month
5 within which such proclamation was issued or within
6 which occurred the date specified in such certificate,
7 whichever is the earlier.

8 "(4) The election provided in paragraph (1), (2),
9 or (3) shall be made by filing with the Commissioner,
10 in such manner, in such form, and within such time, as
11 the Commissioner with the approval of the Secretary
12 may by regulations prescribe, a statement of such elec-
13 tion. When such election has been so made, then, under
14 regulations prescribed by the Commissioner with the
15 approval of the Secretary, the taxes for all taxable
16 years, beginning with the taxable year in which the
17 amortization period began, shall be computed in ac-
18 cordance with an amortization deduction computed in
19 accordance with the method provided in subsection (a),
20 but using (in lieu of the sixty-month period provided
21 in such subsection) the amortization period specified in
22 paragraph (1), (2), or (3), as the case may be.

23 "(5) RECOMPUTATION OF TAX IN CASE OF ELEC-
24 TION UNDER THIS SUBSECTION.—If the adjustment of
25 the income or excess-profits tax liability for any taxable

1 year necessary to give effect to paragraph (4) of this
2 subsection is prevented (A) on the date of the certifi-
3 cate of the Secretary of War or the Secretary of the
4 Navy or on the date of the President's proclamation,
5 whichever is the basis of the taxpayer's election under
6 this subsection, or (B) within one year from such
7 date, by any provision of law (other than this paragraph
8 and other than section 3761, relating to compromises),
9 an adjustment of the tax liability shall nevertheless be
10 made if in respect of such taxable year a notice of defi-
11 ciency is mailed or a claim for refund is filed, as the
12 case may be, within one year after the date of such
13 certificate or such proclamation, whichever is the basis
14 of the taxpayer's election under this subsection. If at
15 the time of the mailing of such notice of deficiency or
16 the filing of such claim for refund, the adjustment is so
17 prevented, then the amount of the adjustment author-
18 ized in this paragraph shall be limited to the increase or
19 decrease in the tax previously determined for such
20 taxable year which results solely from the effect of
21 paragraph (4) of this subsection, and such amount shall
22 be assessed and collected, or credited or refunded, in the
23 same manner as if it were a deficiency or an overpay-
24 ment, as the case may be, for such taxable year and
25 as if on the date of such certificate or such proclamation,

1 whichever is the basis of the taxpayer's election under
2 this subsection, one year remained before the expiration
3 of the periods of limitation upon assessment or filing
4 claim for refund for the taxable year. The tax previ-
5 ously determined shall be ascertained in accordance with
6 section 3801 (d). The amount to be assessed and
7 collected under this paragraph in the same manner as
8 if it were a deficiency, or to be refunded or credited in
9 the same manner as if it were an overpayment, shall
10 not be diminished by any credit or set-off based upon
11 any item, inclusion, deduction, credit, exemption, gain,
12 or loss, other than one resulting from the effect of
13 paragraph (4) of this subsection. Such amount, if paid,
14 shall not be recovered by a claim or suit for refund or
15 suit for erroneous refund based upon any item, inclu-
16 sion, deduction, credit, exemption, gain, or loss, other
17 than one resulting from the effect of paragraph (4) of
18 this subsection.
19 "(e) DEFINITIONS.—
20 "(1) EMERGENCY FACILITY.—As used in this sec-
21 tion, the term 'emergency facility' means any land,
22 building, machinery, or equipment, or part thereof, the
23 construction, reconstruction, erection, or installation of
24 which was completed after July 10, 1940, or which was
25 acquired after such date, and with respect to which a
26 certificate under subsection (f) has been made.

1 "(2) EMERGENCY PERIOD.—As used in this section,
2 the term 'emergency period' means the period beginning
3 July 10, 1940, and ending on the date on which the
4 President proclaims that the utilization of a substantial
5 portion of the emergency facilities with respect to which
6 certifications under subsection (f) have been made, is no
7 longer required in the interest of national defense.
8 "(f) DETERMINATION OF ADJUSTED BASIS OF EMER-
9 GENCY FACILITY.—In determining, for the purposes of sub-
10 section (a) or subsection (h), the adjusted basis of an
11 emergency facility—
12 "(1) There shall be included only so much of
13 the amount otherwise constituting such adjusted basis
14 as is properly attributable to such construction, recon-
15 struction, erection, installation, or acquisition after July
16 10, 1940, as the Advisory Commission to the Council
17 of National Defense and either the Secretary of War or
18 the Secretary of the Navy have certified, within the
19 time specified in paragraph (3) of this subsection, and
20 under such regulations as the President may prescribe,
21 as necessary in the interest of national defense during the
22 emergency period;
23 "(2) After the completion or acquisition of any
24 emergency facility with respect to which a certificate
25 under paragraph (1) has been made, any expenditure

1 (attributable to such facility and to the period after such
2 completion or acquisition) which does not represent
3 construction, reconstruction, erection, installation, or
4 acquisition included in such certificate, but with respect
5 to which a separate certificate is made under paragraph
6 (1), shall not be applied in adjustment of the basis of
7 such facility and shall be considered as an expenditure
8 with respect to a new emergency facility; and
9 "(3) The certificate provided for in paragraph
10 (1) shall have no effect unless made before whichever
11 of the following dates is the later: (A) The beginning
12 of such construction, reconstruction, erection, or instal-
13 lation, or the date of such acquisition, or (B) the six-
14 tieth day after the date of the enactment of the Second
15 Revenue Act of 1940.
16 "(g) DEPRECIATION DEDUCTION.—If the adjusted
17 basis of the emergency facility computed without regard to
18 subsection (f) of this section is in excess of the adjusted
19 basis computed under such subsection, the deduction pro-
20 vided by section 23 (l) shall, despite the provisions of sub-
21 section (a) of this section, be allowed with respect to such
22 emergency facility as if its adjusted basis were an amount
23 equal to the amount of such excess.
24 "(h) PAYMENT BY UNITED STATES OF UNAMORTIZED
25 COST OF FACILITY.—If an amount is properly includible

1 in the gross income of the taxpayer on account of a pay-
2 ment with respect to an emergency facility and such pay-
3 ment is certified as provided in this paragraph, then, at the
4 election of the taxpayer in its return for the taxable year
5 in which such amount is so includible—

6 "(1) The amortization deduction for the month
7 in which such amount is so includible shall (in lieu
8 of the amount of the deduction for such month com-
9 puted under subsection (a)) be the amount so includ-
10 ible, but such deduction shall not be in excess of the
11 adjusted basis of the emergency facility as of the end
12 of such month (computed without regard to any amorti-
13 zation deduction for such month). Payments referred
14 to in this paragraph shall be payments the amounts of
15 which are certified, under such regulations as the Presi-
16 dent may prescribe, by either the Secretary of War
17 or the Secretary of the Navy as compensation to the
18 taxpayer for the unamortized cost of the emergency
19 facility made because—

20 "(A) A contract with the United States in-
21 volving the use of the facility has been terminated
22 by its terms or by cancellation, or

23 "(B) the taxpayer had reasonable grounds
24 (either from provisions of a contract with the United
25 States involving the use of the facility, or from

1 written or oral representations made under author-
2 ity of the United States) for anticipating future
3 contracts involving the use of the facility, which
4 future contracts have not been made.

5 "(2) In case the taxpayer is not entitled to any
6 amortization deduction with respect to the emergency
7 facility the deduction allowable under section 23 (l)
8 on account of the month in which such amount is so
9 includible shall be increased by such amount, but such
10 deduction on account of such month shall not be in excess
11 of the adjusted basis of the emergency facility as of the
12 end of such month (computed without regard to any
13 amount allowable, on account of such month, under
14 section 23 (l) or this paragraph).

15 "(i) DESTRUCTION, ETC., OF FACILITY.—Any tax-
16 payer taking deductions for amortization of emergency fa-
17 cilities pursuant to the provisions of this section may not
18 thereafter destroy, demolish, impair, or substantially alter
19 such emergency facilities without the consent in writing of
20 the Secretary of War or of the Secretary of the Navy. In
21 the event such consent is not given within a period of ninety
22 days from the date of receipt of written request therefor, the
23 Secretary of War or the Secretary of the Navy, as the case
24 may be, shall and he is hereby directed to purchase such
25 facilities at a price which he shall fix not to exceed the ad-

1 justed basis but not to be less than $1. In case such facilities
2 consist of buildings, or fixtures not removable without sub-
3 stantially affecting the structure to which the same are af-
4 fixed, the taxpayer shall have an option to repurchase such
5 facilities at the price which he was paid before such facilities
6 are resold to any other person.

7 "(j) CONSENT TO PROVISIONS OF SUBSECTION (i).—
8 No deduction for amortization under the provisions of this
9 section shall be allowed in any case unless the taxpayer
10 files with the Commissioner a signed statement acknowl-
11 edging, and consenting to the application of, the provisions
12 of subsection (i). Such statement shall be signed and ac-
13 knowledged under oath by the person or persons required
14 to swear to returns made by the corporation under this
15 chapter.

16 "(k) PENALTY FOR DESTRUCTION, ETC., OF FACIL-
17 ITY.—If the Secretary of War or the Secretary of the Navy
18 certifies to the Secretary of the Treasury that a taxpayer sub-
19 ject to the provisions of subsection (i) has wilfully destroyed,
20 demolished, impaired, or altered substantially any emergency
21 facility without having first obtained the written consent
22 of the Secretary of War or the Secretary of the Navy to
23 such destruction, demolition, impairment, or alteration, then
24 such taxpayer shall be liable to a penalty in an amount equal
25 to the unadjusted basis of such facility in the hands of the

1 taxpayer for the purpose of computing gain, to be assessed,
2 collected, and paid in the same manner as if it were a tax
3 imposed by this chapter. Such penalty may be assessed
4 or a proceeding in court for the collection of such penalty
5 may be begun without assessment at any time within one
6 year after the date of such certification."

7 TITLE III—SUSPENSION OF PROFIT-LIMIT-
8 ING PROVISIONS OF THE VINSON ACT

9 SEC. 301. The provisions of section 3 of the Act of
10 March 27, 1934 (48 Stat. 505; 34 U. S. C., sec. 496),
11 as amended, beginning with the first proviso thereof, and
12 section 2 (b) of the Act of June 28, 1940 (Public, Num-
13 bered 671, Seventy-sixth Congress, third session), shall not
14 apply to contracts or subcontracts for the construction or
15 manufacture of any complete naval vessel or any Army or
16 Navy aircraft, or any portion thereof, which are entered
17 into or completed in any taxable year to which the excess
18 profits tax provided in subchapter E of Chapter 2 of the
19 Internal Revenue Code is applicable or would be applicable
20 if the contractor or subcontractor, as the case may be, were a
21 corporation, and any agreement to pay into the Treasury
22 profit in excess of 10 per centum, 12 per centum, or 8 per
23 centum, as the case may be, of the contract prices of any such
24 contracts or subcontracts shall be without effect.

TITLE IV—AMENDMENTS TO INTERNAL REVENUE CODE

SEC. 401. EARNINGS AND PROFITS OF CORPORATIONS.

(a) UNDER INTERNAL REVENUE CODE.—Section 115 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(l) EFFECT ON EARNINGS AND PROFITS OF RECOGNITION OF GAIN OR LOSS AND OF RECEIPT OF TAX-FREE DISTRIBUTIONS.—Gain or loss from the sale or other disposition (after February 28, 1913) of property by a corporation shall increase or decrease its earnings and profits (for any period beginning after February 28, 1913) to, but not beyond, the extent to which such gain or loss was (under the law applicable to the year in which such sale or disposition was made) recognized in computing net income, or (in the case of loss) would have been so recognized under such law if under such law the basis (including a substituted basis) for determining the loss had been the fair market value on March 1, 1913, if higher than a basis otherwise determined. Where in determining the adjusted basis used in computing such recognized gain or loss, the adjustment to the basis (or, in the case of loss, the fair market value on March 1, 1913, if such value is higher than the basis) is different from the adjustment to such basis proper for the purpose of determining earnings and profits,

then the latter adjustment shall be used in determining the increase or decrease above provided. Where a corporation receives (after February 28, 1913) a distribution from a second corporation which (under the law applicable to the year in which the distribution was made) was not a taxable dividend to the shareholders of the second corporation, the amount of such distribution shall not increase the earnings and profits (for any period beginning after February 28, 1913) of the first corporation in the following cases:

"(1) No such increase shall be made in respect of the part of such distribution which (under such law) is directly applied in reduction of the basis of the stock in respect of which the distribution was made.

"(2) No such increase shall be made if (under such law) the distribution causes the basis of the stock in respect of which the distribution was made to be allocated between such stock and the property received. Nothing in this subsection shall affect the extent to which accumulated earnings and profits are increased by reason of increase in value of property accrued before March 1, 1913."

(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by subsection (a) shall be applicable to taxable years beginning after December 31, 1938.

(c) UNDER PRIOR ACTS.—The following rules shall be applied, for the purposes of the Revenue Act of 1938 or

1 any prior Revenue Act as if such rules were a part of each
2 such Act when it was enacted, in determining the earnings
3 and profits of a corporation for any period after February
4 28, 1913: Gain or loss from the sale or other disposition
5 (after February 28, 1913) of property by a corporation
6 shall increase or decrease its earnings and profits (for any
7 period beginning after February 28, 1913) to, but not
8 beyond, the extent to which such gain or loss was (under
9 the law applicable to the year in which such sale or dis-
10 position was made) recognized in computing net income,
11 or (in the case of loss) would have been so recognized under
12 such law if under such law the basis (including a substituted
13 basis) for determining the loss had been the fair market
14 value on March 1, 1913, if higher than a basis otherwise
15 determined. Where in determining the adjusted basis used
16 in computing such recognized gain or loss, the adjustment
17 to the basis (or, in the case of loss, the fair market value
18 on March 1, 1913, if such value is higher than the basis)
19 is different from the adjustment to such basis proper for
20 the purpose of determining earnings and profits, then the
21 latter adjustment shall be used in determining the increase
22 or decrease above provided. Where a corporation receives
23 (after February 28, 1913) a distribution from a second
24 corporation which (under the law applicable to the year
25 in which the distribution was made) was not a taxable

1 dividend to the shareholders of the second corporation, the
2 amount of such distribution shall not increase the earnings
3 and profits (for any period beginning after February 28,
4 1913) of the first corporation in the following cases:

5 (1) No such increase shall be made in respect of
6 the part of such distribution which (under such law) is
7 directly applied in reduction of the basis of the stock
8 in respect of which the distribution was made.

9 (2) No such increase shall be made if (under such
10 law) the distribution causes the basis of the stock in
11 respect of which the distribution was made to be allocated
12 between such stock and the property received.

13 Nothing in this subsection shall affect the extent to which
14 accumulated earnings and profits are increased by reason
15 of increase in value of property accrued before March 1,
16 1913.

17 **SEC. 402. TAX OF SHAREHOLDERS OF PERSONAL SERVICE**
18 **CORPORATIONS.**

19 The Internal Revenue Code is amended by inserting
20 after section 373 the following new Supplement:

21 **"Supplement S—Tax of Shareholders of Personal Service**
22 **Corporations**

23 **"SEC. 391. APPLICABILITY OF SUPPLEMENT.**

24 "If a personal service corporation (as defined in section
25 723) is exempt under such section for any taxable year from

1 the excess profits tax imposed by such subchapter, the pro-
2 visions of this Supplement shall be applicable with respect
3 to each shareholder of such corporation who was a share-
4 holder in such corporation on the last day of such taxable
5 year of the corporation.

6 **"SEC. 392. UNDISTRIBUTED SUPPLEMENT S NET INCOME.**

7 "For the purposes of this chapter, the term 'undis-
8 tributed Supplement S net income' means the Supplement
9 S net income (as defined in section 393) minus the amount
10 of the dividends paid during the taxable year. For the
11 purposes of this section the amount of dividends paid shall
12 be computed in the same manner as provided in subsections
13 (d), (e), (f), (g), (h), and (i) of section 27 for the
14 purpose of the basic surtax credit provided in section 27.

15 **"SEC. 393. SUPPLEMENT S NET INCOME.**

16 "For the purposes of this chapter 'Supplement S net
17 income' means the net income, except that there shall be
18 allowed as additional deductions—

19 "(a) The Federal income tax payable under this chap-
20 ter for the taxable year; and

21 "(b) In lieu of the deduction allowed by section 23
22 (q), contributions or gifts, payment of which is made within
23 the taxable year, to or for the use of donees described in
24 section 23 (q) for the purposes therein specified, to an
25 amount which does not exceed 15 per centum of the cor-

1 poration's net income, computed without the benefit of this
2 subsection and section 23 (q).

3 "SEC. 394. CORPORATION INCOME TAXED TO SHAREHOLD-
4 ERS.

5 "(a) GENERAL RULE.—The undistributed Supplement
6 S net income of a personal service corporation shall be in-
7 cluded in the gross income of the shareholders in the manner
8 and to the extent set forth in this Supplement.

9 "(b) AMOUNT INCLUDED IN GROSS INCOME.—Each
10 shareholder who, on the last day of the taxable year of the
11 corporation, was a shareholder in such corporation shall in-
12 clude in his gross income, as a dividend, for the taxable
13 year in which or with which the taxable year of the corpora-
14 tion ends, the amount he would have received as a dividend
15 if on such last day there had been distributed by the corpo-
16 ration, and received by the shareholders, an amount equal
17 to the undistributed Supplement S net income of the corpo-
18 ration for its taxable year.

19 "(c) CREDIT FOR OBLIGATIONS OF THE UNITED
20 STATES AND ITS INSTRUMENTALITIES.—Each such share-
21 holder shall be allowed a credit against net income, for the
22 purposes of the tax imposed by section 11, 13, 14, 201, 204,
23 207, or 362, of his proportionate share of the interest
24 specified in section 25 (a) (1) or (2) which is included
25 in the gross income of the corporation.

1 "(d) EFFECT ON CAPITAL ACCOUNT OF PERSONAL
2 SERVICE CORPORATION.—An amount equal to the undis-
3 tributed Supplement S net income of the personal service
4 corporation for its taxable year shall be considered as paid
5 in as of the close of such taxable year as paid-in surplus
6 or as a contribution to capital, and the accumulated earn-
7 ings and profits as of the close of such taxable year shall
8 be correspondingly reduced, if such amount or any portion
9 thereof is required to be included as a dividend in the gross
10 income of the shareholders.

11 "(e) BASIS OF STOCK IN HANDS OF SHAREHOLDERS.—
12 The amount required to be included in the gross income of
13 the shareholder under subsection (b) shall, for the purpose
14 of adjusting the basis of his stock with respect to which the
15 distribution would have been made (if it had been made),
16 be treated as having been reinvested by the shareholder as a
17 contribution to the capital of the corporation; but only to the
18 extent to which such amount is included in his gross income
19 in his return, increased or decreased by any adjustment of
20 such amount in the last determination of the shareholder's
21 tax liability, made before the expiration of seven years after
22 the date prescribed by law for filing the return.

23 "(f) PERIOD OF LIMITATION ON ASSESSMENT AND
24 COLLECTION.—For period of limitation on assessment and
25 collection without assessment, in the case of failure to include

1 in gross income the amount properly includible therein
2 under subsection (b), see section 275 (d).

3 "SEC. 395. NONRESIDENT ALIEN INDIVIDUALS AND FOR-
4 EIGN CORPORATIONS.

5 "In the case of a shareholder taxable under section
6 211 (a) or 231 (a), his distributive share of the undis-
7 tributed Supplement S net income of the corporation required
8 to be included in the gross income shall be considered as a
9 dividend received by him from sources within the United
10 States.

11 "SEC. 396. SHAREHOLDER'S TAX PAID BY CORPORATION.

12 "If a personal service corporation is exempt for any
13 taxable year under section 723 from excess profits tax,
14 it shall, at the time of filing its return, pay to the col-
15 lector an amount equal to the amount that would be re-
16 quired by section 143 (b) or section 144 to be deducted and
17 withheld by the corporation if any amount required by
18 this Supplement to be included in the gross income of
19 the shareholder had been, on the last day of the taxable
20 year of the corporation, paid to the shareholder in cash
21 as a dividend. Such amount shall be collected and paid
22 in the same manner as the amount of tax due in excess
23 of that shown by the taxpayer upon a return in the case
24 of a mathematical error appearing on the face of the return."

1 **SEC. 403. STATUTE OF LIMITATIONS IN CASE OF CON-**
2 **STRUCTIVE DIVIDENDS.**

3 Section 275 (d) of the Internal Revenue Code (relat-
4 ing to statute of limitations) is amended to read as follows:
5 "(d) CONSTRUCTIVE DIVIDENDS.—If the taxpayer
6 omits from gross income an amount properly includible
7 therein—
8 "(1) FOREIGN PERSONAL-HOLDING COMPANIES.—
9 Under section 337 (b) (relating to the inclusion in the
10 gross income of United States shareholders of their
11 distributive shares of the undistributed Supplement P
12 net income of a foreign personal-holding company); or
13 "(2) PERSONAL SERVICE CORPORATIONS.—Under
14 section 394 (b) (relating to the inclusion in the gross
15 income of shareholders of their distributive shares of
16 undistributed Supplement S net income of a personal
17 service corporation);
18 the tax may be assessed, or a proceeding in court for the
19 collection of such tax may be begun without assessment, at
20 any time within seven years after the return was filed."

21 **SEC. 404. CREDIT OF NONRESIDENT ALIEN OF TAX AS**
22 **SHAREHOLDER IN PERSONAL SERVICE COR-**
23 **PORATION.**

24 Section 216 of the Internal Revenue Code (relating to
25 credit against tax of a nonresident alien individual) is

amended by adding at the end thereof a new sentence to read as follows: "A nonresident alien individual shall be allowed as a credit against his tax the amount required by section 396 to be paid by the personal service corporation of which he is a shareholder with respect to his tax liability under Supplement S.".

SEC. 405. CREDIT OF FOREIGN CORPORATION OF TAX AS SHAREHOLDER IN PERSONAL SERVICE CORPORATION.

Section 234 of the Internal Revenue Code (relating to credits against tax of foreign corporations) is amended by adding at the end thereof a new sentence to read as follows: "A foreign corporation shall be allowed as a credit against its tax the amount required by section 396 to be paid by the personal service corporation of which it is a shareholder with respect to its tax liability under Supplement S.".

SEC. 406. CHANGE OF NAME OF EXISTING EXCESS-PROFITS TAX.

(a) Subchapter B of Chapter 2 of the Internal Revenue Code is amended, effective February 10, 1939, by striking out, in the heading of such subchapter, "EXCESS-PROFITS TAX" and inserting in lieu thereof "DECLARED VALUE EXCESS-PROFITS TAX", and by striking out, in the first paragraph of section 600 of such

1 subchapter, "excess-profits tax" and inserting in lieu thereof
2 "declared value excess-profits tax".
3 (b) Section 23 (c) (1) of the Internal Revenue Code
4 (relating to taxes not deductible in computing net income)
5 is amended, effective February 10, 1939, to read as follows:
6 "(1) Federal income, war-profits, and excess-profits
7 taxes (other than the excess-profits tax imposed by section
8 106 of the Revenue Act of 1935 (49 Stat. 1019), or by
9 section 602 of the Revenue Act of 1938 (52 Stat. 567), and
10 other than the declared value excess-profits tax imposed by
11 section 600);".

12 **SEC. 407. PUBLICITY OF RETURNS OF SUBCHAPTER E**
13 **EXCESS PROFITS TAX.**

14 Section 55 (a) (2) of the Internal Revenue Code is
15 amended by striking out "Subchapters A, B, and D of Chap-
16 ter 2" and inserting in lieu thereof "Subchapters A, B, D,
17 and E of Chapter 2".

18 **SEC. 408. TECHNICAL AMENDMENTS.**

19 (a) LIMITATION ON ASSESSMENT AND COLLEC-
20 TION.—Section 3312 of the Internal Revenue Code (relat-
21 ing to period of limitation on assessment and collection of
22 taxes) is amended by striking out "Except in the case of
23 income, estate, and gift taxes" and inserting in lieu thereof
24 "Except in the case of income, war-profits, excess-profits,
25 estate, and gift taxes".

1 (b) ABATEMENT, CREDIT, AND REFUND OF TAXES.—
2 Section 3770 (a) (1) of the Internal Revenue Code (re-
3 lating to authority to abate, credit, or refund tax) is
4 amended by striking out "Except as otherwise provided by
5 law in the case of income, estate, and gift taxes" and
6 inserting in lieu thereof "Except as otherwise provided by
7 law in the case of income, war-profits, excess-profits, estate,
8 and gift taxes".

Passed the House of Representatives August 29, 1940.

Attest: SOUTH TRIMBLE,

Clerk.

76TH CONGRESS
2D SESSION

H. R. 10413

AN ACT

To provide revenue, and for other purposes.

AUGUST 30 (legislative day, AUGUST 5), 1940

Read twice and referred to the Committee on Finance

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 10, 1940

Secretary Morgenthau

FROM W. H. Hadley

TREASURY BONDS

Maturity	Coupon	Yield	Approx. Mkt. Price	Estimated Premium
11 3/4-13 3/4 yrs. (6/15/52-54)	2 %	1.91	100.31	31/32nds
12 - 14 yrs. (9/15/52-54)	2 %	1.92	100.27	27/32nds
13 1/2-16 1/2 yrs. (3/15/54-57)	2-1/8%	2.01 2.03	101.11 101.4	1 pt. 11/32 1 pt. 4/32
14 - 16 yrs. (9/15/54-56)	2-1/8%	2.01 2.03	101.12 101.4	1 pt. 12/32 1 pt. 4/32
14 1/4-16 1/4 yrs. (12/15/54-56)	2-1/8%	2.02 2.04	101.9 101.1	1 pt. 9/32 1 pt. 1/32
16 1/2-19 1/2 yrs. (3/15/57-60)	2-1/4%	2.15 2.17	101.12 101.4	1 pt. 12/32 1 pt. 4/32
16 3/4-18 3/4 yrs. (6/15/57-59)	2-1/4%	2.14 2.16	101.12 101.4	1 pt. 12/32 1 pt. 4/32
17 - 19 yrs. (9/15/57-59)	2-1/4%	2.15 2.17	101.4 100.28	1 pt. 4/32 28/32nds

TREASURY NOTES

5 years	7/8%	0.74 0.75	100.21 100.20	21/32nds 20/32nds

12-14

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 10, 1940

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Pricing of Proposed New Treasury Securities

I. National Defense Notes

The pricing of National Defense notes (Treasury notes, National Defense Series,) presents special difficulties. This is because (1) they would presumably be issued as fully taxable, while all outstanding Treasury notes are fully tax exempt, and (2) their "rights" value at maturity would be subject to grave question -- a question which would probably not be finally resolved until the actual maturity of the notes. Making allowance for both of these factors, we believe it would be advisable to set coupon rates as indicated in the following table for National Defense notes of 1, 2, 3, 4, and 5 years maturity, respectively, and estimate that such notes would probably sell at the yield bases and premiums indicated. These estimates are, of course, subject to a much wider margin of error than would be true in the case of obligations already traded in the market.

Maturity	Coupon	Probable yield basis	Probable premium
	(Percent)		
1 year	1/4	.15	3/32
2 year	1/2	.30	13/32
3 year	3/4	.59	15/32
4 year	1	.77	29/32
5 year	1-1/8	.94	29/32

II. Treasury Bonds

The estimated yield bases and probable premiums for Treasury bonds (comparable with those at present outstanding) with 2 percent and 2-1/4 percent coupons, respectively, and with maturities as long as such coupons would "carry", are as follows.

Bonds with 2-year call period:

Coupon rate	Term	Probable yield basis (Percent)	Estimated premium
2 percent	11-1/2 -- 13-1/2 year	1.89	1-3/32
2-1/4 percent	17 -- 19 year	2.17	1-4/32

Bonds with 3-year call period:

Coupon rate	Term	Probable yield basis (Percent)	Estimated premium
2 percent	10-1/2 -- 13-1/2 year	1.89	1-2/32
2-1/4 percent	16 -- 19 year	2.16	1-7/32

September 10, 1940.
12:05 p.m.

H.M.Jr: Hello.

Operator: Senator LaFollette.

H.M.Jr: Hello.

Sen. R. LaFollette: Yes, Henry.

H.M.Jr: Hello Bob. Well, I've got good news.

L: Good.

H.M.Jr: Are you alone?

L: Yes I am.

H.M.Jr: Well I just talked with the President and gave him a thumbnail sketch of your Bill.

L: Yes.

H.M.Jr: And he approved it a hundred per cent.

L: Fine.

H.M.Jr: He approved that John Sullivan, tomorrow, go on record, as to what the Treasury thinks of the Bill.

L: Fine.

H.M.Jr: See.

L: That's swell.

H.M.Jr: And he himself is going to get in touch with you and with Jimmy Byrnes and the Democratic leaders.

L: That's fine.

H.M.Jr: I told him that we here thought the only chance for success was secrecy.

L: That's right.

H.M.Jr: That you agreed to it, and that he'll be in touch with you himself the first thing in the morning.

L: All right, and I won't say a word to anybody Henry.

H.M.Jr: No, and I'm not going to do another thing now except that I consider that the next move is up to the President.

L: That's right.

H.M.Jr: And that John will do his stuff tomorrow.

L: Fine. That's great Henry.

H.M.Jr: Well - and from now on I'm again interested.

L: O.K. fine.

H.M.Jr: But I thought the President might say something about eight per cent was too much because heretofore he has always argued for six.

L: Yes.

H.M.Jr: But no he approved of everything.

L: Well that's swell.

H.M.Jr: He approved - as I understand you've been satcheting between seven and eight.

L: Yes, and also I think now we've got liberal additional exemption in there of $5,000, so that it certainly can't be said the Bill is high.

H.M.Jr: Well, anyway John's working with you on the details.

L: That's right.

H.M.Jr: And you know where the President stands and he said he will call you tomorrow.

L: Fine, Henry. Thank you so much.

H.M.Jr: Thank you.

L: O.K.

H.M.Jr: Goodbye.

L: Goodbye.

September 10, 1940.
4:15 p.m.

H.M.Jr: .....desk with me.

Ambassador Lothian: Yes.

H.M.Jr: And I'm really quite upset at the thought that he is thinking of leaving.

L: Oh well that's a very important factor, whether he's going to or not.

H.M.Jr: And the question, confidentially, of oil was brought up at Cabinet last Friday.

L: Yes.

H.M.Jr: By Mr. Hull, and the President asked that I look after it for the time being for him.

L: Yes.

H.M.Jr: And Sir Agnew is the first person that your Government has sent here that I can talk to besides yourself.

L: Yes. Well now as far as I'm concerned, well I'll recommend him to stay here as long as you need him in the ordinary sense of the word, but of course what I feel is it's very important that he should go back to London fairly soon in order to explain the position there, the whole position here and what we think here.

H.M.Jr: Well, let him do it in a cable.

L: Do what?

H.M.Jr: Let him do it in a cable, but don't send him back just now.

L: I see. Well anyhow I won't do it immediately, but the whole thing now heads up in you, is that right?

H.M.Jr: Well for the moment.

L: For the moment, yes.

H.M.Jr: I mean the President asked me - Mr. Hull raised the

question, and the President said well he wanted me to take care of it for the time being.

L: Yes.

H.M.Jr: And you know the peculiar set-ups we have here.

L: Yes.

H.M.Jr: He seemed tied up. Anyway for the time being his answer was - the question was raised and I was to look after it.

L: Yes. Let me - as long as you want to discuss things with him, that's all right, but of course he's got a big job over there, he's got to - he's head of the Petroleum Board and I don't underrate the importance of having somebody who's been through all these discussions over there and explaining things to them, so that, I mean I don't think he could stay here in any sense of the word indefinitely.

H.M.Jr: Well I don't want him, but I'd like to wait certainly several weeks until this thing clears.

L: Yes.

H.M.Jr: And until we know what's going to happen to the Dutch East Indies.

L: Yes.

H.M.Jr: And what's going to happen - on the whole oil question.

L: Yes. You see for instance I understand there's a possibility of further action being taken here, it's been under consideration about a number of things, but that of course immediately precipitates trouble for us at the other end.

H.M.Jr: Well of course I can't talk - before we do something on oil I think we'll get somewhere on scrap iron.

L: Yes. Anyhow I'll leave the matter for the present.

H.M.Jr: Let's leave it on a week to week basis. How would that be?

L: Yes, all right Mr. Secretary, I'll do that. I don't underrate the importance of having anybody at the other end. We've got to do an awful lot to get them along on the other side, you see.

H.M.Jr: Well, it's only a little thing but now, look. No oil has left this country for the week ending September 7th for Spain.

L: Yes.

H.M.Jr: When these ships come over, of course Sir Andrew was here, he and I - when he saw his Government didn't know but the Texas Company had lubricating oil and wax.

L: Yes.

H.M.Jr: He struck that off the navicert.

L: Yes, that's right.

H.M.Jr: Well he couldn't do that from London.

L: No, on the other hand it's the other ocean which is going to be the critical ticklish place.

H.M.Jr: Which one? Which ocean?

L: Pacific.

H.M.Jr: Well, but that policy will - as far as we're concerned, it's going to be made here, and I think it's important that he be here while it's being made.

L: But it's also very important that we don't run out on you.

H.M.Jr: Run out on what?

L: On what you're doing here.

H.M.Jr: Well -

L: We've got to persuade them - the Dutch - somehow not to begin, not to yield, while you're putting pressure - that's going to make a very bad impression on public opinion here you see. However, if you want, we'll do nothing for the moment.

H.M.Jr: Well let's leave it on a week to week basis.

L: Yes, and then I think I'll talk to Agnew and then I'll come down and have a talk to you about the whole thing.

H.M.Jr: Will you?

L: I'll do that Mr. Secretary.

H.M.Jr: But we'll leave it that way on a week to week basis.

L: All right Mr. Secretary.

H.M.Jr: Thank you.

L: Goodbye.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

MEMORANDUM
September 10, 1940

To: Mrs. Klotz

From: Mr. Murphy

There is attached for the information of the Secretary a copy of our booklet entitled "Know Your Money."

KNOW YOUR MONEY

HOW TO KNOW COUNTERFEIT MONEY
WHAT TO DO ABOUT IT

HOW TO GUARD AGAINST FORGED
GOVERNMENT CHECKS

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UNITED STATES SECRET SERVICE
TREASURY DEPARTMENT
WASHINGTON

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10, 1940.

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DOD DIR 5200.9 (9/27/58)

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Know Your Money

The United States Secret Service is conducting a Nation-wide educational program as a preventive measure in dealing with a national crime problem—counterfeiting. Our aim is to eliminate this crime.

The purpose of this booklet is to safeguard the public. Counterfeiters and forged check passers cannot cheat anyone who knows his money and is always on the alert.

Two kinds of money are used in the United States—paper and metal. Paper money, known as notes or bills, is made at the Bureau of Engraving and Printing in Washington, D. C. Coin, or metal money, is made at United States Mints in Philadelphia, Denver, and San Francisco.

The Secretary of the Treasury has approved the publication of this booklet, and has authorized the use of motion pictures, for the purpose of educating the public as to the dangers of counterfeit money and forged Government checks.

The United States Secret Service is grateful for the valuable cooperation which it has always received from your police and peace officers. We are grateful for their active participation in this "Know Your Money" educational campaign.

We earnestly solicit the assistance of all citizens in this effort to prevent crime. Without your help and that of your local law-enforcement officers, school boards, and bankers, our task would be more difficult.

If you learn to know your money, you cannot be defrauded by counterfeit coins or bills. It is easy to learn how to tell good money from bad. Many thousands of dollars are lost each year by persons who cannot afford the loss, because they do not know their money.

The few simple rules given in this booklet will help you to detect bad money. Keep this booklet, study it. Show it to the members of your family, show it to your friends, discuss it with them. Know your money!

Frank J. Wilson

Chief,
United States Secret Service.

It is a violation of law to make reproductions of any nature of good or bad money. Reproductions in this book are made under the authority of the Treasury Department. They must not be copied.

DOD DIR. 5200.9 (9/27/58)

First United States Silver Money

From painting by John Ward Dunsmore

Alexander Hamilton Tobias Lear Thomas Jefferson David Rittenhouse Adam Eckfeldt
Mrs. Hamilton George Washington Martha Washington Henry Voight

The Story of Money

"What shall we use for money?"

A very modern question, also a very old one. It was one of the greatest hindrances to early trade. In ancient times, when men first began to buy and sell, what to use for money was a big problem.

Even before history began to be recorded, perhaps before there was even any thought of such things as banks or money, the need existed for a medium of exchange—for something to use for money.

In the time of the poet Homer, who wrote the story of the ten years' war of Troy, oxen were measures of value. A suit of golden armor was worth a hundred oxen. That was 900 years before the birth of Christ. In ancient Crete, sheep were money, and the ancient Jews measured wealth in flocks and herds. The natives of the island of Yap, in the Pacific Ocean, even in recent times, used large stone wheels for money. Our own American Indians used bead work, made of shells, called wampum. This was used for money by colonial Americans until they themselves got to making it so cheaply that it lost its value as a medium of exchange. Lacking metal or paper money, they used not only wampum but beaver skins, grain, and other staples. Tobacco was money in Virginia for more than a hundred years. Cloth, salt, hides, nearly anything that could be traded, has had a turn at being used for money.

Metals were used for money in ancient Egypt as early as 2500 B. C. In 2100 B. C. cubes of gold were money in China. The Old Testament (Genesis 33:16) tells of merchants using gold and silver bullion for money: "Abraham weighed unto Ephron 400 shekels of money, current money with the merchant." It was to pay for a burial place for Abraham's family. This was about 3,600 years ago. Babylonian records show that about 550 B. C. the temples were also the banks, took money on deposit, and lent it at interest.

The first coiners of gold and silver known to history were the Lydians, in Asia Minor. The name of their king, Croesus, became a synonym for great wealth. This was about 550 B. C. The Greeks learned coinage from Lydia, and the art was taken to Rome from Greece. Metal money in ancient times was coined as it is now, by means of dies or stamps. Grecian coins were the best minted and most beautiful of ancient times.

The Chinese were using paper money when Marco Polo visited their country in the thirteenth century. From him we know that the Emperor Kubla Khan, as early as 1273 A. D., issued notes printed on mulberry paper. Each was stamped with the red seal of Kubla, and signed by his treasurers. Counterfeiting then was punished by the headsman's sword. The oldest paper money of which a specimen is known to exist is the "Kwan" note, first issued in China in 1368 A. D. It was 8½ by 13½ inches, or as wide and a little longer than a sheet of typewriter paper.

Paper money in Europe grew out of the use of letters of credit, which were used in China centuries earlier, and for the same reason—robbers. Metal money was what the robbers wanted, not pieces of paper that no one would cash for them.

The first counterfeiter of minted money is said to have been the Emperor Nero. Since his time counterfeiting has flourished in many nations. United States courts convicted 895 persons of charges of counterfeiting in 1939 on evidence obtained by the Secret Service.

In the early days of our Nation, before United States money was issued, there were in circulation English shillings, French louisdors, and Spanish doubloons, with other units of the money of those nations. This caused confusion and slowed up trade. The dollar was adopted by the Congress in 1785 as the unit of our money, and the decimal system as the method of reckoning. In 1792 the United States monetary system was established, and the United States Mint began coining money at Philadelphia. The first coins minted were handed to the President's wife, Martha Washington, by the first Director of the Mint, David Rittenhouse. This ceremony took place in 1792; the day is not recorded. The coins were half-dimes made from household silver sent from Mount Vernon by President Washington. These half-dimes were not put in circulation. The issue was presented to President Washington by act of Congress; he gave them to his friends as souvenirs. Besides half-dimes, the Congress authorized the issuance of the other metal units of our currency, to be minted from gold, silver, nickel, and copper.

Paper currency was used by our people even before the Declaration of Independence was signed. It was called Continental currency. Its value became so small that "Not worth a Continental." was a common saying. The plates for the first of this money were engraved in 1775 by Paul Revere, who made the famous midnight ride. Paper money also was used after the adoption of the Constitution in 1789. It was not Federal currency but bank notes. Before 1836 these notes were issued by two United States banks established by the Congress. The first bank was closed in 1811, the second in 1836. After 1836, the chief form of paper currency was notes issued by banks operating under charters from the States.

The present system of United States paper money began with the Civil War. Treasury notes were issued under the acr of July 17 and August 5, 1861. The National Bank Act of 1864 provided for national bank notes, issued with United States bonds as security; an amendment in 1908 permitted national bank notes on security other than United States bonds. National bank notes have been in process of retirement since March 1935. Our paper currency took its final form with the adoption of the Federal Reserve Act, December 23, 1913. The first issue of Federal Reserve notes was made November 16, 1914, with the opening of the Federal Reserve banks.

DOD DIR. 5200.9 (9/27/58)

This is a picture of the face of a COUNTERFEIT One Dollar bill. The man who made this counterfeit was arrested, convicted, and sentenced to Leavenworth Penitentiary.

Compare this counterfeit with a *genuine* dollar bill. Look at the portrait of Washington. See how flat it is compared with the genuine. Note that this counterfeit portrait is not life-like. The eyes are not clear, distinct. The background around the head is not clear and even, and is much darker than the background on a genuine bill. The fine lines that form the small squares are barely noticeable, and many of the squares are filled with ink.

Study the genuine bill, feature by feature. The portrait of WASHINGTON appears ONLY on ONE DOLLAR bills. Look at this portrait carefully. See how lifelike it is on the genuine bill, how it stands out. The eyes are clear and look right at you.

Examine the border of the counterfeit bill pictured above, compare it with the genuine. You will see that the fine lines that cross and recross are not clear and distinct.

Look at the numbers on this counterfeit bill. You will see that the figures are not printed clearly; the figures on the genuine are printed clearly.

The Treasury SEAL is also a distinguishing feature. In a counterfeit the saw-teeth on the rim of the seal are blunt and uneven. The points are sharp and regular on genuine bills.

Look at all the words printed on a counterfeit. Compare the letters with those on a genuine bill. Often the letters on a counterfeit bill are not perfect.

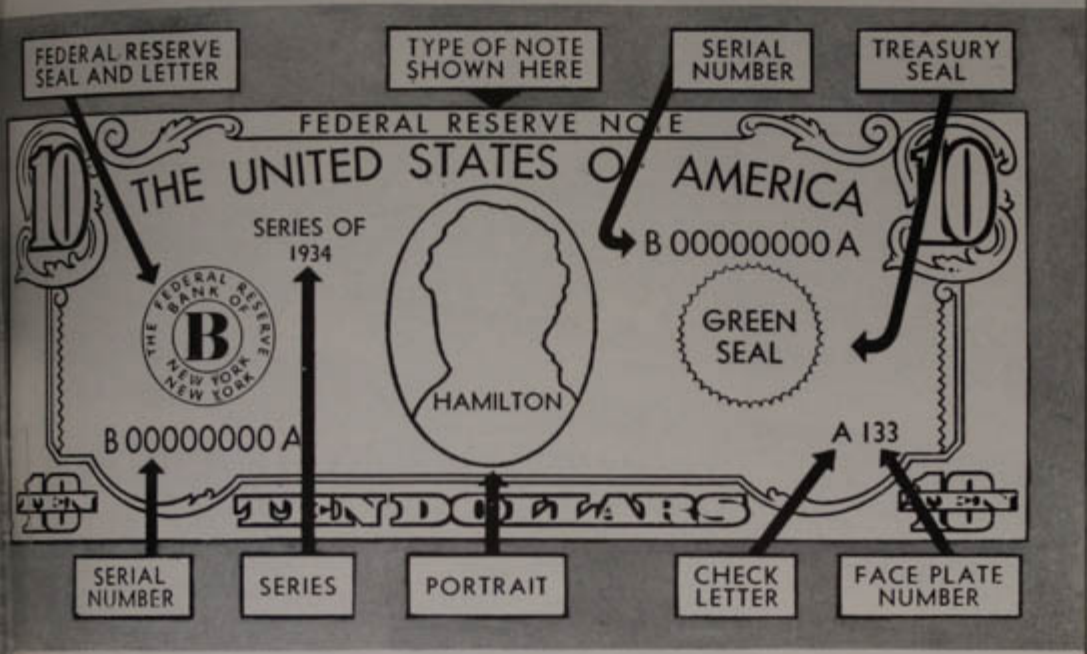
The number under the word "America," to the right of the portrait of Washington, is the SERIAL NUMBER. It is printed again to the left of the portrait, lower down. Every bill has its serial number printed in these two places.

Inside the border, just above and to the left of the large figure "1," you will see a small letter. This letter is the CHECK LETTER, always printed in BLACK. It is printed also in the lower right corner with a number called the FACE PLATE NUMBER, always printed in BLACK. All genuine bills are printed from engraved steel plates. Each plate has its own number.

Study all details, both of this picture of a counterfeit bill and of a genuine bill—it will help you to know good money from bad.

Know Your Money!

Study this diagram—it shows you the position of important features of paper currency



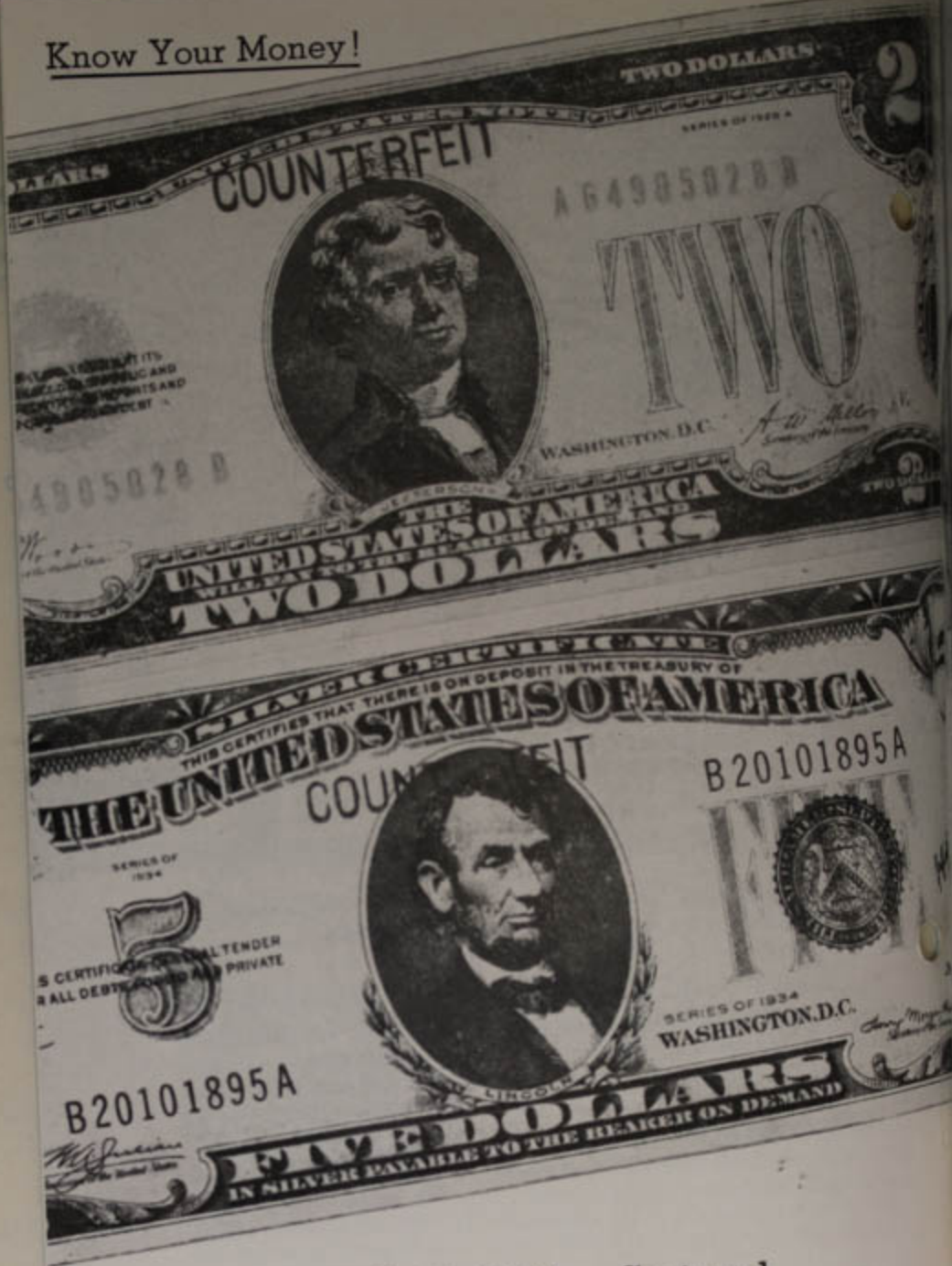
Warning Notices Like This One Are Distributed Throughout the Country by the United States Secret Service

The signature of the Secretary of the Treasury appears at the lower right side on the front of all United States paper money. The signature of the Treasurer of the United States appears on the lower left side.

By studying a genuine bill, noticing all its details and how clearly they are printed, you will learn how good money looks. Then, should you see a counterfeit bill, you will recognize the crudities and defects. By knowing good money from bad, you will protect yourself and others. Know your money!

If You Handle Money in Your Work, Why Not Request Your Nearest Secret Service Office to Place Your Name on its Mailing List to Receive Warning Notices Describing New Counterfeit Issues as They Appear?

Know Your Money!



Counterfeit Bills Seized by Secret Service

The above photographs are of COUNTERFEIT bills seized by the Secret Service. The pictures are enlarged to bring out the many defects. Study them carefully, compare them with genuine money. Note that these counterfeit bills bear the same portraits as the same denominations of genuine money—Jefferson on the $2 bill, Lincoln on the $5 bill. See the next page for information about these portraits, why you should know them, and on what denominations of money other great Americans' portraits appear. The more you know about money, both coins and bills, the better protected you are against counterfeiters. Know your money!

You Should Know These Faces

The portraits of these great men appear on United States money. It is important for your protection that you know on which bills these portraits are printed. Particularly you should be familiar with the $1, $2, $5, $10 and $20 bills. Bills are sometimes raised to represent large denominations. For example, a $1 bill might be altered to represent $10, and if you accepted it as a $10 bill you would lose $9. If you should get what appears to be a $10 bill with the portrait of Washington on it, or a $20 bill with the portrait of Jefferson or Lincoln on it, you should know that these bills have been altered, because the portrait of HAMILTON is always on a $10 bill and JACKSON is always on a $20 bill. Regardless of the type of bill, all bills of the same denomination bear the same portrait, as follows:

Washington appears on all $1 bills.
Jefferson appears on all $2 bills.
Lincoln appears on all $5 bills.
Hamilton appears on all $10 bills.
Jackson appears on all $20 bills.
Grant appears on all $50 bills.
Franklin appears on all $100 bills.

Other paper money issued by the United States bears portraits as follows: $500, *McKinley;* $1,000, *Cleveland;* $5,000, *Madison;* $10,000, *Chase.*

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Three Types of Paper Currency

Our Government now prints three types of currency or paper money: Federal Reserve notes, silver certificates, and United States notes.

Federal Reserve notes, issued by Federal Reserve banks, are secured by gold certificates and other collateral. Silver certificates are secured by silver owned by the Government. United States notes are promissory notes issued by the Treasury. All three of these notes or bills are legal tender for all debts, public and private.

Every note or bill is distinguished by words telling which type it is, printed at the top of the bill on its face or front. The type of each bill is also shown by the color of its Treasury seal and serial numbers. The Treasury seal and serial numbers are GREEN on Federal Reserve notes, RED on United States notes, and BLUE on silver certificates.

Federal Reserve Notes

Federal Reserve notes are placed in circulation by the Federal Reserve banks, each bank placing its own notes in circulation through the banks located in its district. There are 12 Federal Reserve districts. Each district has a number and a corresponding letter of the alphabet for its symbol. See table below:

CITY	SYMBOL LETTER	must correspond with	DISTRICT NUMBER
BOSTON	A		1
NEW YORK	B		2
PHILADELPHIA	C		3
CLEVELAND	D		4
RICHMOND	E		5
ATLANTA	F		6
CHICAGO	G		7
ST. LOUIS	H		8
MINNEAPOLIS	I		9
KANSAS CITY	J		10
DALLAS	K		11
SAN FRANCISCO	L		12

The letter "A" in the regional bank seal on a Federal Reserve note shows that it was issued by the Boston Federal Reserve Bank in the First District. The letter "B" in the regional bank seal and the figure "2" shows that a bill was issued from the Federal Reserve Bank of New York, and so on through the list of the twelve banks to San Francisco, whose symbol letter is "L" and district number is "12." The regional bank seal and the district number on Federal Reserve notes are always BLACK.

This is Counterfeit Money

Study these pictures carefully. Compare them with genuine money. Learn the difference between good and bad money.

Know Your Money!

DOD DIR. 5200.9 (9/27/5

How to Detect Counterfeit Bills

1. KNOW YOUR MONEY! Study the bills you receive, so as to become familiar with the workmanship on them, especially in the portraits.

2. COMPARE a suspected bill with a genuine of the same type and denomination. Observe these things:

PORTRAIT *Counterfeit*—Dull, smudgy, or unnaturally white, scratchy; oval background is dark, lines irregular and broken. Portrait merges into the background. See pictures on next page.

Genuine—Stands out distinctly from the oval background. Eyes appear lifelike. Background is a fine screen of regular lines.

COLORED SEAL *Counterfeit*—Saw-tooth points around rim are usually uneven, broken off. See pictures on next page.

Genuine—Saw-tooth points around rim are even and sharp.

SERIAL NUMBERS *Counterfeit*—Poorly printed, badly spaced, uneven in appearance. See pictures on next page.

Genuine—Figures firmly and evenly printed, well spaced.

PAPER *Counterfeit*—Generally has no silk threads, but these may be imitated by very small red and blue ink lines.

Genuine—Printed on distinctive paper in which very small red and blue silk threads are scattered. The silk threads are not always noticeable on bills that are badly soiled or worn.

3. RUBBING a bill on a piece of paper will *not* prove it is genuine or counterfeit; ink can be rubbed from good bills as well as bad ones.

4. CONSULT an experienced money-handler or police officer to make sure, if you are still in doubt, whether a bill is genuine or counterfeit.

5. REMEMBER, NOT ALL STRANGERS ARE COUNTERFEITERS, BUT ALL COUNTERFEITERS ARE LIKELY TO BE STRANGERS.

The Government never redeems counterfeit money!

Bad Money Looks Bad!

These pictures are enlargements of portions of COUNTERFEIT five and twenty dollar bills. Study them carefully. Compare them with these portions of GENUINE bills. The comparison will make plain to you some of the differences between good and bad money. You will see what is wrong with bad money. Any counterfeit bill, if studied carefully, will be seen to have defects such as are here pictured—smudgy printing, smeared lines, indistinct lettering. When you study a bill, a magnifying glass will help you, but it is not necessary. Most counterfeit bills are imperfect in more than one way. The differences between counterfeit bills and genuine bills may be detected by the naked eye after you have studied the pictures on this and the following page.

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See The Difference!

The pictures above are from photographs of corners of counterfeit five and twenty dollar bills, enlarged to make defects show more plainly. Compare these pictures with the corners of GENUINE bills. See the difference between the fish-net lines on the genuine bills compared with those lines on counterfeit bills. You will notice that the fine lines back of the figures, the lines that form the net or lacelike design, on GENUINE bills are all clear and distinct. Some of the lines on the COUNTERFEIT bills are broken and are NOT clear and distinct.

Study these pictures at reading distance, hold them at arm's length. You will be able to detect the defects that appear on many counterfeit bills.

Most counterfeit bills are printed so POORLY that the defects shown in these pictures may be detected WITH THE NAKED EYE after you have studied these enlargements.

You will find it interesting to study any bill, with or without a magnifying glass.

Know Your Money!

This is the United States Treasury Building in Washington, D. C. It is a hundred years old. Its corner stone was laid in 1839 when President Andrew Jackson was serving his second term. It has grown with the years, now has 475 rooms, and covers the greater part of two city blocks.

Beneath the Treasury Building are safety vaults where the Nation's money and valuable papers are kept. There are eleven vaults, with timelock and electrical protection. Here are stored coin, paper money, and bonds of many millions in value. All the vaults are burglar proof and fireproof. Their alarm systems would immediately tell the captain of the Secret Service guard of any attempt to tamper with a lock or to enter a vault.

There are 296 uniformed guards assigned to the continuous protection of the immense sums in the Treasury at Washington.

39-Ton Treasury Vault Door

Every counterfeit bill is a silent thief

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When Money Burns or Wears Out

This picture shows a five dollar bill that was sent in to be redeemed by the Treasury. It was one of many bills in a bank where there was a fire. Some of the bills were only ashes, but they were replaced by new money, just as this one was. The Treasury has a staff of expert workers who handle money sent in for redemption. Sometimes new money is given for what might seem to be very slight evidence, but the Treasury experts make sure that real money has been destroyed before they issue new money for it.

Our Government's paper money is printed on the best paper, the strongest and most durable that it is possible for paper mills to make. It is against the law to make paper like that used by the Government for money, except for Government purposes and under Government supervision. But even this strong paper wears out with constant passing from hand to hand, from bank to bank and store to store. So the Treasury asks the banks to send in old, worn, torn, or mutilated bills, to be exchanged for new ones. These bills come in by the bundle, many thousands of them monthly. They are inspected, a record is made of them, and then they are destroyed by burning. The average working life of a dollar bill, most used unit of our paper money, is nine months.

So great is the wear and tear on paper money that every day millions of dollars' worth comes in from the banks to the Treasury to be destroyed. As an example, the month of January 1940 is cited. There were destroyed at the Bureau of Engraving and Printing in Washington bills whose face value was $286,172,300, or an average of $11,006,627 for every day of the twenty-six working days in the month.

The picture on the next page shows a quantity of these old bills about to be burned.

Notify your local police immediately if you get a counterfeit bill or coin or if you are suspicious of a person presenting a Government check

Worn and Torn Bills About to be Destroyed.

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But They Didn't Know Their Money!

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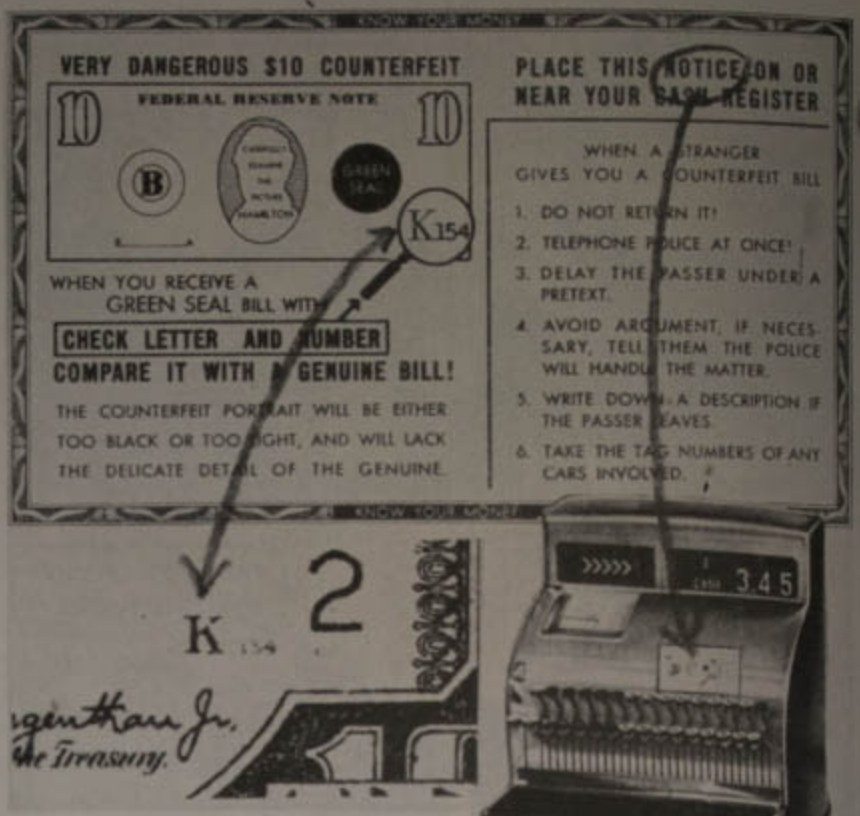

This is a picture of the lower right corner of the counterfeit bill described in the above warning notice. The arrow points to the check letter and plate number "K-154." This letter and number have been used on many counterfeit $10 bills.

Post Notice on Or Near Cash Register

WARNING NOTICES like the one above, describing counterfeit bills appearing or likely to appear in your community, are sent to merchants and other money handlers. These notices should be posted on or near cash registers, as shown above.

Merchants should have their names on the Secret Service mailing list, and receive these notices promptly. There is no charge—simply send your name and address to the Secret Service office nearest you. See inside back cover for addresses of United States Secret Service offices.

Be sure one of these notices is posted on or near your cash register!

SECRET SERVICE AGENT WARNING STREET VENDOR
OF COUNTERFEIT MONEY

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This is one of the two big buildings of the Bureau of Engraving and Printing in Washington, D. C., in which your paper money is made. Here also are printed all the many millions of postage stamps used each year, and all Government bonds and revenue stamps. About 5,000 persons are employed by the Bureau of Engraving and Printing in Washington.

This building is open to visitors from 9:00 to 11:00 a. m. and from 1:00 to 2:30 p. m. on working days, and many thousands of Americans traverse the special visitors' screened corridors each year to view the interesting and intricate processes connected with the engraving and printing of United States currency. The experience is one which will help you to know your money. Metal money is made at the United States Mints in Philadelphia, Denver, and San Francisco.

U. S. Bullion Depository, Fort Knox, Ky.

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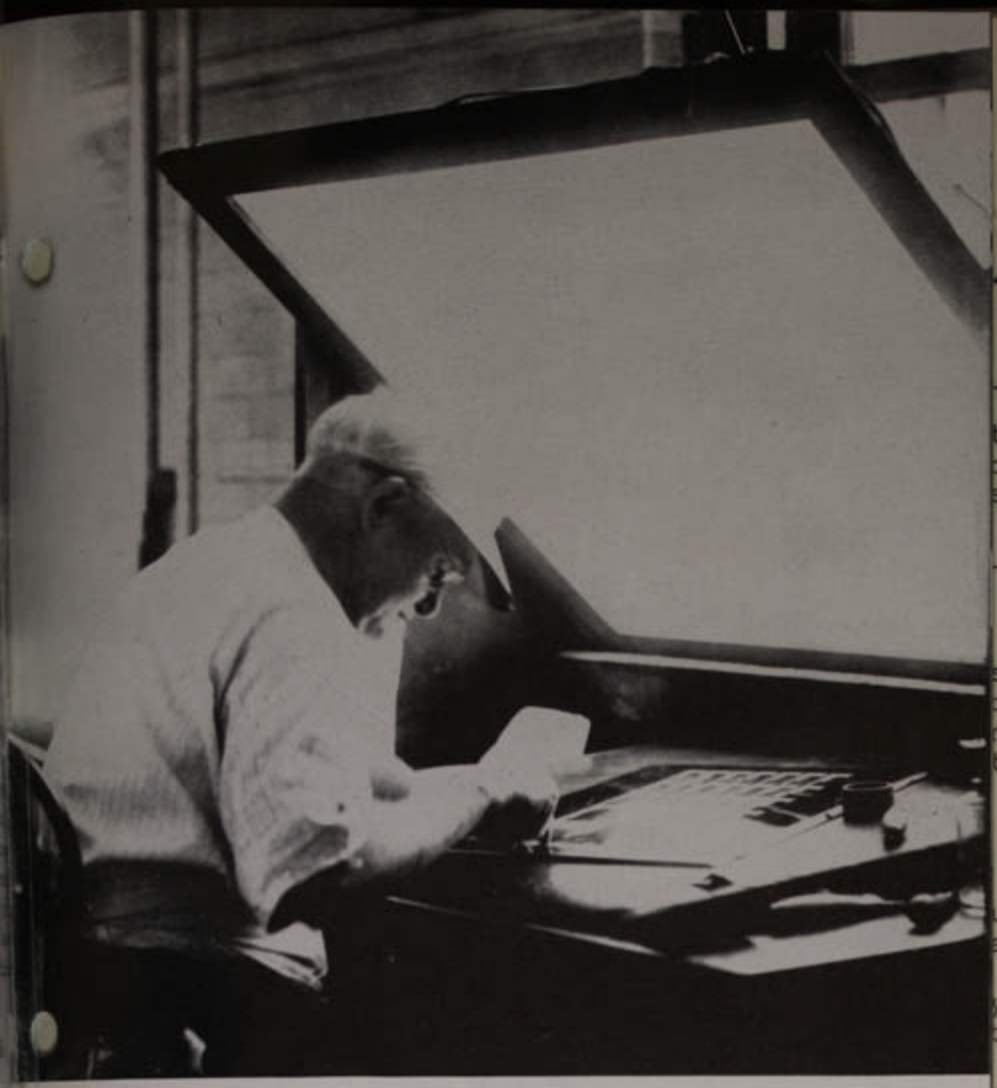

Money Engraver at Work

When a design for a new note or other security of the Government has been decided on by the Bureau of Engraving and Printing and has been approved by the Secretary of the Treasury, the engravers begin their work of making the plates. No one engraver does all the work. Each man is a specialist. One works only on portraits, another on lettering, another on scroll work, and so on. Each engraver, with a steel tool known as a graver, and aided by a powerful magnifying glass, carefully carves his portion of the design into the steel. He knows that one false cut or a slip of his tool, or one miscalculation of width or depth of line, may destroy the merit of his work. A single mistake means that weeks or months of labor will have been in vain. Specimens of the work of Bureau engravers have been awarded highest premiums at all world's fairs and exhibitions since 1872. No counterfeiter ever has duplicated the artistic work of the expert engravers of the Bureau of Engraving and Printing.

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This is the United States mint at San Francisco, where some of our Nation's metal money is produced. Coins are made also at the Denver Mint, but most of the metal money of the United States is the product of the Philadelphia Mint.

More one-cent pieces, or pennies, are made year after year than any other coin. In 1939 more than 118½ million one-cent pieces were made. The mints made 70,511,806 silver coins in 1939, valued at $11,029,058. These were dollars, half-dollars, quarters, and dimes. Nearly 66½ million nickels were made, worth $3,323,470.

United States mints also make coins for other countries. The Philadelphia Mint in 1939 made coins for Honduras, Nicaragua, Colombia, Cuba, and Venezuela.

The United States does not now coin gold into money. Much of the gold owned by our Nation is kept in vaults at Fort Knox, Kentucky. The Nation's biggest store of silver is kept in vaults at West Point, New York. When gold is brought into the United States from other countries, it does not come to the Treasury at Washington. It usually comes to New York, where it is weighed and tested by the United States Assay Office. Gold mined in this country is sent to United States mints and assay offices for refining, then is placed in Government depositories.

Secret Service Man Demonstrating Know Your Money Lessons

This group of counterfeit-conscious citizens is receiving instruction from a Secret Service agent in the detection of counterfeit notes. In all parts of our Nation photographic enlargements of genuine and counterfeit money are being shown by the Secret Service to thousands of tellers, cashiers, merchants, and other money handlers. The enlarged pictures make it easy to discover defects in the counterfeits, and they show how GENUINE money looks, how finely it is printed. The enlarged pictures aid in explaining the various distinguishing characteristics of GENUINE currency, which should be as familiar to everyone as ABC's.

Secret Service agents continue to deliver lectures and to exhibit the Secret Service film, "Know Your Money," which has been seen by millions and will be seen by many millions more.

This long-range program is intended particularly to reach students in high schools. The high-school graduate of today is the business man of tomorrow, and must know his money or lose to counterfeiters.

Know Your Money!

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How to Detect Counterfeit Coins

1. KNOW YOUR MONEY. Study the coins you receive so as to become more familiar with the expert workmanship of the United States mints.

2. RING all coins received on a hard surface. Genuine coins have a clear, bell-like ring. Counterfeit coins have a dull sound.

3. FEEL all coins. Most counterfeit coins have a greasy feeling.

4. COMPARE the reeding. The reeding (the corrugated outer edge) of a suspected coin should especially be compared with a genuine coin. The ridges on a genuine coin are distinct and evenly spaced. On a counterfeit they are poorly spaced and irregular.

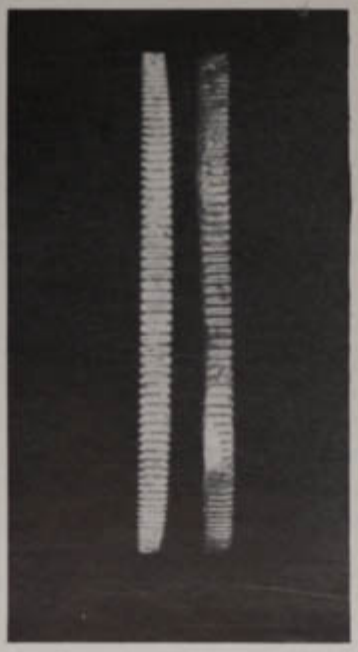
5. CUT the edges of suspected coins. In most counterfeits, the metal is soft and can easily be cut with a knife. Genuine coins are very hard, not easily cut.

6. TEST a suspected silver coin with acid. Scrape the coin, drop a little acid on it. If the coin is counterfeit, it will turn black. This test does not apply to 1¢ and 5¢ coins. The "silver test" solution, which will discolor any coin not made of silver, consists of:

Nitrate of silver	24 grains.
Nitric acid	30 drops.
Water	1 ounce.

You can obtain this "silver test" for a few cents at any drug store.

Reeding on Good Coin (left) and Counterfeit



Silver Test—Black Spot Shows Counterfeit

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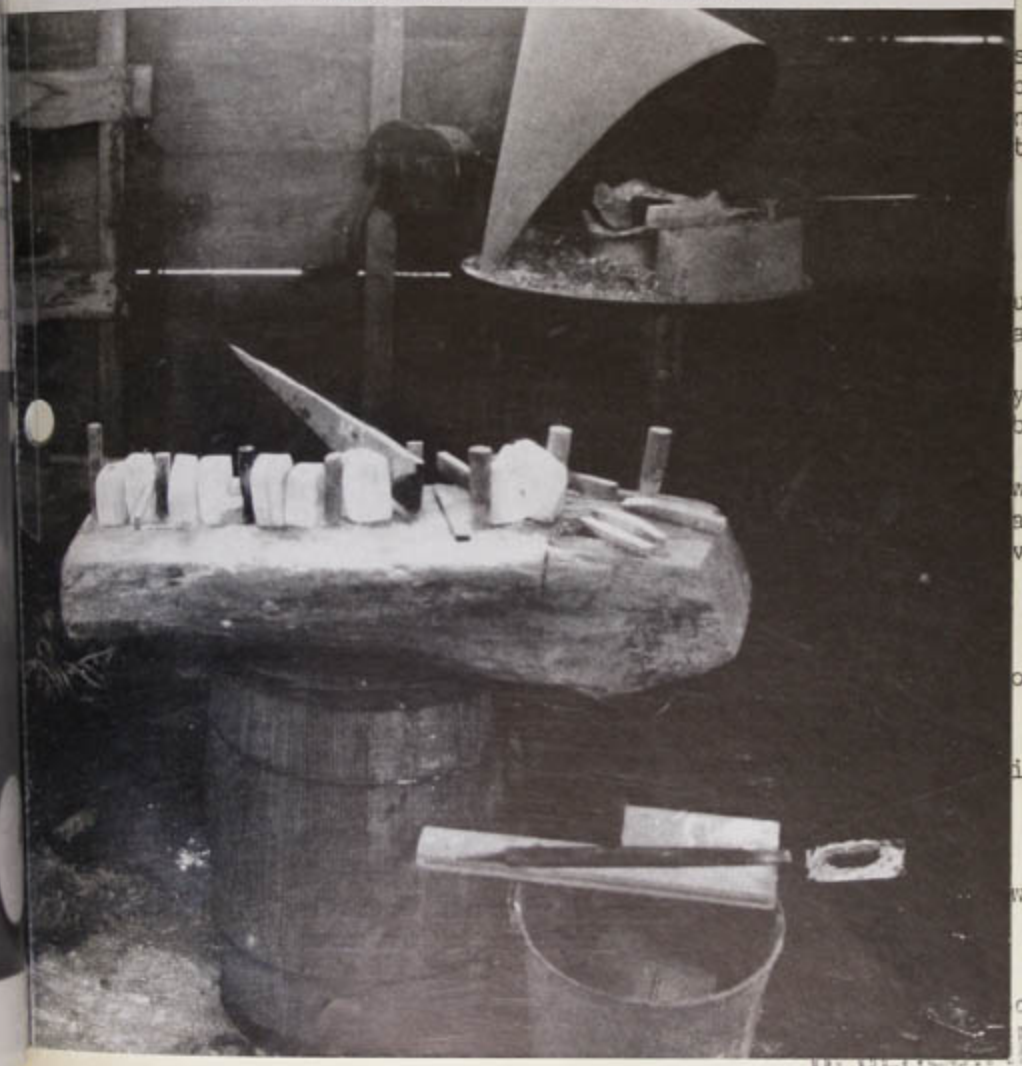
Above—Counterfeit Coin Plant, With Furnace and Molds

Below—Molds, Coins, and Materials From Counterfeiting Plant



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This picture shows currency being taken for shipment from the Bureau of Engraving and Printing in Washington, D. C. This truck carried $7,280,000 when the picture was taken.

The uniformed force of the United States Secret Service in 1939 protected more than 89½ billion dollars' worth of money, stamps, and securities. This vast sum is the yearly average of Government valuables in production, transportation, and storage under protection of the Secret Service.

The uniformed force has 296 members, thoroughly trained and qualified. Equipment used by this force is of the most modern design. The burglar alarm system operated by it is the largest and most efficient in the world. The armored cars used in the protection of money in transportation are bullet proof and radio equipped.

Have Someone at Home the Day You Expect a Government Check!

Important!

Tell the police at once if you know of any counterfeit money, or if you receive any counterfeit money!

HERE'S WHY: Counterfeiting is a felony. The laws of the United States provide that any person who has knowledge of the commission of a felony recognized by the Federal courts, and who does not at once make such knowledge known to the authorities, shall be fined not more than $500, or imprisoned not more than 3 years, or both.

HERE'S WHY: United States law provides that all counterfeits of the money of the United States or any foreign Government, found in the possession of any person without authority from the Secretary of the Treasury, shall be confiscated by an authorized Agent of the Treasury Department. This law states that whoever has custody or control of any such counterfeits and fails or refuses to surrender same to an authorized Treasury agent upon request, shall be fined not more than $100, or imprisoned not more than 1 year, or both.

Under the provisions of the law, the United States Secret Service authorizes banks and peace officers to take possession of all counterfeit Government obligations for surrender to the United States Treasury Department.

Counterfeiter's Printing Press and Product

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Beware of Forged Government Checks

1. KNOW YOUR INDORSERS! Protect yourself and your employer from losses resulting from forged Government checks.

2. INSIST that all strangers presenting Government checks indorse such checks in your presence and write their addresses below their indorsements.

3. DEMAND proper identification when accepting any Government check. WPA employees carry official identification cards. Examine those cards before cashing any WPA checks. Look for payee's signature, WPA number, or description. Compare number on card with number opposite payee's name on check. (See pictures on opposite page.) Be sure to compare payee's indorsement on check with signature on identification card.

4. BEWARE of all persons presenting Government checks with addresses far removed from your place of business.

5. MARK on the back of the Government check a brief notation of identification offered, and initials of person who accepts check for payment.

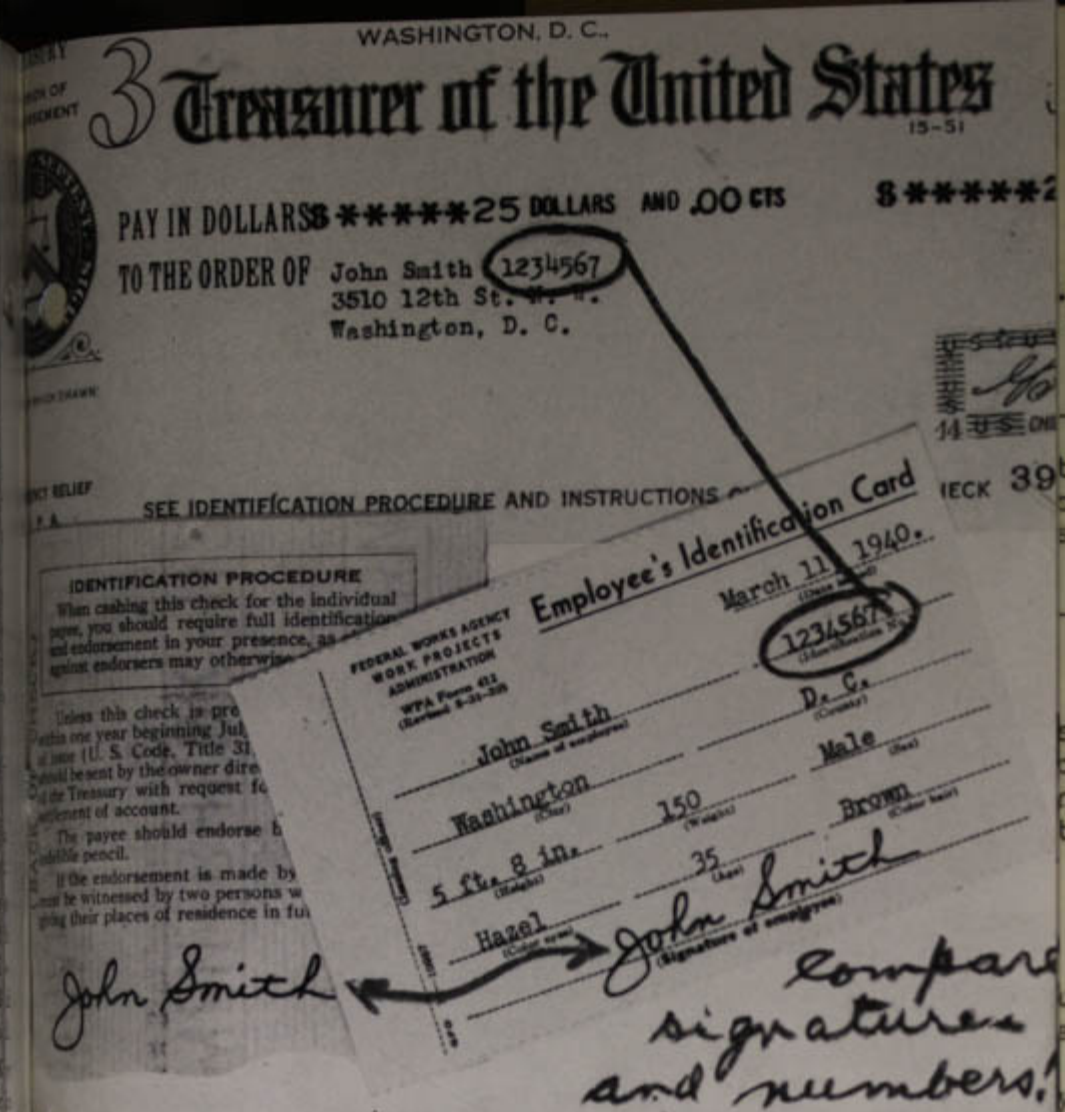
6. CAUTION! Take exactly the same precautions when you accept a Government check as you would in cashing a commercial or personal check.

7. LOSSES may be suffered by persons who cash Government checks which bear forged indorsements. The Government will not honor such checks if the rightful payees have been defrauded.

8. IF YOU EXPECT A CHECK by mail from the Government on a certain day, have a member of your family at home to receive it from the letter carrier or to take it promptly from your mail box in order to avoid theft.

Government check forgers face up to ten years in prison!

Have Someone at Home the Day You Expect a Government Check



If You Cash a Forged Check You Lose!

Study these pictures carefully. Then you will know what to look for to be sure you are not defrauded when you cash a WPA check. Be sure that the identification number on the check is the SAME as the number on the identification card. (See illustration.) Be sure that the name on the BACK of the check is the SAME as the name on the card. Be sure that BOTH signatures are in the same handwriting. (See illustration.) Now look at the curving double arrow and read the instructions printed on the BACK of the check. If you take these precautions you *can't be cheated* with a WPA check.

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Alcatraz Penitentiary in San Francisco Bay, Sometimes called "The Rock"

Federal Penitentiaries

A Federal prison is the place reached eventually by the man who tries to defraud our citizens with counterfeit money. Here are pictures of two of these prisons, which confine many counterfeiters. In 1939 the courts convicted 892 persons of the crime of counterfeiting, 2,247 of forgery of Government checks. Crime does not pay.

Leavenworth Penitentiary at Leavenworth, Kansas

Know Your Money and You Will

1. REMOVE temptations from youth. Many counterfeit violators are young men or boys who have never before been in serious trouble with the law.

2. ELIMINATE opportunities for crime. The principal reason that counterfeiters defraud so many persons is the carelessness of the public in accepting bad money.

3. REDUCE losses to the public. During a recent 5-year period losses from counterfeit money averaged more than $1,000,000 a year.

4. SAVE expenses of investigation, prosecution, maintenance of prisoners. These expenses amount to more than $1,000,000 a year.

Help save boys—all boys—from temptation!
Discourage counterfeiting!

Know Your Money!

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What is the United States Secret Service?

THE UNITED STATES SECRET SERVICE is a Division of the Treasury Department, and is one of the oldest and best-known law-enforcement agencies of the Federal Government. It was established at the time of the Civil War, and celebrated its seventy-fifth anniversary on July 2, 1939. The chief duties of the Secret Service are:

Protection of the President of the United States, his family, and the President-elect; policing of the White House and its grounds by the White House uniformed police, a unit of the Secret Service.

Suppression of the counterfeiting and alteration of all paper money, coins, bonds, stamps, and other obligations of the United States and other governments.

Suppression of the counterfeiting, forgery, alteration, and fraudulent negotiation of United States Treasury checks; and enforcement of other laws relating to the Treasury Department, as provided by the Congress of the United States.

Protection of the Treasury Building, the Bureau of Engraving and Printing, and other Treasury buildings and safeguarding money and securities.

The White House

Notify the Police Immediately

If you have a counterfeit bill or coin, or if you are suspicious of a person presenting a Government check! Or you may call the nearest office of the Secret Service. Here are the telephone numbers of the field offices:

Albuquerque, N. M., Albu. 2644.
Atlanta, Ga., Walnut 4905.
Baltimore, Md., Plaza 8320, Br. 435.
Birmingham, Ala., 3-8537.
Boston, Mass., Hancock 7622.
Buffalo, N. Y., Wash. 4780, Br. 317.
Camden, N. J., Camden 6292.
Charlotte, N. C., 5065.
Chicago, Ill., Wabash 9207.
Cincinnati, Ohio, Cherry 5820, Br. 391.
Cleveland, Ohio, Main 4140, Br. 161.
Columbia, S. C., 9505.
Columbus, Ohio, Main 6411.
Dallas, Tex., 2-2331.
Denver, Colo., Keystone 4151, Br. 403.
Detroit, Mich., Cherry 9330, Br. 365.
El Paso, Tex., Main 931.
Grand Rapids, Mich., 8-1717.
Houston, Tex., Preston 3469.
Indianapolis, Ind., Lincoln 6182.
Jacksonville, Fla., 5-1753.
Kansas City, Mo., Victor 0040.
Little Rock, Ark., 2-4361, Br. 148.
Los Angeles, Calif., Madison 7411, Br. 396.
Louisville, Ky., Wabash 2914.
Memphis, Tenn., 5-2286.
Miami, Fla., 3-5112.
Milwaukee, Wis., Broadway 8600, Br. 139.
Nashville, Tenn., 6-5904.
Newark, N. J., Mitchell 2-2020, Br. 279.
New Haven, Conn., 8-2449.
New Orleans, La., Magnolia 2801.
New York, N. Y., Rector 2-9100, Br. 215.
Oklahoma City, Okla., 2-2626.
Omaha, Nebr., Jackson 7909, Br. 99.
Philadelphia, Pa., Market 1313.
Phoenix, Ariz., 4-1202.
Pittsburgh, Pa., Grant 0800, Br. 339.
Portland, Oreg., Atwater 6171, Br. 525.
Providence, R. I., Dexter 6456.
Richmond, Va., 3-7198.
Sacramento, Calif., Capitol 3961.
St. Louis, Mo., Garfield 0360, Br. 239.
St. Paul, Minn., Cedar 2212.
Salt Lake City, Utah, Wasatch 3980, Br. 398.
San Antonio, Tex., Cathedral 6801.
San Francisco, Calif., Market 8533.
Scranton, Pa., 7111.
Seattle, Wash., Elliott 0335.
Spokane, Wash., Main 5801.
Springfield, Ill., 4671, Br. 46.
Toledo, Ohio, Main 8010.
Utica, N. Y., 2-2737.
Washington, D. C., National 6400, Br. 2304.

Mail or telegrams should be addressed as follows:

United States Secret Service,
Treasury Department,
_____ *(City and State)*

U. S. GOVERNMENT PRINTING OFFICE: 1940

For sale by the Superintendent of Documents, Washington, D. C. - - - - Price 10 cents

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G-2/2657-220 [redacted]

No. 190 SITUATION REPORT M.I.D., W.D.
September 10, 1940.
12:00 M.

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.

1. No ground operations. German preparations continue in the Channel ports for overseas operations. There are other signs that an invasion of Great Britain is contemplated. None of the foregoing is regarded as definite proof that the attempt at invasion will be made.

2. Air Force Operations.

The London dock and rail net areas continued to be the Foci of German air attacks. These were initiated in daylight on the evening of the 9th and continued throughout the night. While the number of bombers sent over during the night apparently was less than on the 8th-9th, severe damage was inflicted. Some bombs fell in the heart of the city. British defense was more effective than on the 8th-9th, but their claims of losses inflicted are below the previously attained peaks of the current offensive. The Germans also carried out scattered harassing raids in the west of England and over the east coast of Scotland.

British night raids were executed against the harbors of Ostend, Boulogne, Emden and Hamburg. There was also a short attack on Berlin.

Up to noon today there had been 2 alerts in London.

II. Mediterranean and African Theaters of War.

No ground operations reported. Air activity was widespread but limited in scope.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 10, 1940

TO Mr. Thompson

FROM Mr. Haas

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of August 1940.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under Way, and the Names of Persons Working on Each, for the month of August 1940

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. A review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on August 6. - Mr. Haas, Mr. Murphy, Mr. Turner, Miss Eyre

   This review contained, in addition to analysis of the current situation, the following special study:

   Investment experience in a rising bond market.- Miss Eyre

2. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1939 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1933 or since date of issue. - Mr. Brown, Mr. Moody, Mr. Kroll

3. Three proposals of the RFC, that the Secretary of the Treasury request that Corporation to purchase the preferred stock of banks, were examined. - Mr. Murphy, Miss Eyre, Mr. Purvis

4. At the request of the Secretary, arrangements have been made to secure periodically from the British Purchasing Commission certain information regarding purchases by the British Empire in the United States. - Mr. Haas, Mr. Reagh

(1) Weekly statements are received covering in dollar volume itemized purchases through the Commission by the British Empire, itemized purchases made by these governments with the knowledge of the Commission but not through its facilities, and inquiries made by the Commission or with its knowledge for future purchases. In these reports all orders and deliveries are being classified in some twenty-five commodity groups designed especially for the purpose of this project. Tables showing orders placed through the British Purchasing Commission, classified by commodity groups, were prepared for the weeks ended July 20, 27, August 3, 10, and 17, and were transmitted according to instruction.

(2) Arrangements have been made also to secure from the same source periodic statements showing commitments and actual payments for the purpose of providing capital assistance to American companies in order to expedite deliveries. These commitments are listed in four groups - (a) expansion of plant capacity, (b) personnel training, (c) income tax contributions, and (d) United States development costs. Tables showing total capital commitments of the British and French governments, as of July 27, August 3, 10, and 17, were prepared, and were transmitted according to instruction.

(3) Special attention is being directed toward the aircraft industry, both as to the effect of capital assistance and as to output. Weekly statements are prepared showing by airplane and airplane engine companies the physical volume of orders placed, deliveries made, and estimated deliveries on unfilled orders and on options. These statements give detail by type of airplane or type of engine. A group of tables giving details and summaries regarding purchases of airplanes and airplane engines, as of July 27, August 3, 10, 17, and 24, were prepared, and were transmitted according to instruction.

(4) A table showing the status of iron and steel purchases by the British Empire, was prepared as of July 31, 1940, and was transmitted to the Secretary on August 16.

(5) Tables showing the status of orders placed through the British Purchasing Commission, classified by commodity groups, were prepared, as of July 20 and 27, and were transmitted on August 16 and 22, respectively.

5. At the request of the Secretary on May 23, arrangements were made for securing each week from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared each week showing this information by type of plane or engine and by class of purchaser. Weekly reports were transmitted according to instruction. - Mr. Haas, Mr. Tickton, Mr. Leahy

6. A memorandum on the statistical (graphic correlation) analysis of factors affecting high-grade interest rates was prepared in connection with a request from Under Secretary Bell on June 24, and was submitted to him on August 10. - Mr. Turner

7. Tables showing the daily average yield of long-term United States Government bonds from January 1, 1919 through July 1940, were compiled and mimeographed, for use in answering inquiries. - Miss Eyre

8. Data for the Secretary of Commerce re amount of interest-bearing securities of Federal corporations and agencies outstanding December 1929-1939, prepared as part of a report made jointly with the Bureau of Accounts and the Division of Tax Research, were approved by the Division of Tax Research and the Bureau of Accounts, and were mailed on August 8. - Mr. Conrad

9. Analysis of plan of Mr. J. R. Oishei entitled, "To Expedite New Enterprise for Increased Employment," was made at the request of Under Secretary Bell on June 28, and was transmitted to him on August 19. - Mr. Turner, Mr. Purvis

10. A memorandum was prepared at the request of Under Secretary Bell on July 5, on the effect on bank deposits of Treasury financing and spending, and was transmitted to him on August 10. - Mr. Murphy, Mr. Turner, Miss Eyre

11. At the request of the Secretary, a memorandum was prepared, and was transmitted to him on August 7, concerning availability of the plans, specifications, and materials for the John B. Pierce Foundation house, with respect to possible use by the Navy Department. - Mr. Haas

12. At the request of Under Secretary Bell on August 28, a memorandum was prepared commenting on a letter from Mr. B. F. Kauffman, President of the Bankers Trust Company, Des Moines, Iowa, to Senator Herring, concerning the treatment of tax-exempt securities provided for in the excess-profits tax bill as passed by the House of Representatives on August 29, and was transmitted to the Under Secretary on August 30. - Mr. Murphy

II. Projects or studies under way

1. Chart comparing yields on long-term Treasury bonds and over-the-counter volume depends for completion upon arrangements to secure the necessary data. - Miss Eyre

2. Study of the relationship between the yields and maturities of high-grade securities immediately preceding prior major bear markets in such securities. - Mr. Turner, Mr. Conrad

3. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Conrad

4. Study of the effect of the size of the issue on the prices and yields of U. S. securities. - Mr. Conrad

5. Chart and annotations with respect to the factors influencing the movement of interest rates during the last World War have been completed except for the graphic work. - Mr. Turner

6. Discussion of various problems encountered and solutions devised in connection with war borrowing. - Mr. Murphy

7. Memorandum comparing and contrasting war and depression deficit-financing. - Mr. Murphy

8. Review of war-financing measures in the United Kingdom and the British Dominions, and Germany in the present war. - Mr. Murphy

9. United States Savings Bonds - An analysis of factors affecting redemptions of United States savings bonds, as a guide to future experience. - Mr. Conrad

10. A memorandum is being prepared in connection with a request of Under Secretary Bell of June 24, on the distribution among the various classes of investors of increases in the direct and guaranteed public debt since June 30, 1933. - Mr. Murphy, Mr. Turner, Mr. Purvis

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared for the Bureau of Accounts, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period August-June 1941, and was transmitted on August 1. - Mr. Driver

2. The regular monthly summary comparison of estimated receipts and actual receipts in July 1940 on the daily Treasury statement basis, was prepared, August 13. - Mr. Driver

3. The regular monthly detailed comparison of estimated and actual receipts in July 1940, based on the collections classification, was prepared, August 30. - Mr. Wilson

4. A detailed comparison of the actual collections in the fiscal year 1940, with the January 1940 Budget estimates of revenues, was prepared, August 13. - Mr. Driver

5. An estimate of receipts from taxes under the Revenue Act of 1940, by months for the fiscal year 1941, was prepared at the request of the office of Under Secretary Bell on August 8, and was transmitted to Mr. Heffelfinger on August 8. - Mr. Driver

6. In connection with consideration of the proposed "Second Revenue Act of 1940", Title I, Excess Profits Tax, a number of revenue estimates listed below, were prepared for use of Assistant Secretary Sullivan. - Mr. O'Donnell, Mr. Leahey

   (1) A preliminary estimate of revenues to be derived from the invested capital plan for imposing an excess profits tax was prepared at the request of Assistant Secretary Sullivan on July 29, and was transmitted to him in a memorandum stating that the estimate was based on the plan as of July 24, and was for the calendar year 1940 excess profits tax liabilities.

   (2) A tentative estimate of the net yield from an excess profits tax permitting optional methods of computing tax liabilities was transmitted to Assistant Secretary Sullivan on August 8, in a memorandum stating the estimated gross liability for the calendar year 1940, and the estimated allowance for resultant reductions in individual income tax liabilities.

(3) The estimate of revenues to be derived from the original invested capital plan as of July 24, was modified by allowance for resultant decreased income taxes to be expected. This revised estimate is comparable to the estimate described immediately above as (2), and was transmitted to Assistant Secretary Sullivan in the same memorandum of August 8.

(4) A statement was prepared for insertion in the record of the public hearings in response to a question by Representative Raymond S. McKeough, giving the reasons for expected decreases in income tax receipts as a result of the levying of an excess profits tax. The statement was transmitted to Assistant Secretary Sullivan on August 12.

(5) Estimates of gross and net yields were prepared at the request of Assistant Secretary Sullivan on August 16, and were transmitted to him orally on that date, on the basis of a proposed provision allowing corporations to select their earnings in any three out of four years from 1936 through 1939 rather than their earnings of the entire four years in computing the excess profits tax credit in the base period.

(6) Estimates of gross and net yields were prepared at the request of Assistant Secretary Sullivan on August 16, and were transmitted to him orally on that date, on the basis of a proposed provision allowing corporations having a deficit in one or more years of the four-year base period to count one deficit year as zero net income in computing the excess profits tax credit in the base period.

(7) In anticipation of requirements in connection with the report of the Subcommittee on Taxation of the Committee on Ways and Means, three estimates were prepared on the following bases:

(a) Changing the basic 4 percent rate of credit on invested capital to permit 8 percent on the first million dollars of invested capital and 6 percent on the second million dollars of invested capital;

(b) Permitting impairment in paid-in capital and paid-in surplus to be deducted from earnings before application of the excess profits tax;

(c) Permitting one deficit year of the base period to be used as zero income, on the arbitrary assumption that the estimated 1940 income were increased by 10 percent, 20 percent, and 25 percent, respectively.

(8) Estimates of reduction in revenue from the original estimate of the combined plan, were prepared and transmitted orally to Assistant Secretary Sullivan on August 16, on the basis of the proposal by the Subcommittee on Taxation of the Committee on Ways and Means to raise the basic invested capital credit rates from 4 percent to 5 percent and from 4 percent to 6 percent, respectively.

(9) An estimate was made at the request of Assistant Secretary Sullivan on August 21, and was transmitted to him orally on that date, of the revenue effect, at estimated income levels for the calendar year 1940, of a proposal in the modified report of the Subcommittee on Taxation of the Committee on Ways and Means which would lower the excess profits specific exemption from $5,000 to $3,000 per corporation.

(10) An estimate was made at the request of Assistant Secretary Sullivan on August 21, and was transmitted to him orally on that date, of the revenue effect, at estimated income levels for the calendar year 1940, of a proposal in the modified report of the Subcommittee on Taxation of the Committee on Ways and Means which would raise the excess profits specific exemption from $5,000 to $20,000 per corporation.

(11) An estimate was prepared at the request of Assistant Secretary Sullivan on August 21, and was transmitted to him orally on that date, in connection with the modified plan of the Subcommittee on Taxation of the Committee on Ways and Means, of the revenue loss, at estimated income levels for the calendar year 1940, if under the invested capital option the excess profits credit were figured at 8 percent on the first $500,000 of invested capital and 6 percent on the balance.

(12) Estimates were prepared at the request of Assistant Secretary Sullivan on August 21, and were transmitted to him orally on that date, in connection with the modified plan of the Subcommittee on Taxation of the Committee on Ways and Means, of the gross and net excess profits tax liabilities for the calendar year 1940, if the rates of 30, 50, and 75 percent were substituted for the rates of 25, 30, and 40 percent, respectively.

(13) Estimates were prepared at the request of Assistant Secretary Sullivan on August 22, and were transmitted to him orally on that date, of gross and net yield, from a proposed flat 4 percent increase in the corporation income tax.

(14) Estimates were prepared at the request of Assistant Secretary Sullivan on August 22, and were transmitted to him orally on August 23, of gross and net yield at estimated income levels for the calendar year 1940, from an excess profits tax plan which would allow an excess profits credit of 8 percent on the invested capital, using the Treasury definitions and bracket rates employed in the original invested capital plan.

(15) An estimate was prepared at the request of Assistant Secretary Sullivan on August 23, and was transmitted to him orally on that date, of the revenue effect, at estimated income levels for the calendar year 1940, of reducing the excess profits tax specific credit from $5,000 to $3,000 in connection with the plan described in (14) above.

(16) Estimates were prepared at the request of Assistant Secretary Sullivan on August 24, and were transmitted to him orally on August 25, of gross and net excess profits tax liabilities, at estimated income levels for the calendar year 1940, from a proposed combination of the average earnings and invested capital methods of taxing excess profits. Higher rates were to be applied in the instance of corporations using the average earnings method, in addition to a penalty tax on such corporations of 4.1 percent of their normal tax net income. The specific credit was to be $5,000. With respect to the invested capital plan the Treasury definitions were followed.

(17) An estimate was prepared at the request of Assistant Secretary Sullivan on August 25, and was transmitted to him orally on that date, of the revenue effect, if, on the basis of the plan described in (16) above, the excess profits tax specific credit were reduced from $5,000 to $4,000.

(18) At the request of Assistant Secretary Sullivan on August 25, a schedule of tax rates was worked out on the combination plan mentioned in (16) and (17) above, but which, after reducing the specific credit to $4,000 and after increasing the excess profits tax on the invested capital plan over the original proposal by one percent, would yield about $75 millions more than the plan originally drafted. In addition, estimates of gross and net yields at estimated income levels for the calendar year 1940 were prepared. The schedule of rates and the estimates were transmitted orally to the Assistant Secretary on August 25.

(19) Estimates were prepared at the request of Assistant Secretary Sullivan on August 25, and were transmitted to him orally on that date, of gross and net yield based on the schedule of tax rates mentioned in (18) above, and assuming a 10 percent increase in normal tax net income of each corporation.

(20) Estimates were prepared, and were transmitted orally to Assistant Secretary Sullivan on August 25, in response to his request of that date, of gross and net yield, at estimated income levels for the calendar year 1940, from an excess profits tax which would permit a credit of 4 percent on invested capital, with no specific credit, and a tax on additional earnings in accordance with a specified schedule of tax rates.

(21) An estimate was prepared, and was transmitted orally to Assistant Secretary Sullivan on August 25, in response to his request of that date, of the percentage increase of the excess profits net income for corporations subject to the excess profits tax in the calendar year 1940 as compared with the base period.

(22) Tentative estimates of gross excess profits tax liabilities and of the net tax, were prepared on the basis of estimated calendar year 1940 income levels, and were transmitted to Assistant Secretary Sullivan on August 27, in a memorandum summarizing the main provisions of the proposals for an excess profits tax bill approved by the Committee on Ways and Means on August 26.

(23) At the request of Assistant Secretary Sullivan on August 27, estimates were prepared, and were transmitted to him on that date in a memorandum showing estimated gross and net yields, at estimated calendar year 1940 income levels, of the excess profits tax bill as proposed by the Committee on Ways and Means on August 26, together with estimated yields of the same tax under specified arbitrary assumptions as to increase in net income of each corporation over the estimates for the calendar year 1940.

II. Projects or studies under way

1. An estimate of the revenue effects of the bill H. R. 1, 76th Congress, First Session (a bill providing for an excise tax on retail stores) is in process of preparation for the Division of Tax Research. - Mr. Leahey

2. Tentative plans for a WPA statistical project in connection with work on the excess-profits tax, as well as material proposed to be obtained from the Securities and Exchange Commission, are being reviewed in accordance with requests by the Division of Tax Research on July 12 and 17. - Mr. Leahey

3. At the request of the Division of Tax Research on July 12, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101 (11) were restricted to local mutual companies of the assessment type. - Mr. Leahey

4. A request of the Division of Tax Research on July 20, for a detailed estimate of additional yield from the proposed excess-profits tax on the basis of the calendar year 1940 liabilities is in abeyance pending further instructions from the Division of Tax Research. - Mr. Leahey

5. At the request of the Bureau of Accounts on August 29, in connection with the 1942 Budget, estimates are being made of (1) tax collections under the Federal Insurance Contributions Act (formerly Title VIII of the Social Security Act), for the fiscal years 1941 and 1942; (2) taxes to be collected from carriers and their employees, for the fiscal years 1941 and 1942; and (3) amounts to be deposited in the Unemployment Trust Fund under the Social Security and Railroad Unemployment Insurance Acts, for the fiscal years 1941 and 1942. - Mr. Wilson

6. In connection with consideration of the proposed "Second Revenue Act of 1940", revenue estimates are being prepared in addition to those completed during August. - Mr. O'Donnell, Mr. Leahey

7. A study of the provisions of the Revenue Act of 1940 is being made to determine the need for revising studies previously made for improving the methods of estimating revenues from specified taxes. - Mr. Daggit, Miss Rastall

Economic Conditions Related to Fiscal and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and transmitted to the Secretary on August 5 and 12. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

These memoranda contained, in addition to analysis of the current situation, special studies as follows:

(1) Actual tonnage output of steel each week by districts, and the steel ingot capacity by districts (Memorandum of August 5). - Mr. Daggit, Mr. Smith.

(2) Activity in the shipbuilding industry as reflected in the tonnage of merchant vessels under construction and in the industry's employment and payrolls (Memorandum of August 5). - Mr. Daggit, Mr. Chevraux

(3) A comparison of the old FRB index of industrial production (1923-25=100) with the new index

(1935-39=100), with special reference to changes in the relative importance of selected components, shown in a chart in memorandum of August 12. - Mr. Daggit, Mrs. May

2. Memoranda on employment under the Work Projects Administration were prepared on August 5 and 12.- Miss Rastall, Miss Hagedorn

3. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Movements. The tables, with copies, for the weeks ending August 3, 10, 17, and 24, were transmitted on August 5, 12, 19, and 26, respectively, to Assistant Secretary Gaston for the Secretary and other officials. - Miss Kailey

4. A memorandum was prepared, and was transmitted to Assistant Secretary Gaston on August 8, regarding the classification of petroleum products, scrap iron, and scrap steel exports. - Mr. Haas

5. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indices, foreign and domestic security transactions, security prices, exchange rates, etc., as well as other data for the Secretary's chart book. - Mr. Chevraux

6. At the request of the Secretary on August 13, an analysis was made of the Tri-Continental Business Review for July, and was transmitted to the Secretary on August 16. - Mr. Daggit

7. An investigation was made to determine the influence of the revision of the FRB index of industrial production on Research and Statistics Division computations of the following:

   (1) Production equivalent of new orders. - Mr. Daggit, Miss Rastall

   (2) Adjustment of index of sales to a 1935-39 base. - Mr. Daggit, Miss Rastall

   (3) The weekly level of the new FRB index (1935-39=100) as estimated from the New York Times. - Mr. Daggit, Mrs. May

II. Projects or studies under way

1. Index of unfilled orders.

An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries. - Mr. Daggit, Miss Rastall

2. Forces determining trends of basic commodity prices.

This project involves a study of (1) the forces determining general commodity prices and (2) the forces determining the prices of individual commodities.

With respect to (1), general commodity prices, an analysis is in process of disparities between demand and production as a basic price factor which, under excessive war demand, might lead to inflation. For use in this analysis two indexes of demand are being constructed: An index of export demand which expresses the exports of manufactured goods in physical volume, and the index of consumer buying in terms of physical volume, which is part of the project on measures of consumer buying listed as item 3 below.

With respect to (2), prices of individual commodities, shipments of a given commodity, or deliveries to consumers, are taken as a measure of demand, to be compared with production. Ten basic commodities have been selected tentatively for study, and this work is in process.- Mr. Daggit, Mrs. May, Mr. Smith, Miss Rastall, Miss Hagedorn

3. Measures of consumer buying.

A project is under way with the object of developing (1) an index to measure the buying power of consumers in terms of physical volume of purchases, after correcting for the effect of changes in price on the apparent demand; and (2) an index to measure changes in total consumer expenditures, in dollar volume. These two indices will supplement our present "index of sales," which is designed to measure the "offtake" of manufactured goods into various consumption channels.

During August studies on a monthly basis were almost completed on individual components of two physical volume indexes of consumer buying, one corrected for the effect of price changes, and the other corrected both for the effect of price changes and for the effect of changes in national income. The weighting of the

individual components remains to be done. In addition, with respect to the index of consumer expenditures in dollar volume, substantial progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. The purpose is to cover as large as possible a proportion of the purchases of ultimate consumers. - Mr. Daggit, Mrs. May, Miss Rastall, Mr. Smith

4. Trends of individual commodity prices and price factors during the World War period.

This project is patterned after the general study of prices and price factors, 1913 to 1922, made in October, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. The project is designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May

5. Index of commodity stocks.

This project is designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level. Stocks of sixteen important industrial materials, expressed in terms of their net effect on prices, are being compiled for this index. - Mrs. May

6. Index of goods inventories.

A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit, Miss Rastall

7. Index of buying on deferred payments.

A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. It is in abeyance at present, pending publication of a new study by the Department of Commerce. - Mrs. May

8. Weekly approximations of the FRB index of industrial production.

Project was started during March and for completion has been awaiting the new FRB monthly index which was released in August. This project is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Miss Rastall, Mr. Smith

9. Classifications of specified export data by Commerce and Treasury Departments.

A new study was made during the month to determine how to classify export data from the Department of Commerce to conform as closely as possible to the classification in the weekly reports summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as shown by departure permits granted. Monthly statistics were compiled, on the Commerce classification developed by this Division, from January 1937 to July 1940. A memorandum is in preparation showing the Commerce series chosen, with an explanation of divergences in the Commerce and Treasury series. - Mr. Daggit, Mrs. May

10. New orders in the lumber industry.

This project is designed to obtain current figures on a seasonally-adjusted basis for appraising the outlook for lumber production. Additional work has been done toward more accurate determination of seasonal trends, which has involved obtaining new data for earlier years. - Mr. Daggit, Mrs. May

Actuarial Problems

I. Projects or studies completed

1. Amortization schedule on bond issue.

At the telephoned request of Mr. W. C. Denny, of the PWA, on August 20, there was prepared an amortization schedule on a serial bond issue of $247,500, to be repaid within 25 years, with the coupon rate varying on each principal maturity, but with total principal and interest payments approximately constant each year. The schedule was transmitted to Mr. Denny by messenger on August 22. - Mr. Brown

2. At the request of Under Secretary Bell on August 21, a review was made of the Actuarial Report of the Railroad Retirement Board, including the recommendations of the Board for the financing of the liabilities under the Railroad Retirement Act, and was transmitted to the Under Secretary on August 23. - Mr. Reagh

3. Report on proposed bill relating to Foreign Service retirement system.

A report on a proposed bill to amend the Act for the grading and classification of clerks in the Foreign Service of the United States, and providing compensation therefor, was prepared at the request of the Legal Division on August 2, and was transmitted to that Division on August 2 in a letter for signature of the Administrative Assistant to the Secretary. - Mr. Reagh

II. Projects or studies under way

1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

There is pending before the Board of Actuaries the matter of approving regulations with respect to the optional benefits payable under the Civil Service Retirement Act. During August the Comptroller General decided that a cash refund of voluntary contributions would not be permissible under the Act. On the basis of this decision and other information the Board of Actuaries is now deciding whether to approve the regulations. - Mr. Reagh

2. Report of the Civil Service Assembly of the United States and Canada on "The Retirement of Government Employees."

A first draft of the chapter on "Financing the Plan" is in process of preparation. - Mr. Reagh

3. Retirement system for Haitian Government employees.

The State Department has requested assistance in devising a retirement system for employees of the Haitian Fiscal Service. Cooperation willbe given the Fiscal Representative of Haiti in that cost estimates will be prepared on the basis of data submitted and plans will be suggested for financing the system. The work is in process. - Mr. Reagh

4. Federal Communications Commission.

A request from the Federal Communications Commission was received on May 18 to review an actuarial report of the American Telephone and Telegraph Company regarding recent changes which they have made in the valuation of their pension plan. Members of the Division's staff are serving in an advisory capacity. A preliminary report was submitted to the Commission on August 8. - Mr. Reagh

5. Actuarial valuation of the Foreign Service Retirement and Disability Fund.

The Foreign Service Retirement law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuations at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". An outline of the data required for making an actuarial valuation has been submitted to the State Department. - Mr. Reagh, Mr. Brown

Other Projects or Studies

1. Treasury Bulletin.

Data were prepared for the August issue of the Bulletin on average yields of long-term Treasury bonds and high-grade corporate bonds. - Miss Eyre

All the material submitted for the August issue was given an editorial review. - Mr. Murphy, Miss Michener, Miss Eyre

2. Annual Report of the Secretary of the Treasury.

Manuscript for the Annual Report for the fiscal year 1940, both for the regular features of the Report and for the special review articles, is being given an editorial review as received. The usual handling of the material is going forward. - Mr. Murphy, Miss Westerman

3. Cumulative index of Treasury Publications.

Work has been begun on the preparation of a cumulative subject index of Treasury publications since the establishment of the Department, covering (1) Annual Reports of the Secretary, (2) other publications issued by the Department, including annual reports of the bureaus and offices in the Department and (3) material prepared in the Treasury Department which was published in Congressional documents, hearings before Committees of Congress, or the Congressional Record. - Miss Westerman

4. Correspondence.

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During August 364 letters were received in the Division and 359 were handled as required.

5. Charts.

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A Statistical report on the work of the Graphic Section for the month of August is attached.

Work completed in the Graphic Section, Division of Research and Statistics, during August 1940

Type of work	For Division of R & S	For others	Total
Graphic:			
New Charts:			
Total charts completed	15	3	18
Bond book charts completed	2	-	2
Charts brought up to date:			
3 bond chart books brought up to date	27 (times)	-	27 (t)
All other charts brought up to date	662	25	687
Miscellaneous:			
Total jobs	14	3	17
Photographic:			
Photographs:			
Total jobs	30	18	48
Number of-			
Negatives	104	66	170
Contact prints	100	58	158
Enlargements	71	25	96
Photostats:			
Total jobs	103	13	116
Number of-			
Lettersize copies	236	106	342
All other copies	12,376	91	12,467
Multilith:			
Total jobs	3	2	5
Number of-			
Zinc plates	78	53	131
Miscellaneous:			
Total jobs	7	5	12

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Statistical Report on Work Completed by the
Graphic Section, Division of Research and Statistics, by months,
beginning July 1940.

Type of work	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
A. Graphic							
New charts completed	45	18					
Charts brought up to date	748	687					
Bond book charts completed	-	2					
Bond books brought up to date	28 (times)	27 (t)					
Miscellaneous jobs completed	23	17					
B. Photographic							
Photographs:							
Total jobs	53	48					
Number of-							
Negatives	151	170					
Contact prints	164	158					
Enlargements	177	96					
Photostats:							
Total jobs	123	116					
Number of-							
Lettersize copies	3,657	342					
All other copies	8,165	12,467					
Multilith:							
Total jobs	7	5					
Number of-							
Zinc plates	91	131					
Miscellaneous:							
Total jobs	14	12					

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GROUP MEETING

September 10, 1940
10:00 a.m.

Present: Mr. Bell
Mr. Gaston
Mr. Haas
Mr. Sullivan
Mr. Graves
Mr. Chamberlain
Mr. Buckley
Mr. Cochran
Mr. Thompson
Mr. Foley
Mr. Schwarz
Mrs Klotz

H.M.Jr: Good morning, everybody.

Did you (Bell) know about that (handing ticker message to Bell)?

Bell: Yes. I thought we would be out of the market at that time.

Thompson: Mrs. Ross asked permission to make speeches during the campaign. I have a memorandum here approving that. Mr. Gaston suggests that, notwithstanding the general approval that each specific case be cleared with you.

I have some commissions for Coast Guard officers and included are Tollaksen and McKay, which I thought you would want to sign, and Mr. Gaston says if you are going to sign those, in fairness to the other officers, you ought to sign them all.

H.M.Jr: Put it on McKay's desk and I will sign it when I get a chance.

Dan?

Bell: Of course, you know the market went off a little yesterday. This morning it is quiet and unchanged.

If they get the bombing down to routine, it will be all right.

The Railroad Retirement Board, you may recall, when we had those conferences over here, the Treasury said the rate wasn't high enough on the Railroad Retirement Act. We thought it ought to be nine and a half.

H.M.Jr: I don't remember.

Bell: Latimer contended that it is nearer six. They now come out with a report saying it ought to be eleven and a half. The funds are going to be short again. There is nothing to do about it but just let it ride.

H.M.Jr: Oh yes, Latimer.

Bell: You remember that big conference we had here.

H.M.Jr: And I asked him who he was working for.

Bell: With Pehle and all those fellows - Kelly, rather. I thought you might want to talk about that.

H.M.Jr: Yes, I - well, depending upon this tax bill, I will see. I have kept the morning free.

Harold?

Buckley: The Swedish airplanes are coming up again. I hear indirectly that the Army is going to try again to get them and I thought you might want to call Judge Patterson informally and see whether his attitude had changed.

H.M.Jr: Also, the Swedish Minister has asked to see me.

Buckley: I didn't know that. I know that whatever the lower down men in the Army write will be routed through Judge Patterson's office anyway on the Swedish planes.

H.M.Jr: No, I don't want to call him up.

Buckley: And we are having a conference at 11:00 this morning with the RFC and the British on financing tank engines. I think that ought to settle it. That is all I have.

H.M.Jr: Well now, what about Packard - Judge Patterson?

Foley: I am ready, Mr. Secretary.

H.M.Jr: Why don't we do it now while we are talking about the British? What is the situation?

Foley: The contracting officer out at Dayton has refused to sign the contract and Judge Patterson can only approve, he can't sign the contract in the first instance. Now, he would like to have a letter from the British Ambassador which confirms the earlier informal understanding between Lord Beaverbrook and Kennedy and yourself, and I have a draft of that here. If that is satisfactory with you, I will clear it with Patterson and then I think we should give it to Mr. Purvis and ask him to use his good offices with Lothian to get it signed at once.

H.M.Jr: Purvis is here and I told him you were handling it, so after you leave here, I think if you would call him up, you see, and just ask him whether he wouldn't take it to Lothian today.

Foley: That seems a good idea.

H.M.Jr: Purvis knows that you are handling it. Where did you get the 250?

Foley: From the records. Mead said 200 and you said 250, but it figures out 8,000. I think there are 3,000 firm and 5,000 conditional. Eight

times 250 makes two million dollars, which is the amount which has been set aside.

H.M.Jr: Wonderful. My mathematics are all right. Will you see that through?

Foley: Yes. I think this is good for us, too, because it gets this thing into --

H.M.Jr: It was kind of sketchy.

Foley: Yes, it certainly was.

H.M.Jr: Well, we had the engine, but you saw what Beaverbrook said. I went back at him, you know, and I asked how much and he said, "We will take that up after the war is over."

Foley: That was this last paragraph; it leaves it up to you. But this will give both yourself and Patterson the protection you ought to have.

H.M.Jr: Well, you take the initiative in the case of going after Purvis, will you?

Foley: Yes, I will see this is all right with Patterson and this is what he wants, and then I will get Purvis to see Lothian.

H.M.Jr: Where did Mrs. Morgenthau get the information that the Democratic headquarters have adopted this as their official button?

Gaston: No, they have adopted one which is somewhat like a shield, with red and white buttons and a blue border.

Foley: I sent mine up to the Democrats of New York, who said it was they best button they ever had.

Gaston: This man Hagen of the Speaker's Committee was in yesterday and said they have adopted this other one.

H.M.Jr: I am just repeating what she said. Had you heard that?

Foley: No, but everybody likes it.

H.M.Jr: That is what they said. Mary Eaton's title is "Expediter."

Klotz: She is.

Sullivan: Borrow her for this bill, will you, for about a week?

Foley: While we are on politics, I thought you would be interested to know the Philadelphia Record is carrying in seven installments that New Republic article on Willkie, right on the front page.

H.M.Jr: Could I just switch on this a minute? What I thought - I would give you time to arrange it if you thought well of it. I want to walk across. I can't ask Mr. Stimson to come and see me, but I want to ask him please to lay off on the tax bill from now on, no more letters, nothing.

Sullivan: I don't think it is necessary now.

H.M.Jr: Yes, it is, if the thing happens that I think is going to happen. I can't ask him to come over and then criticize him, but I thought I could walk across the street.

Sullivan: All right.

H.M.Jr: What do you think?

Sullivan: Well, am I going to have a chance to go over this with you?

H.M.Jr: Yes, but I just want to walk over there and talk to him.

Sullivan: I want to talk to you before you go over there.

H.M.Jr: Will you?

Sullivan: Yes, sir.

H.M.Jr: We can do that right after this meeting.

Sullivan: Right.

H.M.Jr: I have got a whole list of things here. Purvis came down on the plane with me. I have got a whole flock of notes here.

Buckley: I was hoping he would go to this meeting this morning, but it conflicts with his meeting with Secretary Stimson.

H.M.Jr: That is right.

Buckley: But Mr. Dewar will be there.

H.M.Jr: Are you clear?

Buckley: Yes.

H.M.Jr: How many Allison engines did they deliver last week?

Haas: Twenty-eight.

H.M.Jr: That is the greatest example of one step forward and two steps backward I know.

Haas: They are still sticking to their estimate of 250. There were 86 of those P-40's.

H.M.Jr: What else do you know, George?

Haas: That is all. I have got those employment figures there, too, for you. They are cleaned out on the Wright ones, you notice there, on the P-36's.

H.M.Jr: They are finished?

Haas: They are finished.

H.M.Jr: George, you might be playing around with this new bond.

Haas: I didn't understand.

H.M.Jr: Well, this new National Defense bond, how to price it.

Haas: All right.

Bell: Notes?

H.M.Jr: Notes.

Bell: Taxable?

H.M.Jr: No - well, a normal tax. Isn't that what I said on the Hill.

Bell: You said it would be subject to taxes.

H.M.Jr: Subject to --

Bell: To all taxes.

H.M.Jr: Yes, subject to all taxes. And you might take a look at a 2% bond, the old-fashioned kind, and 2½, and see how far we could go.

Haas: Well, these only go five years, the Defense.

H.M.Jr: Yes, National Defense would be five years.

Haas: Yes.

H.M.Jr: But I might want to sell some of the old kind.

Haas: I see.

H.M.Jr: And at Mr. Bell's urgent request, in order to do this, I may drop half the notes - bills and let them run off. Bell has just been after me day and night on it.

Bell: I have certainly been pushing you.

H.M.Jr: All right. Professor Chamberlain?

Chamber'n: Mr. Secretary, we have a letter that Mr. - Governor Harrison of the Federal Reserve wrote to you on the question of remittances for relief. After I talked with Mr. Bell - it contains a statement as to the purpose of the Act - purpose of the Order was to protect the funds from the possibility of misappropriation by the invaders through coercion or duress, and says that the only reason the failure to grant these applications for relief is to make sure that dollar exchanges don't get into German hands. He says that would be an adequate reason. He has other points in that regard.

Now, we thought that probably the wise thing to do, if you have no objection, would be to simply write him and ask him - write him a note in your name and say the next day - or for you to tell him the next time he comes to Washington to come down and see me about this remittance problem and not to - and then we will file in our records the statement to the effect that we don't accept his interpretation of the Order, but we thought it

was wiser - I did very much - wiser not to start any contention with him on the purposes of the Order at this time, which we think would be unfortunate.

H.M.Jr: If you will write a letter, I will sign it.

Chamber'n: I don't think it is necessary to write a letter. Well, you could write a letter saying that sometime when he is down, he could come and see me. That would be - take no position at all.

H.M.Jr: If you will write a letter, I will sign it.

Bell: I think I would acknowledge it. It is quite impersonal. He came in to see me and told me the story and I said I would like him to write me a letter to show to the Secretary and I think some of the boys feel he overstepped his bounds.

Foley: Bernstein and the lawyers feel quite strongly that it is an improper construction of the Order.

Bell: I don't think he intended that and I think he would rather withdraw the letter rather than get into a long, lengthy correspondence.

Foley: That is the thing to do.

Chamber'n: I think it would make more fuss --

H.M.Jr: I wouldn't do that.

Chamber'n: If we can put this note in our files to the effect that we don't accept this, I should think it would cover us and it would be much better than getting into a legal fight.

Bell: I would just acknowledge it and tell him to

drop in and see Professor Chamberlain and let him explain it to him.

H.M.Jr: That is what Professor Chamberlain had in mind.

Chamber'n: I simply wouldn't get into any argument with the purposes of the Act, simply explain the purposes of the Act as far as I can.

In that connection, Mr. Secretary, I have a little memo on this relief question which is getting pretty hot. I suppose you noticed in the morning Times a statement to the effect that the Germans - coming from Washington - the Germans had commandeered 58% of food supplies in unoccupied France. I don't know what the authority of that is. I will call up some of the State Department. If that is so, it would be maybe a pretty serious thing, but I do think you might be interested in knowing that I had a personal letter or have seen a personal letter from an individual who was in Lyons during the 48-hour occupation to the effect that the Germans moved nearly two or three thousand truck loads of goods from Lyons during that time. Now, that is interesting. I have heard - got a good deal of information here and there about the amount of stuff they have taken out, and the methods.

H.M.Jr: When do you want to get together on it?

Chamber'n: I would like to - any time in the next - possibly tomorrow would be better than today for me.

H.M.Jr: 11:00 o'clock?

Chamber'n: 11:00 o'clock tomorrow.

H.M.Jr: Will you bring with you whoever is working with you on these things?

Chamber'n: That is what Mr. --

H.M.Jr: Will you bring with you whoever is working with you on these things?

Chamber'n: Yes, I will. I would like to bring Mr. White, and have Mr. Bell and Mr. Cochran.

H.M.Jr: Where is Mr. White?

Chamber'n: I don't know. I saw him yesterday.

H.M.Jr: All right?

Chamber'n: And I just wanted to say that we are going to see Mr. Alphand, French Financial Attache, this morning, who is going to bring up to us this question of the French - the various French Embassies, you remember, that we put to you and you took up with the President. We have got the answer, of course, as to the Embassy here. As to the others, we haven't. You remember you had the refusal from the President to let them use the money for Embassies outside of this country.

Mr. Berle, as you know, disagreed with that position. He thinks they ought to be allowed the money, generally.

H.M.Jr: We can't --

Chamber'n: I will call him again and we will simply have to stall with him on that point.

Then we have the question that we took up with you, sir, of the paying - allowing the French to draw on their account here to pay for about $800,000 worth of coupons which

you seemed to be in favor of, but on which you got no word from the President. Shall we go ahead on that?

H.M.Jr: Supposing we save that until tomorrow morning.

Chamber'n: All right, we will just hold up on that.

Schwarz: The Times on Sunday had a piece in which they --

H.M.Jr: I saw that.

Schwarz: Attributed to Treasury some stuff about aviation gasoline.

H.M.Jr: Oh, aviation gasoline?

Schwarz: Yes.

H.M.Jr: I didn't see that, attributed to Treasury.

Schwarz: Improperly so. I talked to Kluckhohn yesterday afternoon. He wrote it. He says that he talked to so many people on the stuff that he got confused. Our own belief is that he was trying to cover up his source.

H.M.Jr: Kluckhohn has some good sources these days.

Schwarz: He had one yesterday on the British tanks.

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

Schwarz: He didn't get the story, but he had a good source.

Gaston: Colonel Maxwell was excited about that Sunday story and wanted to know if the Treasury had given it out. I explained to him what happened.

H.M.Jr: Saturday there was a story about scrap iron.

Gaston: Yes.

H.M.Jr: Somebody is doing a lot of talking.

Gaston: He is getting it over at State, I think.

H.M.Jr: Think that is where he is getting it?

Gaston: Yes.

Schwarz: That is all.

Cochran: Alphand would like an appointment to pay his respects to you while he is down.

H.M.Jr: Will you tell McKay?

Cochran: I will.

H.M.Jr: I will see him.

Cochran: And Archie and Mr. Ren are waiting in my room.

H.M.Jr: They will just have to wait. McKay knows that I just can't.

Cochran: You may have seen that Fournier has left the Bank of France and has been made President of the French railways. deBoisanter took his place. He was Under Governor over there.

H.M.Jr: Is that all, Merle?

Cochran: Yes, sir.

H.M.Jr: You are going to stay behind?

Sullivan: Yes.

H.M.Jr: Ed?

Foley: I have the papers on scrap iron.

H.M.Jr: Yes. We will do taxes first and then scrap iron. Got it solved?

Foley: Yes.

H.M.Jr: Good.

Gaston: I would like to talk to you sometime about the difficulties of the presentation of Coast Guard legislation from the Budget to the President. He turns down this reserve bill and simply because, I think, nobody talked to him about it at all; it was just laid on his desk cold by Harold Smith. We go to a lot of trouble to sell the people in the Budget on propositions and get them all united on it. They make a recommendation and Harold Smith just sends it over by messenger to the President, without any recommendation at all and he just takes a quick glance and we are just stopped from any --

H.M.Jr: Mr. Gaston, I fought a rear guard action for about 7½ years and kept you fellows intact and let you go about 50%. He had it firmly in his mind that some day he is going to take it over into the Navy. I have done it for 7½ years, but you can not get a better reception than what you have got, because he has always thought in terms that some day it would be part of the Navy.

Gaston: I think some of these things - if we could get some way of having a chance to talk to him about it - Harold Smith apparently doesn't make any argument. He just sends it to him and it is all just wasted motion, even when we are backed 100% by the Navy, even when the Navy originates those matters.

H.M.Jr: Many a time Mr. Bell was talking to the President over 4½ years when I wasn't there. Am I right or wrong?

Bell: You are right.

Gaston: I know that.

H.M.Jr: Am I right?

Bell: Yes, sir.

Gaston: Well, he just doesn't know anything about those things.

H.M.Jr: And you don't know when the Navy is giving you the big double-cross, either.

Gaston: I imagine that is true, too.

H.M.Jr: The only suggestion I have, have you ever taken Captain Callahan out to lunch and talked to him?

Gaston: No, I haven't. I thought it might be a good idea.

H.M.Jr: Well, I make a suggestion that you take him out. What they do to us, I don't know.

Gaston: All right, it would be no harm.

H.M.Jr: But I certainly have done everything I can. Without being too immodest, I don't think anybody else could have kept the Coast Guard from being gobbled up, because the President was all set. He was all set to take the thing.

Gaston: Yes. They have gotten along.

H.M.Jr: He won't miss them.

Gaston: They have gotten along.

H.M.Jr: All right? That is the only thing you have got? You are lucky there is a Coast Guard.

Gaston: I think the idea he is playing with now is taking it over into the Department of Commerce.

H.M.Jr: No, you are wrong on that. You've said that several times.

Gaston: Well, they say that over at the Budget - they keep telling us that they can't consider this thing of splitting up your Navigation and Marine Inspection because of the general idea and the possibility of creating a Department of Transportation and making a Department of Transportation in the Commerce Department.

H.M.Jr: The Budget is just a different person.

Gaston: I don't know about that; Dan does, I guess.

H.M.Jr: When they get out of the Budget, they are just a different person.

Gaston: We have been doing pretty well over at the Budget, but I guess it doesn't do any good.

H.M.Jr: Many a time I have seen the President take a blue pencil and cut off somebody's pet hobby.

But if Mr. Gaston and Mr. Foley and Mr. Sullivan and Mr. Bell and Mrs. Klotz would please stay, plus the Stenotype man.

UNCLASSIFIED
J.F.S.
per
date

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Today's transactions in registered sterling by the six reporting banks were as follows:

Sold to commercial concerns	£46,000
Purchased from commercial concerns	£15,000

In the open market, sterling eased from an initial rate of 4.03-1/4 to 4.03 at the close. Transactions of the reporting banks in open market sterling were as follows:

Sold to commercial concerns	£61,000
Purchased from commercial concerns	£10,000

In a very thin market, the Canadian dollar continued to weaken, closing at a discount of 13-5/8%. Yesterday's final rate was 13-1/8%.

A further widening of the discount for the Cuban peso took place. As against 11-1/16% yesterday, that currency was quoted at 11-11/16% today.

The other currencies closed as follows:

Swiss franc	.2278-1/2
Swedish krona	.2386
Lira	.0505
Reichsmark	.4000
Mexican peso	.1996 bid, .2016 offered

We sold $1,750,000 in gold to the National Bank of Afghanistan. This represents the first gold transaction that we have effected with that country. The Federal Reserve Bank today opened a new custody account in the name of the Afghanistan bank into which this gold was placed.

We purchased $1,125,000 in gold from the earmarked account of the National Bank of Mexico.

The State Department forwarded to us a cable stating that the Chase National Bank, London, shipped $70,000 in gold from England to its head office at New York, for sale to the U. S. Assay Office.

UNCLASSIFIED
J.F.S. per MAR 20 1979 date

 CONFIDENTIAL

The report of September 4, received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of $11,050,000, a decrease of $1,294,000 in the short position. The net changes in the positions are as follows:

Country	Short Position August 28	Short Position September 4	Decrease in Short Position
England*	$ 2,399,000	$ 1,480,000	$ 919,000
Europe	5,330,000	4,563,000	767,000
Canada	178,000 (Long)	145,000 (Long)	33,000 (Decrease in Long Position)
Latin America	313,000	381,000	68,000 (Increase)
Japan	3,531,000	3,750,000	219,000 (Increase)
Other Asia	949,000	1,020,000	71,000 (Increase)
All others	-	1,000	1,000 (Increase)
	$12,344,000	$11,050,000	$1,294,000

*Combined position in registered and open market sterling.

For some unexplained reason, the Chase National Bank did not receive gold and silver quotations from Bombay today.

In London, the price fixed for spot silver advanced 1/16d to 23-1/2d. The forward quotation rose 3/16d to 23-7/16d. It was reported from London that some speculative buying for future delivery took place. The dollar equivalents were 42.67¢ and 42.56¢ respectively.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made three purchases of silver totaling 325,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

B.M.S.

EMBASSY OF POLAND
IN THE UNITED STATES

FINANCIAL COUNSELOR

NEW YORK 14 WALL STREET
Cable Address "POLSKARB"
NO. 52 Og.
September 10th, 1940.

Honorable
Merle Cochrane
Technical Assistant to the Secretary
Department of Treasury
Washington, D. C.

Dear Mr. Cochrane:

I am enclosing copies of the letter of The Chase National Bank of the City of New York, dated August 19th, 1940 and Mr. L. Wellisz's letter to The Chase National Bank of the City of New York, dated June 1st, 1940.

Mr. L. Wellisz, personally known to me for many years, is a prominent Polish industrialist, being Chairman of the Board, President and Director of several important corporations in Poland.

After the invasion of Poland Mr. Wellisz and his family went to Lausanne, Switzerland, where he is now residing.

Mr. Wellisz has his personal account with J.P. Morgan & Company, New York. Outside of that he was empowered to sign orders on behalf of his Belgian partner, Mr. W. Delloye, in connection with the account at The Chase National Bank of the City of New York entitled: "Mr. W. Delloye, Special B.N."

Mr. Wellisz has requested The Chase National Bank to transfer from Mr. Delloye's account the amount of $6,000.- to his personal account with J. P. Morgan & Company. Because of Mr. Delloye's Belgian nationality his account was blocked by the proclamation of the President of the United States. Consequently, The Chase National Bank of the City of New York applied to the Federal Reserve Bank on May 15th, their No. 443. Under date of June 5th, The Chase National Bank of the City of New York was informed that the Treasury Department had not approved their application to effect this payment.

May I ask that you kindly reconsider the above decision and grant permission to The Chase National Bank of the City of New York to transfer from Mr. Delloye's account with them the amount of $6,000.- to the account of Mr. Wellisz with J. P. Morgan & Company, which has not been blocked. This money is needed as payment for the transportation of Mr. Wellisz and his family to Canada or the United States.

Hon. Merle Cochrane September 10th, 1940.

I would be very grateful to you for granting such permission and informing me of same.

With best personal regards,

Sincerely yours,

/s/ Janusz Zoltowski
JANUSZ ZOLTOWSKI
Financial Counselor

AZ
Enc. (2)

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THE CHASE NATIONAL BANK
of the City of New York

New York

Foreign Department

August 19, 1940

In replying please refer to

2-27-TMcG

Mr. Janusz Zoltowski
Financial Advisor to the Polish Embassy
14 Wall Street
New York City

Dear Mr. Zoltowski:

In accordance with your request, we are enclosing herewith a copy of the letter of June 1 addressed to us by Mr. L. Wellisz, Lausanne, Switzerland.

This letter refers to a cable payment order received on May 14 from Willey Delloye, through the intermediary of the Banque Cantonale Vaudoise, Lausanne, Switzerland, wherein we were instructed to debit the account of Willey Delloye and pay J.P. Morgan and Company for account of Leopold Wellisz the amount of $6,000. We made application to the Federal Reserve Bank on May 15, our No. 443, and under date of June 5, we were informed that the Treasury Department had not approved our application to effect this payment. This transaction bore Federal Reserve Bank No. 6796.

Yours very truly,

(-) John J. McClean
Second Vice President

Enc.
do

C
O
P
Y

L. WELLISZ
HOTEL MONTFLEURI

Lausanne, June 1, 1940

CHASE NATIONAL BANK

NEW YORK

Dear Sirs:

I sent you through the Banque Cantonale Vaudoise the 14th May a telegram:

"Please transfer from the account Mr. W. Delloye Special B.N. six thousand dollars to the account of Leopold Wellisz at J.P. Morgan Company, New York. Please cable Leopold Wellisz, Montfleuri".

The Banque Cantonale Vaudoise let me know that the execution of this transfer is delayed because of the occupation of Brussels by the German you want to have special permission.

I asked my friend W. A. Berlinerblau to ask you further information and to give you explanations of my behalf.

Thanking you in advance for your explanations to Mr. Berlinerblau and for the settlement of this matter, I remain,

Yours very truly,

(signed) L. Wellisz

I can assure you that as Polish citizen living in Switzerland, I will not transfer this sum to Germany or any country occupied by Germany.

RDS

GRAY

BERLIN

Dated September 10, 1940

Rec'd 7:05 p.m.

Secretary of State,

Washington.

3962, September 10, 7 p.m.

My 3711, August 23, 4 p.m.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S INFORMATION.

The official statement of the disclosed debt of the Reich as of June 30 reported in my telegram under reference gave the debt increase during the previous quarter but did not specify any alterations in May and June. Separate figures for the increase in each of these two months are now available which show that during May the Reich debt increased by the record amount of 5,058,000,000 marks a figure more than double the previous monthly record. In June, however, public borrowings fell below the previous war time monthly average of roughly 2,000,000,000 marks to a figure of 1,555,000,000 marks.

KIRK

EMB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

UNCLASSIFIED
J.F.S. per MAR 20 59 date

DATE September 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	$ Proceeds of Bonds Sold
September 3	2,400	98,129	50,000	30,779
4	8,150	592,226	105,000	63,859
5	16,819	782,156	174,000	106,859
6	1,519	99,580	246,000	209,096
7	615	17,673	14,000	8,888
	29,503	1,589,764	589,000	419,481
Sales from February 22 to August 31	1,430,402	49,464,026	3,606,000	3,016,763
TOTAL FEBRUARY 22 TO SEPTEMBER 7	1,459,905	51,053,790	4,195,000	3,436,244

Mr. Gifford reported sales of non-vested securities for the week ended August 31 totaled $400,000.

D.W.F.

SEP 1 0 1940

Dear Mr. Rockefeller:

This is in reply to your letter of August 20, 1940, in which you ask that a representative from the Treasury Department be designated to serve on the Inter-Departmental Committee on Inter-American Affairs.

I am designating Mr. H. D. White, Director of Monetary Research, to represent the Treasury Department on that committee.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Nelson A. Rockefeller,
Coordinator, Inter-Departmental
Committee on Inter-American Affairs,
The White House,
Washington, D. C.

File to Mr. Thompson

HDW:lrs
9/5/40

DEPARTMENT OF STATE

Washington

In reply refer to
EA 840.51 Frozen Credits/544

September 10, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses a copy of despatch no. 520, dated August 29, 1940, from the American Consulate at Durango, Mexico requesting advices as to what information should be given to French nationals desiring to withdraw their deposits from American banks.

Enclosure:

From American Consulate,
Durango, Mexico,
August 29, 1940.

COPY

eh

NO. 520

DUPLICATE

AMERICAN CONSULATE

Durango, Durango, Mexico, August 29, 1940.

SUBJECT: Requesting Advices as to What Information Should be Given to French Nationals Desiring to Withdraw Their Deposits from American Banks.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON

SIR:

I have the honor to enclose herewith a copy of a letter addressed to /1 Mrs. Frida Rueff de Blum, a French national residing in Durango, by The Chase National Bank, New York, which is self-explanatory. Mrs. Blum, who operates one of the most important dry goods stores of this city, has come to the Consulate for advice as to what action she should take to obtain the necessary license from the Secretary of the Treasury to withdraw her deposit with The Chase National Bank and bring the funds to Mexico where they will be available to her in operating her business in this city, and such other purposes as she may desire. Mrs. Blum is also most anxious that her funds on deposit with this bank do not come into possession of the German Government.

There are a number of other French nationals residing in this district who carry deposits in American banks, all of whom are very uneasy over their accounts, fearing that their deposits may ultimately come into possession of the German Government.

The Department's instructions as to what advice this Consulate may give these nationals, when called upon, relative to the steps necessary for them

to take to withdraw their accounts from American banks will be appreciated.

Respectfully yours,

E. W. Eaton
American Vice Consul

Enclosure:

Copy of letter addressed to Mrs. Frida Rueff de Blum by
The Chase National Bank, New York.

In quintuplicate to the Department of State.
Copy to the American Consulate General, Mexico, D. F.

File no. 851.6
EWE/FMA

eh

A true copy
of the signed
original.

Enclosure no. 1 to despatch no. 520 dated August 29, 1940, from E. W. Eaton, American Vice Consul, Durango, Durango, Mexico, on the subject of: "Requesting Advices as to What Information Should be Given to French Nationals Desiring to Withdraw Their Deposits from American Banks."

COPY: FMA
COMPARED: FMA

THE CHASE NATIONAL BANK

of the City of New York.

Foreign Department

New York, August 22, 1940

2-2-TJL

Mrs. Frida Rueff de Blum.
Apartado No. 59,
Durango, Dgo., Mexico.

Dear Mrs. Blum:

According to information we have on file, you are of French nationality, and we would inform you that in view of the recent Presidential Proclamation affecting residents or nationals of France, it will be necessary that we obtain a license from the Secretary of the Treasury before permitting withdrawals from your account.

We have found that in some cases the obtaining of licenses may be expedited if we are furnished with full information as to the nature and purpose of the transaction.

Should you be of nationality other than French, we should be furnished with documentary evidence to this effect.

Very truly yours,

Alfredo N. Ruz
Assistant Cashier.

nc

eh

COPY

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
840.51 Frozen Credits/553

September 10, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses two copies of despatch No. 1860 of June 24, 1940, from the American Legation at Tehran, Iran, regarding Belgian blocked accounts. Despatch No. 1860 was received by the Department of State September 9, 1940.

No. 1860. Tehran, June 24, 1940.

Subject: Belgian Blocked Accounts.

The Honorable

The Secretary of State,

Washington.

Sir:

Referring to the Legation's telegram No. 132, of June 21, 9 a.m., and to the Department's reply thereto No. 67 of the same date, I have the honor to transmit herewith a copy in French of a letter which the Belgian Minister in Tehran, Monsieur Egbert Graeffe, addressed to me under date of June 19, 1940, regarding Belgian blocked accounts in the United States.

Monsieur Graeffe has conferred with me a few days before and had asked me if I had any objection to his telegraphing to the Belgian Ambassador in Washington suggesting a procedure whereby the withdrawal of funds in the United States owned by Belgian nationals might perhaps be expedited. His suggestion was that in each case he would certify that the transaction was a bona fide one and that the funds were required for certain specified purposes which he would mention. Thereupon he would ask me to telegraph the Department - at the expense of the interested parties - that such a certificate was in my hands. Otherwise he feared there would be much delay which would result in great hardship to persons in Iran who were now depending on funds in America for their living expenses.

I told Monsieur Graeffe that I personally had no objection, but I drew his attention to the procedure outlined by the Department in its

telegram No. 49, of May 1, 11 a.m., regarding the Danish and Norwegian blocked accounts.

Respectfully yours,

C. Van H. Engert,
Charge d'Affaires a.i.

Enclosure:

1. Letter from Belgian Minister dated June 19, 1940.

File No. 851.6

In triplicate.

CVHE/CCMP

COPY

Enclosure with despatch No. 1860, dated June 24, 1940,
from the American Legation, Tehran, Iran.

COPY: JEM/

LEGATION DE BELGIQUE

No. 709 (C5) Teheran, le 19 juin 1940.

Mon cher Engert,

En me referant a la conversation que nous avons eue l'autre jour relative aux fonds bloques en banques des Belges residant en Iran, je m'empresse de vous faire savoir que j'ai telegraphie a notre Ambassade a Washington pour lui signaler que plusieurs Belges residant ici avaient des comptes en banque aux Etats-Unis et qu'ils devaient pouvoir disposer de cet argent, notamment pour voyager, en raison du regime de restrictions des devises existant ici, qui necessite la libre disposition de devises libres pour pourvoir se deplacer, et, dans certains cas, mes compatriotes pouvaient aussi avoir besion de cet argent pour vivre.

Comme la plupart d'entre-eux se trouveraient dans la quasi-impossibilite de produire les documents qui sont necessaires aux banques pour obtenir du Gouvernement les licences de deblocage, et comme les communications postales, d'une excessive lenteur, rendraient des echanges de correspondances tres prejudiciables aux interets de mes ressortissants, j'ai propose a notre Ambassadeur que, pour chaque cas particulier, je ferais une attestation donnant le montant de la somme et le motif pour lequel elle est demandee. Je vous presenterais cette attestation et vous, sur vu de celleci, vous informeriez le Gouvernement de Washington en lui demandant d'autoriser de debloquer la somme reclamee.

J'ai prie notre Ambassadeur de se mettre en contact avec le Departement d'Etat au sujet de cette affaire. Je vous serais reconnaissant de bien vouloir prier le Departement d'Etat d'essayer, de son cote, d'arranger cette affaire avec le Comte van der Straeten-Ponthoz, Ambassadeur de Belgique a Washington.

Vu l'urgence de cette affaire, il suffirait que vous telegraphiiez a votre Gouvernement que vous vous etes mis d'accord avec moi et qu'il interroge l'Ambassadeur de Belgique sur la suggestion dont il e'agit.

En vous remerciant d'avance pour tout ce que vous voudrez bein faire, je vous prie, mon cher Engert, d'agreer l'expression de mes sentiments les meilleurs.

Cordialement,

(Sgd.) E. GRAEFFE

Monsieur Engert,
Charge d'Affaires des U.S.A.,
Teheran.

blj

C O P Y

Enclosure with despatch No. 1860, dated June 24, 1940, from the American Legation, Tehran, Iran.

TRANSLATION

BELGIAN LEGATION

No. 709 (C5) Tehran, June 19, 1940.

My dear Engert,

Referring to the conversation which we had the other day relative to the blocked funds of Belgians residing in Iran, I am anxious to let you know that I have telegraphed our Embassy at Washington to inform it that several Belgians residing here had accounts in United States banks and that they should be allowed to dispose of this money, especially to travel, in view of the system of restriction on foreign exchange existing here, which necessitates the unrestrained disposition of free foreign exchange to facilitate traveling; and, in certain cases, my compatriots might also need this money for living expenses.

As the majority of them would find it practically impossible to produce the documents necessary to the banks to obtain the unblocking licenses from the Government, and as postal communication, being excessively slow, would make the exchange of correspondence very detrimental to the interests of my fellow countrymen, I proposed to our Ambassador that, for each particular case, I would execute an affidavit giving the amount in question and the reason for which it is desired. I would give you this affidavit and you, upon receipt thereof, would inform the Government at Washington and request it to authorize the unblocking of the specified amount.

I have asked our Ambassador to get in touch with the Department of State on this subject. I should be grateful if you would ask the Department of State, for its own part, to make an effort to arrange this matter with the Comte van der Straeten-Ponthoz, the Belgian Ambassador at Washington.

In view of the urgency of this matter it would be sufficient that you telegraph your Government that you have come to an understanding with me and that it contact the Belgian Ambassador in the premises.

Thanking you in advance for your kind assistance, I hope you will accept the assurances of my highest esteem.

Cordially,

(S) E. GRAEFFE.

Mr. Engert,
Charge d'Affaires for the U. S. A.,
Teheran.

lap

CONFIDENTIAL

Paraphrase of Code Cablegram Received at the
War Department 12:37 p.m., Sept. 10, 1940

London, Filed 12:08, September 10, 1940

At Flushing there is a heavy concentration of barges and other shipping.

Three hundred aircraft raided Thames estuary, southern portion of London and Bigginhill at 5 p.m. yesterday. A few planes broke through to central London. Canterbury and rural sections of Kent bombed at the same time. Extensive damage to residential property and numerous casualties in Canterbury. Damage in London was slight. The raid had ended by 6 p.m.

London under continuous raid from 8:30 p.m. yesterday to 5 a.m. today. Industrial areas and railroad centers apparently were the objectives of intense attacks. However the greatest damage was done to hospitals, city financial district and crowded East End tenements. In the district around and adjacent to Mansion House and Bank of England there was major damage to water mains, Thames embankment, railroads and railroad freight yards. Major fires added to damage in this district. Elsewhere in the London area damage was done to one electric power plant (by fire), 2 large warehouses, many water mains (burst), high tension cable (s). A direct hit was scored on Charing Cross railroad station, putting all signals and tracks out of commission. Two other stations were damaged by fire. Three main line railway tracks were blocked and one main line railroad bridge was seriously damaged. Two hospitals were wrecked. There were many minor fires. Several delayed action bombs have not yet exploded,

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including one in the garden of Buckingham Palace.

The night bombing was conducted from altitudes above the range of antiaircraft artillery and searchlights. Six bombers of new four-engine type are reported. British losses: 20 planes, 5 pilots. German losses: 52 confirmed, 11 probable, 13 damaged.

LEE

Copies to: General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
ONI
WPD

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 10, 1940

TO Secretary Morgenthau

FROM James C. Buckley

Subject: Financing Tank Engines

A meeting was held in Mr. Schram's office this morning attended by the British to discuss "final" arrangements for financing the production of tank engines. Acting under instructions from Mr. Purvis, Mr. Dewar took the following position:

1. That on the present contract they would be willing to finance the working capital requirements directly by putting up a cash down payment and monthly cash payments prior to production.
2. That they would more or less throw themselves on the mercy of the Reconstruction Finance Corporation so far as financing the $4,500,000 of capital items.
3. That they would not want to be bound by this particular contract as a precedent in the future.

Mr. Schram took a very sympathetic view of their problem, and he agreed that whatever the result they would not be bound by this contract as a precedent. He said that if the Defense Commission and the Army could agree that a plant adequate to take care of the Army and British orders was necessary from the standpoint of national defense, it probably could be financed entirely by

the Reconstruction Finance Corporation without having the British put up any security for their share of the capital cost.

Mr. Schram then said that he wanted twenty-four hours to go over this problem with the National Defense Commission and the Army, and the British left the meeting with the understanding that we would get in touch with them some time tomorrow.

After the British left, Mr. Schram agreed to my suggestion that they discuss it with Judge Patterson and Mr. Biggers rather than go into it with the various line officers of the Ordnance Department. Mr. Schram said that he would arrange for such a meeting at once and would contact us so that we could be present for their discussions. Apparently he has been in touch with Mr. Jones and has been apprised of Mr. Jones' desire for them to do as much as they can to achieve the British desires.

James C. Buckley,
Assistant to Philip Young.

(Sept. 10. 1940 notes made with talk with Parvis)

1. Swedish planes.

2. Can we permit England to buy rescue boats or crash boats Higgins Boat. Get clearance from Bob Jackson.

3. 4 engine Bombers on order for England

4. Sperry Bomb sight –

5. Scrap Iron

6. Castor Oil

7. B Packard

(Wattenberg Hopper on the plane coming to Washington with Mr Parvis)

September 10, 1940.
11:50 a.m.
resumed at 12:10 pm.

H.M.Jr: Hello.

Philip Young: Yes, sir.

H.M.Jr: Hello, Phil.

Y: Good morning.

H.M.Jr: What's happened today? Anything?

Y: No, I think there's a pretty good agreement worked out between British and Army.

H.M.Jr: I said nothing had happened.

Y: Pardon me.

H.M.Jr: I said what has happened?

Y: Well, the British are getting a larger number of C engines and getting more planes sooner .....

H.M.Jr: Just a minute - wait a minute. The President's on the wire.

September 10, 1940.
12:16 p.m.

H.M.Jr: Hello.

Operator: Mr. Young.

H.M.Jr: Hello.

Philip Young: Yes sir.

H.M.Jr: Phil, I had the President so you had to wait.

Y: Right.

H.M.Jr: What - start at the beginning, what have they worked out?

Y: They worked out whereby between now and June 30, the British get eight hundred and eighty and the Army three hundred and twenty-four.

H.M.Jr: Wait a minute. Eight eighty - what?

Y: The Army.

H.M.Jr: What do they get?

Y: These are the P-40.

H.M.Jr: What kind of an engine?

Y: C engines.

H.M.Jr: C engines. And the Army gets what?

Y: Three twenty-four.

H.M.Jr: Three twenty-four.

Y: That's a ratio of two and a half to one for the British.

H.M.Jr: Well, what's the matter with that?

Y: That's fine.

H.M.Jr: Eight eighty for the U.K.

Y: Right.

H.M.Jr: And three twenty-four for the Army.

Y: Right.

H.M.Jr: From now until June 30th.

Y: Yes. Now, evidently they are the only means of actual increase of about forty-three planes for the British, but they are getting a proportionate amounts earlier.

H.M.Jr: I see.

Y: So the schedule is pretty high, they're getting over a hundred a month the end of this year.

H.M.Jr: I see. And now the thing that interests me really the most, with an order like that on hand, the Curtiss-Wright, are they able to increase their production per day?

Y: They are attempting to. The situation is this. This takes care of their production facilities up to June.

H.M.Jr: Yes.

Y: Now there may be some question before June of going into the P-40-D but using a C engine.

H.M.Jr: I see.

Y: I mean gives you more fire power.

H.M.Jr: But I mean they can't, will it just be what, five a day?

Y: Well, the average on that over ten months is eighty-eight a month.

H.M.Jr: I mean, with an order like this fixed knowing that they're going to get the engines, are they going to work three shifts a day on the air frame?

Y: They will be, yes.

H.M.Jr: Are you sure?

Y: At least, for the present, because they are

trying to get out twenty-four planes by the 23rd of this month.

H.M.Jr: Yes.

Y: Complete.

H.M.Jr: Yes.

Y: Ready to go which will be fine if they can do it, but they probably won't quite.

H.M.Jr: But I mean, are they changing their production schedule any, are they going to increase it any?

Y: Well, they're still running five days.

H.M.Jr: They're only running five days. How many shifts?

Y: I'm not sure.

H.M.Jr: Well, before you come back find out. Hello.

Y: Yes sir.

H.M.Jr: Find out how many shifts.....

Y: Right.

H.M.Jr: They're running and if there's any chance of getting them to go on six days a week, or seven,

Y: Well they say not, because of their production problems they need those two days to get caught up and realign things.

H.M.Jr: Well, I still say I wonder if they couldn't do six or seven, and how many shifts a day on the air frames, on the P-40.

Y: Right.

H.M.Jr: Will you get that information?

Y: Yes.

H.M.Jr: Where are you talking from?

Y: From the Wright office.

H.M.Jr: Well get those figures, will you?

Y: How many shifts and how many days?

H.M.Jr: Yes, and is there any chance, whatever their program is of increasing that.

Y: Yes.

H.M.Jr: You see, now that they know that they're going to turn out twelve hundred engines, twelve hundred planes between now and June 30th.

Y: Yes. Well, at the moment I don't think they're sure, because they're trying to work out plant expansion plans.

H.M.Jr: But that's the whole thing, if they'd only stick and get this thing out you see.

Y: Yes.

H.M.Jr: And increase this.

Y: That's right.

H.M.Jr: I mean from now until June is the important time.

Y: Yes.

H.M.Jr: And if they could go to six or seven days and three shifts and really do something.

Y: Yes.

H.M.Jr: See what you can find out.

Y: Well I'm quite sure they consider this the tops from now until June.

H.M.Jr: Well ask them anyway. Has Knudsen left?

Y: Yes.

H.M.Jr: Oh! Where did he go?

Y: He and Arnold have gone down to Fairchild and from there to Glenn Martin.

H.M.Jr: I see.

Y: Will probably be back in Washington tonight some time.

H.M.Jr: I see. Is - I asked Purvis to ask Morris Wilson to come on down to Washington.

Y: He's planning on going to Montreal. Shall I bring him back with me?

H.M.Jr: Yes, I want him to see me about this.

Y: In the morning?

H.M.Jr: Yes.

Y: All right.

H.M.Jr: Yes. What are you going to do, fly back?

Y: No, come back on the train tonight.

H.M.Jr: All right.

Y: If that's all right.

H.M.Jr: That's all right.

Bring Morris Wilson with you.

Y: All right.

H.M.Jr: Who else is up there, Fairey?

Y: Fairey is here.

H.M.Jr: Well, bring him along.

Y: Yes.

H.M.Jr: Both of them.

Y: Right.

H.M.Jr: All right.

Y: I think it's been working out very well.

H.M.Jr: Good.

Y: There will be more trouble from June on because the Army then gets by far the preponderance of the order.

H.M.Jr: I see.

Y: But they think their new facilities will be in such shape by then that then they can increase.

H.M.Jr: All right.

Y: After June.

H.M.Jr: All right.

Y: Right.

H.M.Jr: Goodbye.

Y: Goodbye.

September 10, 1940.
12:25 p.m.

H.M.Jr: Hello

Operator: Mr. Forrestal.

H.M.Jr: Hello

James V. Forrestal: Hello. Good morning.

H.M.Jr: How are you?

F: O.K.

H.M.Jr: Morgenthau.

F: Yes sir.

H.M.Jr: Forrestal, here's the thing that I would like to get together with you on. The President, after seeing Lothian, I think it was Friday, sort of shoved this whole thing back on me, the tag end of this destroyer field, I mean what's left over. Now the part that affects you, on the PDY-5's.

F: On what?

H.M.Jr: The flying boats. Now the thought that I had in mind is this. Purvis is here in town, I don't know whether you are free for lunch tomorrow or not.

F: I can get free probably.

H.M.Jr: Well what I thought I was going to suggest if it's agreeable to you, if you and Towers could come over and see me, say about one o'clock, we could talk a few minutes together.

F: Yes.

H.M.Jr: And I'd have Purvis come in at one-fifteen, and the four of us could have lunch together. Would that be agreeable?

F: Well - you bet, I'll get clear and get hold of Towers.

H.M.Jr: The thing is this. There are two propositions in the air. One is that there's some kind of a promise on five flying boats and five flying - these big fortresses you know.

F: Yes.

H.M.Jr: What I wanted to take up with you, I've taken it up with Towers a number of times, and it all gets down how much the President wants to do it. They have on order, a large order with Consolidated, also for flying boats. Just a second I'll tell you how many. Two hundred and seventy two, and it now comes through with an official memorandum - hello.

F: Yes.

H.M.Jr: In which they're asking for fifty Consolidated boats, that is they want priority.

F: Yes.

H.M.Jr: And I just wondered if there was a possibility of working out, of giving you this in advance, see, talk to your own people, of giving them every other one that comes out of Consolidated, until they get fifty.

F: Yes.

H.M.Jr: You see. Then the other thing that I'd like to talk to you about is the thing that Donovan brought up, that's the question of making this new Sperry bomb-sight available to them.

F: Yes.

H.M.Jr: I don't know whether you control it or whether the Army controls it.

F: Sperry - I think the Army, that's - I think it's either joint or its theirs. Anyway as far as we're concerned I know that its O.K.

H.M.Jr: Well would you be prepared -- on those two.

F: Yes.

H.M.Jr: And if you and Towers are here at one tomorrow, I'll tell Purvis to be here at one-fifteen.

F: What you really want is one out of every - every other one of the flying boats out of Consolidated.

H.M.Jr: Yes, that's what I'd like, yes. Or as I say what I'd

like, I mean, I'd like to find out what the situation is and then ask for an appointment with the President to see you and me and Towers together. But I'd at least say to the President this is what's possible, the Navy's here to present their petition, and I'm here to tell you what the English are asking for, will you say what you'd like.

F: O. K.

H.M.Jr: Is that fair enough?

F: Yes.

H.M.Jr: And I'll look for you tomorrow at one.

F: All right.

H.M.Jr: Thank you.

September 10, 1940.
3:30 p.m.

Arthur Purvis: Oh, Good afternoon, Henry, Arthur speaking.

H.M.Jr: Yes.

P: I saw Secretary Stimson this morning and I have his definite undertaking to find a way, however difficult it is to implement, (a), the two hundred and fifty thousand rifles -- and, (b), flying fortresses. Now also he has agreed that - he brought in the Chief of Staff, and they have agreed to give me ten million of the remaining fifty million of those .30 ammunitions.

H.M.Jr: Wonderful.

P: He raised it - the Chief of Staff raised it from five to ten while I was there. Now they haven't said, the Chief of Staff didn't say in so many words that he wouldn't give us anything after that. I believe that he was trying to imply it. I didn't join issue with it because I thought we should battle out each month by its own merits in view of the great necessities of that particular stuff.

H.M.Jr: Right.

P: I just really brought the issue without - and he didn't - so that is that. Now then he is also - he explained the situation in regard to the seventy tanks we wanted for Egypt. The difficulty there is he says, that the thirty-seven millimeter ammunitions of the guns is just not there. There are nine thousand rounds in all .....

H.M.Jr: Yes.

P: In existence, which they require for test purposes. Now the only other thing would be to put another gun into it which he claims would take four months, between mounting and so on, but from that I rather gather we can get the tanks if we're prepared to take them either without the guns you may say, because there's no ammunition, we don't make that size. Now I saw General Pratt, ran into General Pratt as I came away, and Pratt says that he feels that they still would be useful to us, and that we could - our people could put up a gun of ours which we've got into it, for which we have ammunition, so I propose to let Pratt send a cable to London on that

indicating the situation in regard to ammunition and not to promise that anything could be done but developing it. Now then on the two hundred pursuit planes, Stimson said well of course that is -

H.M.Jr: What kind of planes?

P: Pursuit. Any kind of extra in case - you see that was one of the things that was - in case we got into real dire need. Well he says that is impossible, because there's only a hundred and forty, so I said to him, "Well now, could something be done on priority". That was left in the air and my belief is that that is the line for us to work on, on those. I'm trying to find something in place of the motor torpedo boats you see, that will make the people on the other side feel the whole thing has been properly implemented, so that as far as the Army end is concerned I think we're as far along as I could have hoped to be today.

H.M.Jr: But you got much further.

P: And if we can only link up on the - if we could get the five PBY's tomorrow on a one and one basis, I feel that we've got a pretty fair show.

H.M.Jr: Now, Phil Young called down from Buffalo and this is the situation. Between now and June 30th, the English will get eight hundred and eighty P-40's.

P: Uh-huh.

H.M.Jr: With the C engine.

P: Between now and June 30.

H.M.Jr: The Army gets three twenty-four.

P: Oh yes.

H.M.Jr: And he said that's that my understanding that you're getting considerably more than you would have.

P: Uh-huh.

H.M.Jr: Sounds pretty good.

P: Yes that does sound pretty good, doesn't it.

H.M.Jr: It's a lot of planes.

P: You don't think that's - you don't think this is one of our good days, do you by any chance?

H.M.Jr: I think so.

P: Now there's one other rather hopeful thing on the RFC, did you hear that?

H.M.Jr: Yes. Buckley is sitting here and he gave me a written report. It sounds splendid.

P: I mean I can't believe it's true until tomorrow, but in twenty-four hours they do indicate that they may be able to do that.

H.M.Jr: Well, Buckley said he was amazed at Schram and the whole thing.

P: Well as a matter of fact our people were impressed too. It was the same time I was seeing Stimson, but you know your slant in sending me over to our friend may not have been a bad one.

H.M.Jr: Over to - to -

P: Jesse.

H.M.Jr: Oh definitely, and also to go and see - I think it was my suggestion that you see Stimson.

P: It was definitely your suggestion. I really think it did no harm and yet I can keep the thing the way we know it has to be kept in the long - on the front.

H.M.Jr: That's right. Now Hinckley, Assistant Secretary of Commerce, in charge of Civil Aeronautics just left here.

P: Yes.

H.M.Jr: And they have this suggestion. The Harlow plane - H-a-r-l-o-w.

P: Yes.

H.M.Jr: An all metal plane which will go into production in Miami, Florida, in about thirty days, he is bringing

it down here tomorrow, and if you and your people will come to his office at three tomorrow he will take you down and show you the plane at the airport.

P: Yes.

H.M.Jr: And it has a Warner engine made in Detroit.

P: Yes.

H.M.Jr: And he thinks that being there it would be very easy to farm it out and really get production. Now he said if it fits into their program -

P: Into the Army program?

H.M.Jr: No, Civil Aeronautics.

P: Civil Aeronatics program. Uh-huh.

H.M.Jr: Civil Aeronautics, and they'd like to work with you on it and dovetail the two things together.

P: Yes. What kind of trainer does he call it? An elementary or -

H.M.Jr: No, he said it could be used as advance trainer.

P: Oh I see.

H.M.Jr: They know in Canada.

P: Yes. I think, as a matter of fact, the Harlow, if I remember right, is one that the Indian crowd were thinking of buying some of.

H.M.Jr: That's it.

P: From Inter-Continental, or something.

H.M.Jr: That's it, you've got it. And in India they didn't work so this fellow is taking all the machinery that's going to India and setting it up in Miami.

P: Uh-huh.

H.M.Jr: See.

P: Uh-huh. I see.

H.M.Jr: And the water engine could be increased, give you another new manufacture and he said in Detroit, they need a little help on production out there to help them a little bit you know, get them going.

P: Yes.

H.M.Jr: But he said it'd bring another man in production, another engine company, another plane company.

P: Yes.

H.M.Jr: No competition from the Army and Navy.

P: No. No.

H.M.Jr: See.

P: I see. Yes.

H.M.Jr: So if you'd put it on your notebook, Buckley would go over with you tomorrow.

P: Yes.

H.M.Jr: And be at Hinckley's office and he'll drive you down to the airfield to see it.

P: Yes.

H.M.Jr: I took the liberty, when I talked to Phil Young, to pass the word along that you and I would appreciate it if Morris Wilson and Fairey could come down tonight, to be here.

P: Oh, good. Well then in that case then I won't - I was just going to ask you whether you would still like him to come. But he knows about that, that's splendid.

H.M.Jr: He does through Philip Young.

P: Oh well, that's fine.

H.M.Jr: Now I've arranged this luncheon tomorrow with the Under Secretary of the Navy and Admiral Towers for one-fifteen.

P: Yes. Good.

H.M.Jr: Do you want Morris Wilson and Fairey also?

P: Well, just as you like, I think it would be quite all right. The great thing is what we want to do of course is to get on with those PBY's, but I'd love to have them.

H.M.Jr: Well I'm only suggesting it. If you think it would help you.

P: Well I don't think, I think it might do good, yes.

H.M.Jr: Would it do good or would it not do good. It's purely for you to decide.

P: Yes. Yes.

H.M.Jr: Be frank with me.

P: Well now let me think. I'm just trying to think. After all it is, yes - I think it would be a good thing.

H.M.Jr: Well I mean - I'd always rather work with less people but I've asked them to come down here.

P: Yes quite.

H.M.Jr: If you'd like to bring them in all right, but it's up to you to decide.

P: Yes. Well I think the answer is we should bring them in, yes.

H.M.Jr: You do.

P: Yes, I think so.

H.M.Jr: Well will you extend the invitation to the two of them for one-fifteen and I'll have all three of you for lunch.

P: I will, thank you very much indeed.

H.M.Jr: One-fifteen tomorrow. And he knows what it's about.

P: Good.

H.M.Jr: He's on warning.

P: Good. Thank you very much indeed, that's splendid.

H.M.Jr: So, you've had a good day.

BRITISH EMBASSY,
WASHINGTON, D.C.

September 10th, 1940

PERSONAL AND

[redacted]

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L Keynes

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram drafted in London early
in the morning of September 10th,
1940.

Royal Air Force

During the night of 7th/8th, attacks on shipping were carried out at Calais, Dunkirk, Boulogne and Ostend. Observation was difficult on account of haze and searchlight activity. Several direct hits were, however, observed, and fires were started. Large explosions were caused at railway sidings in Northern Germany, and direct hits on hangars were registered at Colmar resulting in a fierce fire. Extensive fires were started and explosions caused in Black Forest. Fires were also started at Krupp's works.

Yesterday, unsuitable weather conditions prevented bombing against objectives in Germany but Dunkirk and Boulogne harbours were bombed and also an aerodrome in Holland. Three medium bombers did not return.

Last night, 90 heavy and medium bombers were sent out all but two to attack shipping at Emden, Bremen and Hamburg and Northern France and Belgium ports, the remaining two heavy bombers were directed against railway targets. Nine bombers are missing.

2. German Air Force.

Further reports of damage caused by

attack/

attack on London docks area during evening of 7th and night of 7th/8th tend to confirm that, although damage and casualties were severe, the general effect on war production is very little. At Woolwich Arsenal damage to the plant is considerable but certain sections are untouched. At the Royal Dockyard, no machinery was damaged, but three store houses with stores were damaged.

Yesterday morning at 11.30, about 300 enemy aircraft collected and approached South-East coast, only about 60 penetrated inland. Dover and one aerodrome were attacked soon after noon; formations were intercepted and withdrew. No damage reported.

Last night again the enemy's attack was devoted almost entirely to London, about 150 aircraft were operating and were active from dusk until near dawn. The same areas were attacked, with special attention to railway communications. Damage was generally less heavy, but considerable dislocation was caused on all rail exits from London to the East and South. Some important roads are also temporarily blocked. Three large fires were started in the City; and seven key points were hit, including Ford Motors and two oil installations. There was also some isolated bombing in Eastern county and Bristol areas.

3. <u>Summary of air casualties.</u>

<u>Enemy casualties</u>

By our fighters:-

	destroyed	probable	damaged
<u>Bombers</u>:	1	2	4

	destroyed	probable	damaged
Fighters:	3	1	4
By anti-aircraft fire			
Bombers	3		
Totals	7	3	8

British casualties

4 fighters and 2 pilots.

12 bombers missing.

It is now known that 21 additional enemy aircraft were shot down by anti-aircraft fire on September 7th, bringing total enemy casualties reported on September 8th to 95.

4. Shipping casualties.

Dutch steamer (8500 tons) was torpedoed from the air yesterday and subsequently beached.

5. Naval

Last night, light craft carried out a sweep off French and Belgian Channel ports, destroyers and motor torpedo boats entering (sic) Calais, Dunkirk and Ostend. Little or no opposition encountered and no concentration of shipping observed. One cruiser was mined, but not seriously damaged on the return to base.

BRITISH EMBASSY,
WASHINGTON, D.C.

September 11th, 1940

Personal and
[redacted]

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Lothian

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram from London dated
September 10th, 1940

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1. Naval.

Further details of naval operation reported in paragraph V of yesterday's summary state that one cruiser approached Calais and sent destroyer into the inner harbour; no shipping was seen. Another cruiser bombarded the port of Boulogne, in cooperation with aircraft which dropped flares. At Dunkirk, 2 motor torpedo boats entered the harbour and attacked 4 E-boats, otherwise nothing was seen. At Ostend, 2 motor torpedo boats entered the harbour and fired 4 torpedoes, seriously damaging 2 ships of 2,000 and 1,000 tons.

Last night 5 destroyers in cooperation with aircraft, made a sweep off North East French coast; motor torpedo boats carried out a similar operation between Ostend and the mouth of the Scheldt. No report yet received.

An auxiliary patrol vessel was sunk by mine yesterday.

Last night Dover was shelled between 6 and 11 p.m., between 150 and 200 rounds were fired at the town, harbour and shipping. Damage and casualties were slight. The guns at Dover returned the fire.

Yesterday one merchant ship reported

that/

that she was being shelled by a raider east of Mauritius, and a British tanker was shelled by a U-boat near the Azores.

2. Royal Air Force.

During the night of September 8th/9th, the majority of our bombers succeeded in carrying out attacks on shipping as ordered, and dropped their bombs in target areas. Results were difficult to assess owing to unfavourable weather. The crew of 1 heavy bomber previously reported missing is safe.

Yesterday 7 medium bombers despatched were obliged to abandon their tasks owing to unsuitable weather. One aircraft is missing. Four fleet air arm aircraft bombed a concentration of shipping near Ostend, and registered one hit and several near misses.

Last night 125 aircraft were sent out; 45 to attack harbours and shipping in ports in North East France and Low Countries, 16 heavy bombers to attack 2 gas works at Berlin, 33 heavy bombers to shipbuilding yards at Hamburg and Bremen, and other tasks were railway communications and mine laying; leaflet dropping in Northern France, and dropping of flares in cooperation with naval units. 1 Whitley and 1 medium bomber have not returned.

3. German Air Force.

3 out of 5 fires at Thameshaven are out, and all other fires in London area except one were reported under control yesterday evening. About 5 p.m. yesterday, a raid,

consisting/

consisting of about 300 aircraft, approached London from the South, but only a section penetrated to Central London. 52 enemy aircraft were destroyed. Bombs were dropped in outer suburbs of South London, and also at Canterbury, where damage to property was extensive and 3 persons were killed and 12 wounded.

Last night enemy aircraft were active over London during the whole night until 5 a.m. A few of the raiders also penetrated to South Wales area, Midlands, and Liverpool area. The main attack developed on the City of London, where several fires were caused, 2 being of major importance. One of these joined up with a fire already burning, and is now a 250 pump fire, but is under control. One large and several small fires were started at the Royal Arsenal at Woolwich, and a cordite shed was blown up. Many important road and rail blockages have been caused in the London area, and the tracks at Charing Cross Station are temporarily out of action.

4. Summary of air casualties:

Enemy:

	destroyed	Probable	damaged
by our fighters			
bombers	21	1	5
fighters	29	8	8
by anti-aircraft			
bombers	1		
unknown	1	2	
Totals	52	11	13

British casualties: 20 aircraft (15 pilots safe), 3 bombers missing.

5. Shipping casualties.

By U-boats. A British ship (2,500 tons) and a Greek ship (3,800 tons) were attacked in convoy in

North/

North-West approaches on September 8th ..... presumed sunk in the Red Sea on September 6th.

During the last 2 days 45 ocean-going ships have arrived in United Kingdom ports, including 8 tankers, and 15 cargoes of minerals and iron ore.

6. Middle East.

Egypt. On September 8th enemy aircraft attacked Mersa Matruh, cutting main railway line and destroying 500 gallons of petrol. The arrival at Rhodes of a flight of modern Italian bombers with radius of action of 1,100 miles indicates the possibility of increased scale of air attack on Haifa and Egyptian ports, and brings Iraq within bombing range.

Kenya. 3 medium bombers of South African Air Force attacked on September 7th a mechanical transport concentration and aircraft at Mogadiscio. It was noticed that main mechanical transport park was completely burnt out as a result of the raid on August 28th.

Palestine. On September 18th, 7 enemy aircraft attacked Haifa. There was considerable damage to power house, distillation plant and oil refining pipes.

Paraphrase of Code Cablegram Received at the
War Department 8:43 a.m., Sept. 10, 1940.

Rome, Filed 12:35, September 10, 1940

A usually reliable informant states that Hitler has demanded that 400 Italian planes participate on September 15 in mass attack on England, and that on the following day the Germans will launch their main attack. A different and well informed source says that the German attack may be expected this week-end. Definite confirmation of both reports obviously is lacking.

PAINE

Copies to: General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
ONI
WPD

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