

DIARY

Book 413

June 24 and 25, 1941

- A -

	Book	Page
Agriculture		
Rationing of scarce foods "by throwing Stamp Plan into reverse" (Milo Perkins' plan) sent to HMJr by Wickard for comment - 6/24/41.....	413	163
Alphand, Herve		
See War Conditions: France		
"America the Beautiful"		
See Financing, Government: Defense Savings Bonds		

- B -

"Ballad for Americans"		
See Financing, Government: Defense Savings Bonds		
Budget, Bureau of		
Decentralization survey as affecting Treasury discussed by 9:30 group - 6/24/41.....		18

- C -

Canada		
See War Conditions: China		
China		
See War Conditions		
Coast Guard		
Resume' of activities in connection with national defense given by Maesche to 9:30 group - 6/24/41..		25

- D -

Decentralization of Treasury Activities		
See Budget, Bureau of		
Defense Savings Bonds		
See Financing, Government		
Denmark		
See War Conditions: Foreign Funds Control		

- E -

El Salvador		
See Latin America		
Export Control		
See War Conditions		

	Book	Page
<b>Financing, Government</b>		
<b>Defense Savings Bonds:</b>		
Robeson, Paul		
Schiaperelli, Elsa		
Availability for programs discussed by Mr. and Mrs. HMJr - 6/24/41.....	413	1
a) Callahan memorandum concerning.....		7
b) "Ballad for Americans" discussed at 9:30 meeting - 6/24/41.....		15
Post Office--Treasury cooperation discussed at 9:30 meeting - 6/24/41.....		23
Treasury Hour (donated by Texaco Company) to be inaugurated July 2; 100 tickets each sent to Lieutenant General Hugh A. Drum and Rear Admiral Adolphus Andrews - 6/24/41.....		128
a) Andrews' acceptance - 6/27/41: See Book 415, page 209		
Boy Scouts of America thanked for assistance by HMJr - 6/24/41.....		137
Picture with Grace Moore or Deanna Durbin singing "America the Beautiful" discussed in HMJr's memorandum - 6/25/41.....		194
<b>Food Stamp Plan</b>		
See Agriculture		
<b>France</b>		
See War Conditions		

- H -

**Haiti**  
  See Latin America

- I -

**Inflation**  
  See Speeches by HMJr

- J -

**Japan**  
  See War Conditions: Export Control

- L -

<b>Latin America</b>		
<b>El Salvador:</b>		
Loan (\$1 million) against gold in New York discussed by Cochran and Collado - 6/24/41....		92
(See also Book 415, page 291)		
<b>Haiti:</b>		
Withdrawal by Haitian Bank of important franc deposit (representing funds to be used in payment of service on 1910 gold loan floated in France) in National City Bank, New York, discussed by Cochran and Collado (State Department) - 6/24/41..		94

- P -

Price Control

See Speeches by HMJr  
" War Conditions

Book Page

- R -

Revenue Revision

Tax anticipation notes discussed by HMJr, Sullivan, Haas, Murphy, Bell, and Schwarz - 6/24/41.....	413	49
a) Bell memoranda.....		71, 74, 75, 96
b) Currie invited to next conference.....		79
Amortization principles discussed in Sullivan memorandum after conferences with Greenbaum and Kyle (War Department) - 6/24/41.....		126
Federal-State-Local fiscal relations: Gulick and Groves report on progress of project - 6/25/41...		206
Robeson, Paul		
See Financing, Government: Defense Savings Bonds		

- S -

Schiaperelli, Elsa

See Financing, Government: Defense Savings Bonds  
Speeches by HMJr

Inflation: Blough draft of outline for proposed speech - 6/24/41.....		148
---	--	-----

- T -

Taxation

See Revenue Revision

- U -

U.S.S.R.

See War Conditions: Foreign Funds Control

United Kingdom

See War Conditions: Military Planning

- W -

War Conditions

Airplanes:

Deliveries by purchasers and types, 1/1/40--6/21/41 - 6/25/41.....		230, 231
Shipments to United Kingdom and overseas commands - British Air Commission report - 6/25/41.....		233

Canada:

For cooperation with China, see War Conditions: China

	Book	Page
<b>War Conditions (Continued)</b>		
<b>China:</b>		
Currie discusses with Bank of Canada emigrants' and charitable remittances totalling some \$6 million a year to China; discusses with Minister of Munitions and Supply possibility of securing certain items in Canada for China with Lease-Lend funds - 6/24/41.....	415	171
a) Cochran memorandum discussing draft of message to Fox - 7/14/41; See Book 420, pages 493 and 495		
b) White memorandum "Should remittances of \$6 million a year from Canada to China be continued?" - Book 424, page 108		
c) Treasury answer to Currie - 7/23/41: Book 424, page 107		
Fox confers with Kung, Chiang Kai-shek, etc. - 6/24/41.....		176
a) Generalissimo and Madame Chiang Kai-shek's opinion of Rogers given "China's Export Trade" - <u>The Economist</u> - 6/25/41..		234
<b>Denmark:</b>		
See War Conditions: Foreign Funds Control		
Exchange market resume' - 6/24/41, 6/25/41.....		181,237
<b>Export Control:</b>		
<b>Japan:</b>		
Shipments, week ending June 21, 1941 - 6/24/41..		159
<b>Foreign Funds Control:</b>		
<b>Denmark:</b>		
Release from blocked dollar funds in United States of sufficient money to resume payments on Danish dollar bonds in Swedish possession discussed in letter from Denmark's Nationalbank to Cochran - 6/25/41.....		239
<b>U.S.S.R.:</b>		
General license for transfer of U.S.S.R. and its nationals approved by Welles and discussed by him and HMJr - 6/24/41.....		81,86,88
a) Press release - 6/24/41.....		90
<b>France:</b>		
Alphand calls on HMJr to say good-bye - 6/24/41....		47
a) Letter of resignation: Book 415, page 324		
b) Confusion about appointment with HMJr - Cochran memorandum - 7/2/41: Book 417, page 36		
<b>Lend-Lease:</b>		
Memoranda (British Purchasing Commission) - 6/24/41: Inclusion of "administratively difficult" United Kingdom imports under Lease-Loan procedure....		166
Suggested procedure for bringing miscellaneous manufactured goods under Lease-Lend procedure..		169
Jesse Jones, HMJr, etc., discuss line HMJr will take with Peacock, i.e., now that Jones has received required legislation from Congress, British representatives should approach Jones directly to obtain loan against British direct investments in United States or when British-owned American corporations wish to borrow and make funds available to British Government - (6/10/41).....		197
a) Initialed by Jones - 6/25/41.....		196

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Military Planning:		
Reports from London transmitted by Butler and Halifax - 6/24-25/41.....	413	183, 243
War Department bulletin: Lewis light machine-gun in anti-aircraft defense - 6/25/41.....		246
Price Control:		
Minutes of meeting - 6/25/41.....		198
a) Discussion of		
1) Automobile prices		
2) West Coast steel facilities		
3) Cotton textiles		
Purchasing Mission:		
See War Conditions: Lend-Lease		

June 24, 1941  
9:00 a.m.

HMJr: .....down now.

Mrs.  
Morgenthau: I don't because - Hello?

HMJr: Yeah, go ahead.

M: I was at the party last night that the Biddle's gave.

HMJr: You're making a record now.

M: Yes. I was at the party the Biddle's gave and there was a young woman there who works for Conney(?), I can't remember her name, but she worked for us during the campaign and she is apparently connected with the radio. I never thought she was particularly able but she was sort of an assistant to Conney (?) - she's apparently - knows the whole radio crowd.

HMJr: Yeah.

M: And she was very much upset because she said that she heard that the Treasury was putting Schaperelli, you know the.....

HMJr: Song?

M: Designer, the French designer, you know, Schaperelli.....

- 2 -

HMJr: I don't know.

M: Well, she - I don't know if it's a he or she, myself, because I didn't dare ask because he's so well known.

HMJr: Yes.

M: Any how it's the well known French dressmaker and they're putting - the Treasury is putting Schaperelli on Friday night...

HMJr: What's the first letter in the alphabet?

M: S - it's spelled S-c-h-a-p-e-r-e-l-l-i, I think.

HMJr: Oh yes, I know. I see now. I think it's a man.

M: And the Treasury is putting on Friday night for a 15 minute broadcast and she said it was very shocking to people in New York. It's been announced over the radio by NBC because she claims Schiaperelli is definitely one of the people suspected of being a Fascist over here.

HMJr: Yeah.

M: That he came over twice on a Vichy passport and has - just very recently become converted, but is suspect. Now, she asked Howard Deitz about it and he said that he had nothing to do with those programs, that if it was a Treasury program, it was under Mr. Callahan.

HMJr: That's right.

- 3 -

M: And she said this, that if Schiaperelli was just speaking for NBC and was not a part of the Treasury program and speaking for bonds, why she thought that was all right and was none of our business, but if we were definitely putting Schiaperelli on our program, she thought it was great mistake, and I thought you would want to look into it.

HMJr: Well, I'll find out.

M: I agree. I don't think - I have heard talk of that myself.

HMJr: Well, we can find out.

M: And I thought I ought to let you know because I thought you would want to can it.

. . . . .

HMJr: Yes.

M: I heard Paul Robeson sing last night and I met him and had a long talk with him afterwards at the Biddle's.

HMJr: Yes.

M: Of course, he is absolutely supreme. I mean his singing and the way he had filled the last row in that tremendous stadium, he just had the people in the palm of his hand.

- 4 -

M: And I've never heard such singing and he's a terribly nice person and afterwards Biddle said to me, "I think with very little words, we could have him with us". I don't know just what he meant. Now, you ought to send today and play it to yourself tonight this thing that he sings called, Ballad for Americans.

HMJr: Ballad for Americans?

M: I'll get you the exact name. Ballad for Americans.

HMJr: Yes.

M: It's the most amazing thing. I don't know how I've ever missed it. He sang it the first time on some hour in 1939.

HMJr: Well, I tell you who I think mentioned it to me, it was Odegarde.

M: Well, I mean, it's the greatest thing - I've heard Tibbet sing it and I mean it's just like a different song.

HMJr: Yeah.

M: When Paul Robeson sings it, it is the most amazing and of course as far as morale goes, it's a - that's the kind of a thing that we ought to have and I thought you could check with Biddle....

HMJr: Yeah.

M: Whether he thinks there's any reason why he shouldn't do it.

- 5 -

HMJr: Yeah.

M: Because he certainly, in New York - I mean personally amongst the colored people and amongst the white, I've never seen anything like it.

HMJr: Yeah.

M: Of course, he's an extraordinary fine person any way, very high class, very, very intelligent and I just thought I'd throw that out - I'd get that today and play it to yourself.

HMJr: All right.

M: That's all as far as the public announcement goes.

HMJr: All right.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

HC  
June 24/41  
6  
✓

DATE June 24, 1941

TO Mr. Graves  
FROM Mr. Callahan

Attached are two copies of the letter which I have sent to Mrs. Morgenthau. The Secretary wanted this. Will you please send a copy to him.

Enclosure

7

June 24, 1941

Dear Mrs. Morgenthau:

The Secretary has asked me to write to you about Madame Elsa Schiaparelli, the French stylist.

When Madame Schiaparelli came to this country several weeks ago we contacted her with a view to having her speak about Defense Bonds and Stamps. She said that she would like to broadcast for us and a tentative date was set.

Meanwhile, we heard rumors that perhaps she was not just the type of person who should participate in our campaign and we started an investigation. Before this inquiry got under way a representative of Madame Schiaparelli wrote us and asked that she be excused from speaking.

I am attaching a copy of the letter requesting Madame Schiaparelli's cancellation.

We do not plan to have Madame Schiaparelli broadcast for us at any time.

Cordially,

Vincent F. Callahan  
Chief, Radio Section

Mrs. Henry Morgenthau, Jr.  
Hopewell Junction  
New York

Enclosure

VFC/mm

(COPY)

ELSA SCHIAPARELLI, INC.

Elsa Schiaparelli, President  
21, Place Vendôme  
Paris, France

Hortense MacDonald, Vice President  
17 East 45th Street  
New York, N. Y.

Colby Stilson, Treasurer  
15 Broad Street  
New York, N. Y.

June 20th, 1941

Miss Marjorie L. Spriggs  
Director Women's Programs  
Treasury Department - Radio Section  
Washington, D. C.

Dear Miss Spriggs:

In view of the present tension between France and the United States, Madame Schiaparelli would greatly appreciate it if you could postpone her broadcast of June 27th until a later date.

Her French friends in New York feel that she might be misunderstood if she made any public statement at this particular time.

Madame Schiaparelli wants to help in your campaign, but her position is embarrassing, because she was born Italian, although now a citizen of France.

We are sure that you will understand.

Sincerely yours,

(signed) HORTENSE MACDONALD

Hortense MacDonald

Follow up June 30th

9

7-9  
accepted  
Formerly accepted  
by telegram  
7/9/41.

6/26/41

10

Foley reported at 9:30 meeting that he had been in touch with Patterson on the phone. Patterson would like 48 hours to think it over, and asked that some literature be sent to him on defense savings bonds. The literature was sent by Mr. Graves' office.

11

Discussed at 9:30 meeting on June 24th.  
Decided that Mr. Foley should call in  
Richard Patterson for a conference.

Follow up June 30th to see whether Mr.  
Foley has seen Mr. Patterson.

June 24, 1941

Harold Graves

Secretary Morgenthau

Please let me know this morning at 9:30 what luck you have had in New York State in getting a state chairman for the defense savings bonds organization. If you don't have anybody, I would be willing to call up Governor Lehman and ask him to suggest some one to head up the organization.

June 19, 1941

HM Jr telephoned Farley and asked him to take chairmanship of Defense Bonds Organization in NY State.

June 20, 1941

Farley telephoned and said he could not take the chairmanship. Suggested Dick Patterson. Later same day telephoned and suggested Clarence Lowe. HM Jr said he had already passed Patterson's name on but he would think about Clarence Lowe. See also letter from Farley dated 6/20/41.

HM Jr telephoned Graves and told him Farley had refused; suggested he get in touch with Robert Patterson. Told Graves to hold up on Swope until we hear from Patterson.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 17, 1941

TO Mrs. Klotz  
FROM Mr. Morgenthau

Please see that I call up Colonel Donovan this morning. I want to have him give me a yes or no on whether he is going to take the chairmanship in New York State. I am not going to wait any longer. I would like to have the letter that I wrote him originally asking him to take this position. Thank you. *Letter to Donovan dated 6/5/41 -*

*Mr. J. called Donovan 6/17/41 A.M. -  
Donovan will call back  
today -*

*Mr. J. called Donovan's Secy.  
in absence of Mr. Donovan. at  
4:00 P.M. 6/18/41 - asked him  
to have Donovan give him  
a direct answer tonight.*

*6/18/41 -  
Donovan telephoned Mrs. Klotz evening of  
6/18/41 and said he could not take  
the position -*

June 24, 1941  
9:30 a.m.

GROUP MEETING

Present: Mr. Sullivan  
Mr. Haas  
Admiral Waesche  
Mr. Graves  
Mr. Johnson  
Mr. Thompson  
Mr. Cochran  
Mr. Blough  
Mr. Foley  
Mr. Kuhn  
Mr. Odegarde  
Mr. Bell  
Mr. Schwarz  
Mr. Viner  
Mr. White  
Mrs. Klotz

H.M.Jr: To start the morning on the proper plane, Odegarde, check my memory. When I wanted this one hymn, "America the Beautiful", which was the one that you said you liked as well or better?

Odegarde: I was speaking of the Ballad of America.

H.M.Jr: That is what Mrs. Morgenthau heard Paul Robeson sing last night. She said she couldn't understand why she had never heard it. I have never heard it. He sang it last night. She said she has never heard anything to equal it.

- 2 -

White: The greatest song.

Schwarz: Written by John Latouche.

H.M.Jr: That is what you said.

Kuhn: You remember we mentioned his name in a discussion before as a man who might write some of this for us.

White: You heard it, Jake?

Viner: I certainly did. It is written as a Bolshevik song.

Odegarde: WPA workers.

White: You should have said that before we liked it.

Viner: Well, I think it is a very good song and a very good thing of its kind, and it is very American. It is what Walt Whitman --

H.M.Jr: What do you mean, it is written Bolshevik?

Viner: That is what it was written for.

Odegarde: Latouche is a left winger.

Viner: It was written as a fellow traveler's song.

H.M.Jr: Really?

Odegarde: He was terribly shocked when he heard that it was sung at the Republican National Convention. (Laughter)

Viner: Robeson took it up for that reason, too. You see, Robeson is even more than a fellow traveler.

H.M.Jr: I wanted Harold Graves to have Elmer Irey check Paul Robeson very carefully.

- 3 -

Viner: On the other hand, "God Bless America" is verboten at the America First meetings. They say it is an interventionist song.

H.M.Jr: Have Paul Robeson checked, the Negro singer.

Graves: I know who he is.

H.M.Jr: Everybody says he is a Communist. I would like to know.

Viner: He is keeping his children in Russia and having them trained there.

Graves: You want a real investigation into this, not merely an inquiry into his tax background and so on?

H.M.Jr: I want to know, is he or isn't he a Communist.

White: He has been spoken of in the past --

Viner: Look up Lewis Fisher's autobiography. He doesn't deny it.

White: He always - he has many times been referred to in the past as one, certainly. He spent some time in Russia.

Viner: I think he is still keeping his children in Russia.

H.M.Jr: I think we might as well find out.

White: He has got a good voice.

Viner: A good what?

White: His voice is all right.

H.M.Jr: But you think this song that Peter Odgarde likes is a marching song for the Communists?

- 4 -

White: Oh no.

Viner: You see, it has been taken over. I think it is a perfectly good song. It is a perfectly good song and in many respects I think ideally suited.

Schwarz: Bing Crosby sings it now. That doesn't --

Odegarde: It was sung at the Republican National Convention, which ought to disinfect it. (Laughter)

H.M.Jr: That is wonderful.

Viner: I think it has this shortcoming. It is awfully long and sometimes people get tired of it before they are through. Have you heard it?

Klotz: Yes.

White: Have you got all this in the record?

Bell: It is good for the record.

H.M.Jr: Admiral Waesche most likely wondered what we discuss at our nine-thirty meetings. Now you know.

Waesche: Quite interesting, Mr. Secretary.

H.M.Jr: Norman?

Thompson: As you may know, the Bureau of the Budget has been making a survey of the departments and agencies of the Government with a view to moving out any units from the District to relieve the space situation. We have had the Bureau chiefs in and have gone over the whole Treasury organization.

H.M.Jr: Going to move them all out?

- 5 -

Thompson: We don't find anything to move out.

H.M.Jr: How about Coast Guard?

Thompson: The Admiral probably can speak for himself.

H.M.Jr: You can't find anything?

Thompson: No, sir. We are already decentralized eighty-one percent in the field and nineteen percent in Washington.

H.M.Jr: What do I do?

Thompson: I am going to report that to the Budget.

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

Dan?

Bell: This is a letter approving the issue of RFC notes. They are going very well this morning.

H.M.Jr: I haven't heard. Are they?

Bell: Started at twenty-one and are up to twenty-four thirty-seconds.

H.M.Jr: Good. Is that all, Dan?

Bell: We have had for some time this letter of Tinkham's (May 26, 1941) which hasn't been answered, and Dr. White drew up a reply which I thought was very good, and Mr. Foley's office took it and shortened it a great deal and didn't say as much as was said in the other letter. I don't think it is as complete an answer, and whether we ought to send a long reply or a short one, I don't know. I prefer the long, because I think it gives him more information on the subject --

- 6 -

H.M.Jr: Is it another one of these cases where White and Foley didn't get together?

Bell: Yes. The short form is all right --

Sullivan: Let's frame that one.

Bell: If you think you can get away with it, but --

H.M.Jr: Well, you decide. I will take either one.

Bell: Well, I would prefer the long letter.

H.M.Jr: All right.

Bell: But I think maybe we ought to get together and --

H.M.Jr: Will you?

Bell: .....go over it with Foley and probably Jake ought to take a look at it and we will give you a reply.

H.M.Jr: All right.

Bell: I think he was rather decent before the committee and with you, and he has asked you a number of questions in view of the questions he put to you up there, and I think he is entitled to a very good reply.

H.M.Jr: All right, what else?

Dan, I would like to see you at ten-thirty on those tax certificate things.

Bell: All right.

H.M.Jr: If anybody is interested, ten-thirty, tax certificates. Anybody who wants to come that has got an interest.

- 7 -

Bell: In the taxes or in the certificates?

H.M.Jr: Anything else?

Bell: The only other thing of interest, we have received a number of donations, you know, for national defense. We got a curious one from a man in Texas. He gives us a twenty year note for twenty-five thousand dollars, two percent interest. (Laughter)

The reason he does it is, he says - just two short paragraphs addressed to the President.

"Twice in my life I have experienced as great personal gratification as life can hold for a man, first on March 4, 1933, when I listened to your inaugural address and heard you say in your words almost identically what I had written you in my words on December 24, 1932." (Laughter)

"Second, last night when I listened to you address the nation and heard you say in your words almost identically what I had written you in my words --" (Laughter)

H.M.Jr: He and me both.

Bell: I think he dreamed it.

Viner: Say, he should have asked the President to send him a note. (Laughter)

Haas: Maybe it is just a hint.

H.M.Jr: Wonderful.

Bell: That is all I have.

H.M.Jr: Marvelous.

Harold?

- 8 -

Graves: I had a telegram this morning from B. M. Edward saying that he was quite sick, and I thought you might like to drop him a little note.

H.M.Jr: Swell.

Bell: He wanted to see you, you know, about leaving permanently.

H.M.Jr: Oh. I would like to talk to you later.

Graves: Yes, sir. You will recall that --

H.M.Jr: You stay behind, will you please?

Graves: Yes, sir.

You wrote quite a long letter to the Postmaster General (June 12, 1941) outlining a pattern for cooperation between the Treasury and Post Office people on this Defense Savings Bond program.

You now have a very cordial letter from General Walker about that (June 20).

Yesterday afternoon, all afternoon, our people were in conference with representatives of the Post Office Department, including six or eight postmasters from various parts of the country. They will still be here today, and out of that conference I think will come a definite program for stronger help for us from the Post Office on this whole program.

H.M.Jr: Good.

Graves: I have your note about New York. (June 24, 1941)

H.M.Jr: Yes.

- 9 -

Graves: I had not spoken to Mr. Foley about that until this morning after I got your note. We talked about Patterson, and Mr. Foley is going to talk over the phone today to Patterson and invite him to come down here for a conference.

H.M.Jr: I gave you that --

Graves: Friday.

H.M.Jr: I thought it was going to be done Friday.

Graves: Well, I had too many other things on my mind. I thought I would wait until I could get a report first from Commerce, which I did.

As I told Ed this morning, it was none too good, but Ed seems to think that this man would be satisfactory.

H.M.Jr: Well, if it is none too good, I would rather call up Governor Lehman and ask him for some names.

Graves: Well, from what Ed says, I think it would be worth our while to have a talk with him.

H.M.Jr: Do you think so?

Foley: Well, I think that that is the kind of thing that Dick Patterson can do, Mr. Secretary.

H.M.Jr: I agree with you.

Foley: I grant he is no great heavyweight and perhaps the kind of a report that you would get from the people in the Department of Commerce wouldn't be awfully good, but he is in a position as Chairman of the Board of RKO to give some time to a thing of this character.

- 10 -

I think he has the personality and the easiness of manner to do it, and probably can do it well. I think he probably would like it a lot.

H.M.Jr: Well, could you do it as the second thing after you have done the first thing I have asked you?

Foley: Yes, sir.

H.M.Jr: Today?

Foley: Yes, sir.

Graves: That is all I have.

H.M.Jr: If you will stay behind, I want to see you alone.

Graves: Yes.

H.M.Jr: Harry?

White: You might be interested in knowing that the American portion of the newly created American-Canadian Commission to examine economic problems between the two countries has met and they are preparing a rather comprehensive agenda of topics to be discussed and presented to the Canadian group.

H.M.Jr: Chick?

Schwarz: Here are some stories.

H.M.Jr: Chick, you bring me too many of these damn things.

Schwarz: I will thin them down. You want some representative ones?

H.M.Jr: Yes. It is getting to be too thick again.

- 11 -

Schwarz: I took the old idea that - it takes time to do that, even.

H.M.Jr: Peter?

Viner?

Admiral, I wish you would take about five minutes or less. I haven't heard in a month or two and I am sure the group hasn't, just what Coast Guard is doing differently than it has been doing in connection with National Defense, recruiting personnel and so forth and so on. Will you give me a little thumbnail sketch? I mean, what has happened in the last couple of months in Coast Guard which is different than your routine work. Give us a little lecture.

Waesche: I will begin today and go backward.

H.M.Jr: Talk louder, will you please?

Waesche: Three transports are supposed to sail today from New York manned entirely by Coast Guard officers and men, about three hundred seventy enlisted men per transport, and about twenty officers per transport. Where they are going we do not know. They are loaded with troops.

The fourth transport, which is manned by Coast Guard officers is a larger vessel, the Manhattan. She is manned by seven hundred fifty Coast Guard enlisted men and some thirty or thirty-five Coast Guard officers. She is due to sail on July the tenth.

In addition to that, the landing boats, the small motor boats which both the Navy and the Army have developed for the landing of troops, the Navy have asked us, urged us, to furnish small boat men to man those boats,

- 12 -

so in addition to the crews of the transports, we are furnishing some two hundred fifty men to man these small boats. That is two men per boat, one coxswain and one engineer.

H.M.Jr: Are those the boats they built down in New Orleans?

Waesche: Yes, sir, Higgins type of boat, what the Army call the "Y" boat.

As I say, all of these transports will carry Army troops. We first were to man the America, and we were sorry we didn't get the America, being the largest vessel under the American flag, and we were slated to man that ship, but that is to carry Marines and the Army particularly requested the Navy for the Coast Guard to man all boats that were carrying Army troops.

I presume that might be considered a compliment, so all four vessels that we are manning will carry Army personnel. Three of them sailed today. The fourth one sails on July 10.

In connection with the vessels which are being operated by the Navy, three of the seven are three hundred twenty-seven foot cutters; the large cutters have been transferred to the Navy for operation. One of them is in Lisbon. The second one just came back from Lisbon, and is up in New York having the rest of her armament put aboard but still under Navy operation; and the third one, the Taney, stationed at Honolulu, was just recently ordered to report to the Chief of Naval Operations and in turn was ordered

- 13 -

to report to the Commander of the Fourteenth Naval District at Honolulu for duty.

The Navy held up taking over that vessel due to the fact that they had nothing at all to take care of the Hawaiian Islands, Wake, and so forth.

The other four of those cutters are on the Weather Patrol, and the Navy phoned me about two times a week, have for the last month or six weeks, trying to find some ships to take over that Weather Patrol so they can put those four vessels on other duty.

At the request of the Navy, we sent an officer up on the Lakes to look over some old coal carriers, vessels about twenty or twenty-five years old, coal burning vessels, reciprocating engines, built before the first World War, in the hopes that they could be repaired and reconditioned. The Navy say they have the money to do this.

Admiral Stark is trying to get some of these Danish ships which we tried some time back, and, of course, did not get them; so the matter of obtaining ships to replace these vessels on Weather Patrol has been quite a problem for the Coast Guard and now is quite a problem for the Navy.

The two Greenland squadrons have been organized, the Western Greenland squadron and the South Greenland squadron, both of which are under the command of Coast Guard officers, the Western squadron reporting directly to Admiral King, Commander in Chief of the Atlantic Fleet - the East Greenland squadron, I mean, and the West Greenland squadron is operating directly under

- 14 -

the Chief of Naval Operations and has to do largely with the establishment of air bases in Greenland and the radio stations and meteorological stations.

The East Greenland squadron consists of the Northland and the North Star, which we took over from the Department of Interior, and the old Coast Guard cutter Bear, which is being manned by the Navy.

All those are ice ships, and they compose the East Greenland squadron.

The West Greenland squadron is the Comanche, one of the new hundred and ten foot ice breaking tugs that we built for New York and Boston, and the Modoc, one of the two hundred forty foot class; and in addition thereto, MacMillin's ship, and also another one of the hundred and sixty-five foot cutters is a stand-by vessel for that squadron to replace any of those which must come back for repairs or fuel.

H.M.Jr: Where is the General Greene?

Waesche: The General Greene is now in St. Johns.

H.M.Jr: What is that?

Waesche: It is a hundred and twenty-five foot patrol boat, one of these little hundred and twenty-five footers.

- 15 -

She has every year performed what we call the oceanographic cruise. She goes up to Baffin Bay and around Greenland to gather scientific data for us in connection with the International Weather Observation Patrol, and she was up there on that weather patrol duty, scientific visit, at the time that she went out and picked up the survivors of that convoy.

H.M.Jr: Well, that report about - on Chief Boatswain Jordan, is one of the most amazing things I have ever read. I want to send it to the President. I am sure he will be interested.

Isn't there something we can do besides just a letter?

Waesche: Yes, sir, we are going to give him a commission in the reserve, a two-stripe commission in the reserve and put him on active duty so that he will jump from chief boatswain up to a lieutenant.

H.M.Jr: It is the most amazing record I ever read.

Waesche: A wonderful piece of work.

H.M.Jr: How about some of the men, those two cooks?

Waesche: We are going to do that too, and figure out some way of maybe trying to give that whole crew a step-up in rating.

H.M.Jr: I think they should; and if you will give me - write some kind of a letter for me to Jordan and his men. I would like to sign it. I think

- 16 -

that whole crew ought to get some kind of recognition.

Schwarz: Can we make it public, Mr. Secretary.

H.M.Jr: Yes.

Waesche: Well, we are working along that line and when we have actually decided what we think we should do, I will let you know.

H.M.Jr: I would like to get in on it, because it is an amazing record.

Waesche: Yes, sir.

We will have another very interesting report that ought to be in today or tomorrow from the Modoc. It was up there when the planes dive-bombed on the Bismarck. As a matter of fact, those British torpedo planes came out there and dived on the Modoc, but fortunately they didn't let any of their torpedos go. They recognized her in time. She was only about four or five miles from the Bismarck and saw the torpedos hit the Bismarck, saw the flash and heard the sound when those aerial torpedos hit the Bismarck. The planes, of course, coming out there from Iceland, the Modoc, being a white ship, they decided they didn't know what she was and they all dived on the Modoc first; but, as I said, they didn't let anything go, and we understood they came down within a hundred and fifty or two hundred feet of the Modoc just on a regular dive, so those boys got out of there just about as fast as they could. The details of that report should be in here very shortly.

H.M.Jr: I see.

Waesche: There is one other interesting matter in con-

- 17 -

nection with the operation of our ships and that is the Redwing. The Navy have also asked for the Redwing, which is a mine-sweeper type of vessel. They want to make a salvage vessel out of it. She has been doing some work for the Bureau of Fisheries along with Coast Guard work in Alaska, and we have pulled her out of Alaska and she is leaving today for Seattle to be transformed into a salvage ship at the urgent request of the Navy. She falls within that class of vessels which you said we would transfer to the Navy if and when they wanted them.

This ship, however, has a peculiar case. The Navy do not want - she will be manned by civilians. A man named Scott will take the contract from the Navy to establish certain salvage stations. The Navy phoned yesterday they could not spend any money on her and wanted us to transfer title to the ship which was a new suggestion, and we said, "No," at least we said we would give it some further study, but I think that could be worked out without transferring title because, as I understand it, we can't transfer title unless we declare her surplus to the needs of the Coast Guard, and we certainly can't go on record as declaring any ships surplus to the needs of the Coast Guard at this time, so there will be no question at all about our doing anything but handling that in accordance with the plans which have been worked out previously and approved by you.

The other point is, Stephens asked me outside to--

H.M. Jr:

One other thing which I am not familiar with because nobody ever tells me. I don't know anything - I don't know first what success you are meeting with in getting in these

- 18 -

boats, you know, Coast Guard Reserve, is that what you call them?

Waesche: Yes, sir.

H.M.Jr: What success have you met with on that?

Waesche: We haven't been able to get the boats as fast as we would like to get them, because all these people, boat owners, like to have their boats on Sunday and the Fourth of July and now and then to take a trip. They are willing to give them to us three or four days of the week, but not turn them over absolutely.

I wouldn't be surprised from the - the information we get from the field is that when the war situation becomes a little bit more critical, that the boats will flock over to us. I don't know exactly how much more critical they want it to get.

We have actually enrolled and are operating in the Coast Guard some fifty reserve boats today, and we are getting a few more every day.

H.M.Jr: That is disappointing.

Waesche: Very disappointing, yes, sir.

H.M.Jr: Because you--

Waesche: We - however, we have worked out another plan which we can use temporarily and that is by using Coast Guard auxiliary boats, using these boats without taking them into the reserve, and putting our own men, the chief petty officer and one or two other men on it, and get the use of one boat for three days, and then transfer our men to another boat, and thereby augment our patrol by shifting

- 19 -

a crew from one boat to another. Not exactly a crew so much as the officer in charge.

- H.M.Jr: Well, let me ask you another question. How about your enlistments?
- Waesche: Our enlistments have been falling off, but we are still enlisting quite a few men and we are making a drive. The Army and the Navy and Marine Corps and Coast Guard all feel, particularly the Army and Navy, that they have combed this country pretty well.
- H.M.Jr: How many men have you got in Coast Guard now?
- Waesche: We have, counting some twenty-five hundred remaining civilians in the Lighthouse - former Light House Service, we have approximately about twenty-one thousand five hundred total in the Coast Guard today, officers and men.
- H.M.Jr: Have you distributed the officers and men that came off those ten cutters that were given to the English?
- Waesche: Yes, sir. Of course, a lot of those officers and men went to man these transports, and we are very, very short of commissioned officers. We are enrolling reserve officers and making very good progress in that. We have enrolled from thirty-five to forty commissioned officers in the Coast Guard Reserve and put them on active duty, all of them very excellent type of men.
- H.M.Jr: They go on active duty, not desk duty?
- Waesche: No, sir, every one of them is on a ship, and we require, before we even take them into the Reserve - they must pass a pretty stiff

- 20 -

examination in navigation and seamanship and must have had some experience at sea.

In other words, we - our Reserve is entirely a sea-going reserve and not a desk reserve.

H.M.Jr: Where is Mac these days?

Waesche: He is Exec on one of these transports that sails today.

H.M.Jr: Is he? He is Exec on one of those?

Waesche: Yes, sir, he and Bradbury is in command. Bradbury and McKay have a kind of mutual admiration society, and they were together as Captain and Exec of one of the ships we turned over to Great Britain. When we sent her to Great Britain we took that pair, Bradbury and McKay, and sent them to the Empire State, which we are taking over to train merchant seamen. However, before they got to the Empire State, their orders - before they reported aboard this transport business came up so we yanked them off that and put them on a transport.

H.M.Jr: He will be happy there. Good.

Now, what about that letter?

Waesche: This--

H.M.Jr: Do I have to do it? Didn't somebody double up?

According to Frank Knox, it looks like it.

Waesche: The reply we made to the Navy's letter was a little bit confusing. I went over to the Navy and asked them to give us a strong letter.

- 21 -

As a matter of fact, we wrote the letter in our own office and took it over there, and the Secretary of the Navy signed it.

H.M.Jr: That is in the first instance?

Waesche: That was the first letter. Then when it came over of course we made an acknowledgment, and I think it was probably a mistake to put that last paragraph on there asking them--

H.M.Jr: Now, what do I write him?

Waesche: Nothing at all, I think.

H.M.Jr: Well, you had better write him a letter for my signature and get it over to me this afternoon and say that there is nothing more we have done. We appreciate what he has done.

Waesche: All right, sir, we will do that.

H.M.Jr: Whoever put on that second paragraph slipped a bit, but if you would write another letter and say "Thank you, we don't want anything more," to close it, you see.

Waesche: I will be glad to. Just one more matter of interest, just before I left the office we got a flash again from the General Greene which is up in that country, up in St. Johns, that a submarine attacked a convoy of four ships a hundred and thirty miles south of Cape Farewell.

H.M.Jr: Four ships?

Waesche: Yes.

H.M.Jr: Johnson?

- 22 -

Johnson: Well, our new activities have been to shift from a concentration almost entirely on imports to a new field on exports. We are giving supervision of exports that has never been given before. Exports now, both of goods and persons since the orders of a week ago last night and later on on the Italians - we are clamping down on movements of persons. We have been working with other agencies, including FBI and Naval Intelligence, Military Intelligence, on looking over some of the things that passengers take out of the country with them, which is completely new.

And one of the most unusual things in Customs is that our receipts have not fallen off. The last complete figure I saw were for sometime in April when we were six percent ahead of the corresponding period of the previous fiscal year in collections.

Now, the number of transactions, of course, have fallen down. We are collecting more duty per importation. So we have been able to release men from the work on imports and shift them over and balance them out on the new work we are doing on exports.

We have got just one little increase in personnel for the next fiscal year, and that is sixty additional guards to be scattered around the country at the seaports.

H.M.Jr: Anything else?

Johnson: That is all, sir.

H.M.Jr: I have got a thing here. Senator Connally recommended Alvin W. Scharff for the position of supervising customs agent at Houston. We wrote to Senator Connally that when the position was filled Scharff would be con-

- 23 -

sidered along with other eligible persons.

Mr. Harmon has now been appointed supervising agent at Houston. Should a letter be written to Senator Connally explaining the matter to him?

Johnson: I think we explained it fully when we told him that Scharff would receive consideration. I don't see any objection to writing him a letter.

H.M.Jr: What are you going to do with Scharff?

Johnson: We are leaving Scharff right where he is, second in the Houston office.

H.M.Jr: Would you leave it alone, just let it die?

Johnson: That is what I thought.

H.M.Jr: Well, Harmon has been appointed?

Johnson: Harmon was appointed on either the fourteenth or the sixteenth of June.

H.M.Jr: And then just let it rest?

Johnson: Yes, sir.

H.M.Jr: Thank you.

George?

Haas: I have nothing this morning.

H.M.Jr: Roy?

Blough: Nothing this morning.

H.M.Jr: You are going to leave something Wednesday night?

- 24 -

Blough: Either today or tomorrow night, yes, sir.

H.M.Jr: Well, I have got ten hours on the plane tomorrow with Mr. Sullivan who has thrust himself upon me and we could discuss it. (Laughter)

Sullivan: I don't want to get squeezed out of that, either.

Blough: I will have it for you tonight.

H.M.Jr: All right.

Cochran: Alphand sent word yesterday he would like to see you on Friday, if possible. You know, he has resigned as French Financial Counsellor.

H.M.Jr: Why?

Cochran: Well, the story was that he was in disagreement with what the French Government is doing.

H.M.Jr: Oh, I don't--

Cochran: I think it is just to say good-bye. That is my idea.

H.M.Jr: Where is he going?

Cochran: I mean taking leave here. He has been accredited here.

H.M.Jr: Have I ever - have I ever seen him?

Cochran: Yes, sure.

H.M.Jr: Let him say goodbye to you.

Cochran: All right. (Laughter)

Bell: I think he wants a job. I got some indication that he would like to have somebody around

- 25 -

here help him get a job. He hasn't any money.

H.M. Jr: Well, let him--

Cochran: I will see him.

H.M. Jr: Weep on your shoulder.

Cochran: Yes.

I have a letter from the Visa Section. I think they are reversing that Rodzinski case. (Letter dated June 23, 1941.)

H.M. Jr: Oh, wonderful. That is grand.

Cochran: That is all.

Sullivan: You know Martin C. Schwab, a consulting engineer in Chicago?

H.M. Jr: Never heard of him.

Sullivan: That is the answer. He wants to see you in Washington. He is interested in prepayment of state taxes. He knows your father, and I didn't know whether you knew him or not. I will be glad to talk to him.

H.M. Jr: Ed?

Foley: I have nothing, Mr. Secretary.

H.M. Jr: At the group meeting, June 11: "You again asked Mr. Foley to arrange a conference with the Attorney General for the purpose of deciding whether we do or do not need legislation on states' taxing contractors. Is the matter still pending?"

Foley: I don't know who is the Attorney General. I

- 26 -

haven't tried to talk to Francis about this.

H.M.Jr: Well, supposing you--

Foley: I think as soon as Bob is confirmed as a Justice in the Supreme Court, I might go over and talk to Francis about the whole problem. We see more nearly eye to eye than Bob and I do.

H.M.Jr: Will you do that?

Foley: Yes.

H.M.Jr: All right, if you (Graves) will stay, I would like to see you.

June 24, 1941

Dear Frank:

With reference to my letter of June 19th and your reply of the same date, I can see that some little misunderstanding may have been caused by the last paragraph of my letter.

Your letter of June 18, 1941, was all the support I had in mind in obtaining an appropriation for the Coast Guard training station and I want to assure you that I appreciate your prompt cooperation.

Yours sincerely,

(Signed) Henry

Honorable Frank Knox,  
Secretary of the Navy.

By ~~Henry~~ 4<sup>th</sup>

June 24, 1941

Dear Frank:

With reference to my letter of June 19th and your reply of the same date, I can see that some little misunderstanding may have been caused by the last paragraph of my letter.

Your letter of June 18, 1941, was all the support I had in mind in obtaining an appropriation for the Coast Guard training station and I want to assure you that I appreciate your prompt cooperation.

Yours sincerely,

(Signed) Henry

Honorable Frank Knox,  
Secretary of the Navy.

By Messenger

June 24, 1941

Dear Frank:

With reference to my letter of June 19th and your reply of the same date, I can see that some little misunderstanding may have been caused by the last paragraph of my letter.

Your letter of June 18, 1941, was all the support I had in mind in obtaining an appropriation for the Coast Guard training station and I want to assure you that I appreciate your prompt cooperation.

Yours sincerely,

(Signed) Henry

Honorable Frank Knox,  
Secretary of the Navy.

By Messenger

THE SECRETARY OF THE NAVY  
WASHINGTON

June 19, 1941

My dear Henry:

I presume your letter of June 19th was dictated without your knowledge that I had already signed a very urgent letter supporting the appeal of Admiral Waesche for a three million dollar appropriation, in order to enlarge Coast Guard training facilities.

I mention this because the final paragraph of your letter of the 19th suggests additional support from me. If you want something beyond this, please let me know and I will be glad to render it.

Yours as ever,

*Frank Knox*

Hon. Henry Morgenthau,  
The Secretary of the Treasury.



## THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

24 June 1941.

MEMORANDUM FOR - Mr. Frank Ross  
Lieutenant Stephens

At the Staff Conference this morning the Secretary told me to prepare a letter to the Secretary of the Navy along the lines as per attached. It may be that the Secretary will want this letter written on his note paper. We have no note paper at Coast Guard Headquarters.

R. R. WAESCHE.

*JMP*

TO:

Mr. Cochran

46

Secretary will  
see Mr. Alford  
on Tuesday at  
3:00 pm.

FOR MISS

Tuesday, July 1.

I passed  
Alford's office  
at 4:00 pm on 6/24/41

From: LIEUT. STEPHENS

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

For Miss Chauncey

DATE June 24, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

After the Staff meeting this morning, my office telephoned a message to Mr. Alphanand that the Secretary could not receive him on Friday, but that I would be glad to receive him at any hour on that day. Mr. Alphanand has now called me directly from New York wanting to know when the Secretary could see him, to permit him to explain his reasons for resigning and to allow him to take official departure from the Treasury. I stressed the pressure of official duties on the Secretary and again indicated my willingness to visit with Alphanand. He recalled how difficult it had been to see us in the past, but thought that the situation should be a little easier now that he is definitely an "ally". If you are willing to receive Alphanand for a few moments I think this unpleasant duty would be a very nice gesture. He would like to come in next Monday or Tuesday.

Since I began dictating this memorandum Mr. Alphanand has telephoned me once more, pleading for the interview early next week. Will you kindly indicate the answer?



June 24, 1941.

Dear Mr. Edwards:

I am very sorry to learn of your illness, of which Mr. Graves has just told me. Please be sure to take care of yourself. I will want to see you as soon as you get back to Washington.

With best wishes for your speedy recovery, I am

Sincerely,

(Signed) E. Herguth, Jr.

Mr. E. M. Edwards,  
Columbia, S. Car.

HNG/mlf

File to Mr. Thompson

June 24, 1941  
10:30 a.m.

RE TAX ANTICIPATION NOTES

Present: Mr. Sullivan  
Mr. Haas  
Mr. Murphy  
Mr. Bell  
Mr. Schwarz

H.M.Jr: How is that bond going?

Bell: Very good.

H.M.Jr: It is?

Bell: We haven't any report as to subscriptions, but we will have something at two o'clock, but the price on it is up to twenty-five or twenty-six thirty-seconds. It is going right out the window.

H.M.Jr: All right.

Now, I read this thing carefully. I have got a couple of questions I want to ask. Why do you limit this one to twelve hundred?

Bell: Because of the high rate that is on it, and we thought that we ought to give the small fellow an inducement to save his money for this purpose.

H.M.Jr: I see. Twelve hundred seems so little.

- 2 -

- Bell: Well, it is a saving of a hundred dollars a month. In this group that we had in from the Federal Reserve Banks, there was some suggestion that we raise it to two thousand. On the other hand, there were one or two suggestions that we cut it down to a thousand. I didn't see much sense in that. There were some suggestions that we raise it to two thousand. Of course this twelve hundred dollars, the way we have got it fixed, everybody could buy it, corporations and all.
- H.M.Jr: I see.
- Bell: It is just like savings bonds of the five thousand dollar series. Any individual can buy even though he buys the fifty thousand dollar, which is at a lower rate.
- H.M.Jr: Well, do you think that a fellow that has a hundred a month income tax is going to hear about this?
- Bell: Well, that is one of the things we have got to work out as a matter of education and a matter of publicity. I am going to have a conference tomorrow with eleven supervising collectors of Internal Revenue, and I have discussed already some of the problems with George Schoeneman. He thought maybe we might circularize the fifteen million names we have got down who are potential tax payers next year, the ones that filed returns during this calendar year.
- H.M.Jr: How are you going to pay for it?
- Bell: That is, circularizing?
- H.M.Jr: Yes.
- Bell: It is a public debt transaction. It comes under--

- 3 -

- H.M.Jr: You don't think we are paying too much on that?
- Bell: Well, there was some thought among the Federal Reserve people that the two forty rate was too high; and, of course, it is high for two year money, but it is like savings bonds. It is too high, too. But this is an inducement to the small fellow to save his money, and I believe that you have to have it, certainly up around the two percent level in order to induce him to save his money.
- Now, we could cut that five cents down to four cents a month, and that makes it around one ninety-two.
- H.M.Jr: I would rather be above two.
- Bell: Well, it is a little difficult to put it on a cent basis and make it easy to compute.
- H.M.Jr: Now, these fellows - they don't have to keep it any length of time, do they?
- Bell: On the twelve hundred dollar note, we thought that they could turn it in any time and get the cash back without interest.
- H.M.Jr: Why don't you have that registered?
- Bell: It is very difficult, administratively, to keep all those accounts, but we thought that we would have the name inscribed and maybe have the Federal Reserve just keep a little card record of each note sold and the individual, and then the collector can compare the name inscribed on the security with the name on the return.
- There was a suggestion by one or two Federal

- 4 -

Reserve Banks that we make these bearer securities, but we think there would be quite a traffic in them and a market. We don't want a market in them. We think maybe the banks would come in and buy or some people would come in and buy quite a bunch of them and then sell them out to their - just before tax payment date at a little discount, and they would get a nice return on them for a year or a year and a half.

- H.M.Jr: Now, the other one, you have to keep it sixty days?
- Bell: On the ones over twelve hundred, we thought that they ought to keep it sixty days, and then they ought to give us thirty days notice before they turn it in for cash, because there might be some rather large amounts in that.
- H.M.Jr: Thirty days notice?
- Bell: Yes, thirty days notice.
- H.M.Jr: Is that enough?
- Bell: Yes, I think that is enough. And they get their cash back without any interest at all.
- H.M.Jr: I see.
- Bell: There is no inducement to buy these except for tax purposes.
- H.M.Jr: Why on a - where you are only limited to twelve hundred dollars do you have a thousand dollar denomination?
- Bell: Because we thought that people over twelve - paying taxes in excess of twelve hundred would also buy the twelve hundred and would buy it

- 5 -

all at once, so we cut down administrative difficulties by making a thousand dollar denomination.

- H.M.Jr: I see. I think it is a mistake psychologically.
- Bell: Do you?
- H.M.Jr: Yes.
- Bell: Well, it doesn't have to be done you know, but you take a man who has ten thousand dollars in taxes. He is going to buy twelve hundred dollars immediately.
- H.M.Jr: Well, let him - I wouldn't have a thousand dollar denomination.
- Bell: If he didn't buy the thousand, then he would have to buy twelve one hundred dollar certificates.
- H.M.Jr: That is all right.
- Bell: And that is administratively a little difficult to handle in the collectors' offices and in the Federal Reserve Banks.
- H.M.Jr: For the little fellow, I don't want a thousand dollar denomination.
- Bell: It is very simple to put out.
- H.M.Jr: I wouldn't do it. I would cut out the thousand dollar denomination. Now, what is the Federal's objection to this thing in New York? I said I would speak to them.
- Bell: Well, New York and Chicago both - the first question that Bob Rouse asked in the conference the other day, was this a scheme to raise money

- 6 -

or is it a facility to the tax payer? and I answered that it was primarily a facility to the tax payer, but incidentally if we got some money we wouldn't kick, and one of our thoughts in getting up this second security was that we could tax some of these idle balances that Mr. Eccles talked about so long and wanted to put out a special type security. Particularly we would tax the idle reserves of corporations laying aside specifically for taxes. We think that would be a good thing in this situation.

Now, New York objected to the rate as being too high. They said that the Treasury was paying more than was necessary, that if we wanted money we ought to go out and do it through open market.

Of course, if we did it that way, the people who would get the securities would be those that are not necessarily paying taxes, the banks and others.

H.M.Jr: What is that, Dan?

Bell: I say if we sold it on the open market, the banks and others would get these securities and would not necessarily use them for taxes.

H.M.Jr: That is right.

Bell: They would get them just like they get all other securities.

Now, eliminating the right values, our boys here figure that we have to pay at least a half percent for two year money, so that it isn't much out of line when you take it in six tenths. It is non-transferable. They can get their cash back only through the Treasury and then without interest, and if

- 7 -

they want the return on it they can use it only for one purpose and that is tax payment, so that we don't feel that it is out of line very much with current money rates when you take all those things into consideration.

H.M.Jr: How about on the Hill, John?

Sullivan: Well, it is the first I have seen of it, and I just told Dan out here that I thought that the aspect of it that is most important on the Hill isn't covered here because the fellow they are worrying about is Joe Bananas who works in the shoe shop for eighteen dollars and a half a week, and it gets around to March 15 and he has got to pay twenty dollars. That is more money than he has in his pocket at any one time during the year, and it is the purchase of stamps week by week out of his monthly payroll that the fellows on the Hill are interested in and about which I am concerned.

I mean, this plan, I think, will adequately care for the people who pay the bulk of the income taxes in terms of dollars, but I think there are going to be literally millions--

H.M.Jr: Well, what is the matter with that first thing?

Sullivan: Twenty-five dollars?

Bell: Mr. Secretary, we considered that, and we thought that was as low as we could go in a denominational public debt security and pay interest on it, was twenty-five dollars.

Now, a man who has taxes can save up and buy a twenty-five dollar security, and provision

- 8 -

is made that they can turn them in any time within the maturity of the obligation for income taxes, any month. We thought about the fellow who had less than twenty-five dollars to pay, but we thought that we might say in our circular that he can buy Defense Savings Stamps or Postal Savings Stamps and turn those in with his income tax, and we will make an adjustment between the Treasury and the Postal Savings System.

The difficulty with that is that he is turning in with his tax return bearer securities, which, if lost, he is out.

H.M.Jr: Let me just see if I can't answer Sullivan. Supposing you had some special arrangement for a drive that we go from stamps to this security, you see.

Sullivan: That would answer my problem.

H.M.Jr: I mean if some way you could go from the stamps to this.

Sullivan: That is right.

H.M.Jr: Put a special - I mean in this, when we circularize these fifteen million people, say, "Now, look - " stress the thing, "Now, if you collect twenty-five dollars worth of stamps, we have a special book for that." We haven't got one now. Have we got a book?

Bell: No, not for this, but that we could do.

H.M.Jr: We could get a special book, you see, a twenty-five dollar book for the fellow to collect for his - convert a twenty-five dollar book of stamps into this, get out a special book just for that. How would that be?

- 9 -

Sullivan: That would be fine for the fellow who owes twenty-five dollars, but we would have to arrange that a lesser amount than twenty-five dollars in stamps could be turned in to take care of thousands of fellows who owe eleven dollars and sixty-five cents and twelve dollars and ninety cents.

Bell: He can turn in his book.

H.M.Jr: We will take in his stamps.

Sullivan: Now, that is just it. I think this should be linked up with an educational program with the industrial leaders so that the paymasters in these big companies will explain this and say, "Now, Joe, do you want me to take out thirty-five cents in stamps every week?"

H.M.Jr: When you are on that you had better talk to --

Bell: No pressure?

H.M.Jr: Talk to Houghteling, who is handling the labor union thing for us.

Sullivan: Yes.

H.M.Jr: We are doing it - we don't go to the owners of business. We go to labor unions. We have the labor unions explain it to their people.

Sullivan: That is all right.

H.M.Jr: That could be done, John.

Sullivan: I think it ought to be done for the protection of these people.

H.M.Jr: That can be done. They are coming in very fast. The payroll deductions are coming in very fast now.

- 10 -

- Bell: I don't believe that there is a serious problem there, John, as you seem to think. The man who owes twenty-four dollars is going to pay it at the rate of six dollars every quarter, and it doesn't seem to me to be a very serious problem, although we can meet it through these stamps and that is going to be very expensive, from our standpoint, very expensive administratively.
- Sullivan: That is what they are all interested in on the Hill, Dan.
- Bell: The other point I think John raised is whether these could be used for state taxes. We did not have in mind at this time providing anything for state income taxes. They could be used, if we wanted to provide it, for, say, an administrator or executor to buy when he takes charge of the estate, and I understand he has fifteen months to liquidate it, to be turned in at the end.
- H.M.Jr: Well, let's do this thing first, when you are talking about it. If I am going to do this thing, I would like to announce it Thursday for July 1.
- Sullivan: Well, now, let me see, Dan, when a fellow--
- Bell: Well, we can't begin to issue them on July 1.
- H.M.Jr: Why not?
- Bell: It is quite a problem getting out your literature.
- H.M.Jr: When can you issue them?
- Bell: I planned on July 15.
- H.M.Jr: That is all right, but we can announce it.

- 11 -

Bell: They ought to be dated July 15 so they will mature on the fifteenth of a month. I said these will be eighteen months. I am coming around to making them two years, even though they overlap, because of the high rate in both cases. I think two years would be better.

Sullivan: Let's see what happens. I buy one next month for twenty-five dollars. I want to turn them in on the fifteenth of March. Do I have to cash that and then send my check to the collector or do I send the bond in with my tax return?

Bell: Send your bond in with the tax return.

Sullivan: And in March of '42 I get how much credit for that bond, twenty-five dollars and forty cents?

Bell: If you buy a twenty-five dollar bond in July, in March you would get twenty-five dollars and forty cents credit.

Sullivan: I see. And there will be schedules printed on them so that the fellow who buys them in August will know how much--

Bell: That is right. That schedule attached will be printed right on the face of each of the denominations mentioned. If you buy that bond in October, you pay twenty-five dollars and fifteen cents for it. If you turned it in in September '42, you would get twenty-five dollars and seventy cents credit.

Haas: Just like a war savings stamp?

Bell: Yes.

Sullivan: Twenty-five dollars and seventy cents credit?

Bell: In September 1942 you get twenty-five dollars

- 12 -

and seventy cents credit of which seventy cents includes the fifteen cents that you paid as accrued interest. You get that back.

Sullivan: Yes.

Bell: And if you want to cash it in any time, supposing you come along down in September and you want to cash it in. You don't want to pay it in income taxes or you have over-estimated your taxes. You get back the twenty-five dollars and fifteen cents that you paid back there in October.

Sullivan: And if I hold it until December '42 when it matures, and I still don't want to use it for taxes, I then get twenty-five eighty-five?

Bell: No, you get twenty-five fifteen, the same as you paid for it. You only get the credit for interest when you turn it in for income taxes.

Sullivan: I am inclined to think now that it is better to announce this separately and disregard the present payment of state taxes for the time being, but that is the matter that they have gone into very thoroughly up there. There have been any number of members of Congress who have testified on it, and I would like to be able to tell the Committee that we are announcing this separately because, if we try to combine them, they will be confused, and they are working and studying on the present payment of state taxes, and we believe we can work it out.

Bell: John, I would rather you would say to them that we have a United States Savings Bond in the form of Series G, which a man can buy to put in his estate; and, if he dies, whenever

- 13 -

he dies that thing can be cashed in at par.

H.M.Jr: Are you familiar with that?

Sullivan: No, I am not.

Bell: And he gets current return of two forty - two fifty.

H.M.Jr: Will you save my time on that?

Sullivan: Yes, I will go through that with Dan.

H.M.Jr: We have had the best people in the United States working on that. Would you mind?

Sullivan: I will.

H.M.Jr: And just let me call up Allen Sproul. That G Bond thing, we even sold it to the President.

Bell: A man can save fifty thousand dollars a year for his estate taxes on that.

H.M.Jr: Are you fellows sold on this, both of you?

Haas: Yes.

Murphy: Yes, sir.

H.M.Jr: Any doubts?

Haas: Maybe we are biased.

H.M.Jr: Why?

Haas: Well, you like the cake you worked on yourself.

Schwarz: One point I think we ought to consider is several books that I am thinking of for dollar stamps and five dollar stamps, possibly because

- 14 -

every group is going to be centered about their own tax bill, what their tax bill amounts to. I would like, for example, maybe to save ten or fifteen dollars a month and somebody else would want to save five dollars a month.

(Telephone conversation with Mr. Sproul follows:)

June 24, 1941  
10:55 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: All right.

HMJr: How is the thing going?

S: It's going very well, just a little too well again I should say.

HMJr: Well, that's good news, isn't it?

S: Can't complain about that, however.

HMJr: No. Going a little bit too well, well, that's all right.

S: Yeah. The rights are quoted at 25, 27 or 25, 27 and the subscriptions are coming in in good shape.

HMJr: Well, we are so much more conservative than you fellows, you know.

S: (Laughs)

HMJr: Now, let me ask you this, I'm thinking very seriously of going ahead with this Treasury plan for tax anticipation notes.

S: Yeah.

- 2 -

HMJr: Now, you have some objections to it?

S: I have some question about the notes for unlimited subscription by large taxpayers. I have no question or objection to the smaller subscription notes for the small fellow.

HMJr: Well, what are you worrying about on the other one?

S: That if it's priced at anything away from the market, it will cause a lot of funds to flow into that special security and above the market price for no purpose.

HMJr: Well, did you talk with Dan about it?

S: Yeah, we've talked with - we've been talking with Dan.

HMJr: You don't like it, huh?

S: Well, I think the rate should be on any unlimited subscriptions, security should be on the market.

HMJr: Well, how much above the market are we?

S: Well, at 6/10 of a percent, I should say you were - oh, twice the market.

HMJr: Is that right? He says that - Dan says not if you eliminate the right value.

S: Huh?

HMJr: Not if you eliminate the rights value.

- 3 -

S: Well, it would be about that I think.

HMJr: Wait a minute. (talks aside) Dan says - he can hear you on the loud speaker - that if you eliminate the rights value, the market would be about a half.

S: Well, I figured a little lower than that, that eliminating the rights value would take something out of - would change the....

HMJr: You think we'd get a lot of money this way?

S: I think you'd get quite a bit on that sort of an offering, but I don't see why it should be - myself, tied up with tax anticipation, I think if you'd get the same amount of money with less mechanical difficulty and a - just the same or a lower rate on a market security.

HMJr: Well, we're thinking about it - I'll talk some more to the boys.

S: All right and we'll figure about it and talk to Dan some more.

HMJr: Will you do that? Thank you.

S: All right. Goodbye.

- 15 -

H.M.Jr: Have you talked with Eccles about this?

Bell: I have talked to Piser and he was at our meeting the other day, and I have also talked to Ronald Ransom and asked him if he would be thinking about it. They have had a memorandum over there before the whole Board, but I told Ronald that I would call him again this week and get his views on it.

Haas: The market security, Mr. Secretary, would increase bank deposits, and this will not. It will tap these idle funds.

H.M.Jr: What did you say?

Haas: A market security, such as Sproul suggested, would increase bank deposits.

H.M.Jr: Why?

Haas: Because the banks would buy them, and when they buy securities they have--

H.M.Jr: And this won't?

Haas: This will not.

Bell: This would tap the bank deposits.

H.M.Jr: Is that important?

Bell: Very important.

Haas: At this time, I think it is.

Bell: It is the second step in this program. You first issued your United States Savings Bonds.

H.M.Jr: Has Viner seen this?

Bell: No, I guess not.

- 16 -

Haas:

Another thing about it, if you issue an open market security, as one of the Federal Reserve men said, that the corporations that needed it for tax purposes wouldn't get it. The banks would just buy more.

(Telephone conversation with Mr. Eccles' secretary follows:)

June 24, 1941  
11:00 a.m.

HMJr: Hello.

Operator: Chairman Eccles is on the Hill testifying. He will not be back until about 12:30 or 1.

HMJr: Who is there in his office - let me talk to them?

Operator: I have his Secretary. Miss Egbert.

HMJr: Hello.

Miss Egbert: Yes, sir.

HMJr: This is Mr. Morgenthau.

E: Yes, sir.

HMJr: I wondered if Mr. Eccles could come over to see me about 3:15 this afternoon.

E: 3:15?

HMJr: Is his calendar.....

E: I'm quite sure that he can, unless they keep him up on the Capitol which I don't think they will do.

HMJr: Well, I'll tell you what it's about and if he'd get in touch with Mr. Bell, he might want to post himself before he comes over. It's to discuss this tax anticipation warrant - tax anticipation warrant.

E: Yes, sir.

- 2 -

HMJr: And it's Mr. Bell - is Piser familiar - Piser is familiar with it.

E: He is.

HMJr: Yeah. I'd like to come to a decision this afternoon - (talks aside) Ronald Ransom has been on it too.

E: Uh huh.

HMJr: And if Mr. Eccles would bring him, Mr. Ransom or anybody else that he'd like to.

E: All right, sir.

HMJr: Mr. Piser or anybody he'd like to. I'd like to if possible settle it this afternoon.

E: Yes, sir.

HMJr: And I'll hold 3:15 until I hear from you.

E: All right. Well, I'm quite sure that he can come, and as soon as I can get in touch with him, why I'll will let...

HMJr: Well, if I don't hear from you, I'll take it that it's on.

E: All right, sir.

HMJr: Thank you.

E: All right, thank you.

- 17 -

H.M.Jr: Could you fellows show this to Jake before three fifteen?

Bell: Sure.

H.M.Jr: And then let's have a meeting at three fifteen. But let's settle this thing this afternoon. I think it is - you are satisfied, aren't you?

Haas: Yes, sir.

Murphy: I certainly am.

Haas: The rate is high.

H.M.Jr: Has White seen this at all?

Bell: No, I talked to White, you remember, that day we had a discussion in the nine thirty meeting, and I talked to White about the thing, and he wanted a graduated rate. He thought, well that is just - well, it is mechanically impossible. There are a number of people that have got to handle this and there would be complications and so forth, but this fits into that as near as you can get it, to his ideas on it.

H.M.Jr: Let's see if we can't settle it at three fifteen.

Do you (Sullivan) want to sit in or not?

Sullivan: No. From my point of view this will cover it providing the stamps are available.

H.M.Jr: But I think if he would explain this thing to you. There is no need of your sitting in this afternoon, but I would like Bell to explain that to you on that G Bond.

STANDARD NOTE-TAX SERIES

It is recommended that we issue two series of notes as outlined below, both dated July 15, 1942. In view of the fact that we are starting the program in the middle of the calendar year, it is recommended that these series mature December 31, 1942, approximately 18 months instead of 2 years after the issue date. On January 1st of each year hereafter two new series should be provided so that a taxpayer can always purchase notes in advance to cover two years taxes.

All notes are to be sold at par and accrued interest, if any, and will be redeemed at any time when presented in payment of income taxes at par and accrued interest up to and including the month in which such taxes are paid. If not presented in payment of income taxes, they will be redeemed under certain specified conditions at par and accrued interest, if any, up to the date of purchase. In other words, the taxpayer, in this case, gets back just the amount he paid for the notes and no more. The notes will not be registered, but will have the purchaser's name and address inscribed thereon so that the Collector of Internal Revenue can compare this name with that on the tax return. They will not be transferable.

TAX SERIES A-1942

Denominations will be \$25, \$50, \$100, and \$1,000. The amount of this series which can be presented in payment of income taxes will be limited to \$1200 in any one tax year. The notes will provide a return of 2.40 per cent a year, but the return will not be expressed in terms

- 2 -

of percentage. For a \$25 denomination, it will be expressed at 5 cents a month, \$50 denomination at 10 cents a month, and so on for the other denominations. By following this method it is made simple to compute the cost when the taxpayer purchases the notes and simple both to the taxpayer and the Collector of Internal Revenue to compute the credit that may be applied to the income taxes due. There will be a schedule of values printed on the face of each note. (See attached schedule showing the purchase price and the tax payment value for each month from July 1941 to December 1942.) These notes will be redeemed for cash at any time at the purchase price.

It is realized that this rate of return (2.40%) is considerably out of line with two-year money rates, but it should be a real inducement to the taxpayer, particularly the small ones, to save his taxes currently as he earns his income rather than paying his taxes due on this year's income out of next year's income. The rate is not too much out of line with the rate paid in some cases on savings accounts and the rate paid on postal savings deposits. Anyway, it gives the taxpayer a break and he pays the bill in the end.

#### TAX SERIES B-1942

Denominations will be \$100, \$500, \$1,000, \$10,000, and \$100,000. Other denominations can be made available if a need for them is shown. There is no limit on the amount of these notes which can be presented in payment of income taxes. The Secretary will, however, reserve the right to reject any and all subscriptions. It is necessary to keep this

- 3 -

control in order to prevent their use for a purpose not intended. The notes will provide a return of  $\frac{3}{5}$  of 1 per cent (0.60%) a year, but here, as in Series A, the rate percentage will not be expressed. It will be stated as 5 cents a month for a \$100 denomination, 25 cents for a \$500 denomination, and so on. There will be a schedule of values printed on the face of each note. (See attached schedule showing the purchase price and the tax payment values for each month from July 1941 to December 1942.) These notes will be redeemed for cash after sixty days and upon thirty days advance notice at the purchase price.

It might also be argued that this rate (0.60%) too is out of line with two-year money. We probably would have to pay  $\frac{3}{8}$  of  $\frac{1}{2}$  per cent if offered in the market, but these tax notes are not transferable and therefore a slightly higher rate can be justified.

120  
100  
74

**STANDARD MONTH - PAY SHEET A-1000**

**Purchase Price and Tax Payment Values on each Deduction**

	251	252	253	25-002
July 1941 .....	25.	30.	100.	1,000
August 1941 .....	25.05	30.10	100.20	1,002
September 1941 ...	25.10	30.20	100.40	1,004
October 1941 .....	25.15	30.30	100.60	1,006
November 1941 ....	25.20	30.40	100.80	1,008
December 1941 ....	25.25	30.50	101.00	1,010
January 1942 .....	25.30	30.60	101.20	1,012
February 1942 ....	25.35	30.70	101.40	1,014
March 1942 .....	25.40	30.80	101.60	1,016
April 1942 .....	25.45	30.90	101.80	1,018
May 1942 .....	25.50	31.00	102.00	1,020
June 1942 .....	25.55	31.10	102.20	1,022
July 1942 .....	25.60	31.20	102.40	1,024
August 1942 .....	25.65	31.30	102.60	1,026
September 1942 ...	25.70	31.40	102.80	1,028
October 1942 .....	25.75	31.50	103.00	1,030
November 1942 ....	25.80	31.60	103.20	1,032
December 1942 ....	25.85	31.70	103.40	1,034

Office of the Under Secretary  
June 23, 1942

STANDARD CONTRACT - 141 6012 2-1942

	Purchase Price and The Forward Values on each Denomination				
	100	500	1,000	10,000	100,000
July 1941 .....	100.	500.	1,000.	10,000.	100,000.
August 1941 .....	100.05	500.25	1,000.50	10,005.	100,050.
September 1941 .....	100.10	500.50	1,001.00	10,010.	100,100.
October 1941 .....	100.15	500.75	1,001.50	10,015.	100,150.
November 1941 .....	100.20	501.00	1,002.00	10,020.	100,200.
December 1941 .....	100.25	501.25	1,002.50	10,025.	100,250.
January 1942 .....	100.30	501.50	1,003.00	10,030.	100,300.
February 1942 .....	100.35	501.75	1,003.50	10,035.	100,350.
March 1942 .....	100.40	502.00	1,004.00	10,040.	100,400.
April 1942 .....	100.45	502.25	1,004.50	10,045.	100,450.
May 1942 .....	100.50	502.50	1,005.00	10,050.	100,500.
June 1942 .....	100.55	502.75	1,005.50	10,055.	100,550.
July 1942 .....	100.60	503.00	1,006.00	10,060.	100,600.
August 1942 .....	100.65	503.25	1,006.50	10,065.	100,650.
September 1942 .....	100.70	503.50	1,007.00	10,070.	100,700.
October 1942 .....	100.75	503.75	1,007.50	10,075.	100,750.
November 1942 .....	100.80	504.00	1,008.00	10,080.	100,800.
December 1942 .....	100.85	504.25	1,008.50	10,085.	100,850.

Office of the Under Secretary  
June 23, 1941.

June 24, 1941  
11:13 a.m.

HMJr: Hello.

Grace Tully: Hello, Mr. Secretary.

HMJr: How are you?

T: All right, sir. How are you.

HMJr: I'm all right.

T: That's good.

HMJr: Was I able to crash the many gates to reach you yesterday.

T: Yes. I said I was over at the house at the time, so Crim took it and brought it right up. I was on the second floor at that moment and sent it right over the office where the man came but I got it and it was signed and was mailed last night.

HMJr: Oh, you're wonderful.

T: So you can say it must be there this morning.

HMJr: Well, that's grand.

T: Yes, sir.

HMJr: Thank you so much.

T: You are very welcome, Mr. Secretary.

June 24, 1941  
11:25 a.m.

Isadore  
Lubin:

.....Ready out in St.  
Paul and his suggestion is  
that I go see Father Bob White,  
who is the Dean of the Catholic  
University Law School here.

HMJr:

Yes.

L:

Who comes from Boston, who is  
an intimate friend of Walsh's  
and who is also a friend of  
Jim Landis' and likes Jim very  
much.

HMJr:

Isn't it wonderful.

L:

And he said that he thinks that  
that's the best way to handle  
it and Father - I can tell Father  
White about the Vatican end of it  
which Ready says has been handled  
from the Treasury standpoint to  
their entire satisfaction and he  
perhaps will be willing to go  
down and talk to Walsh. He says  
a personal visit from either  
himself or from Bob White would  
be the way to handle that, and  
he told me if I had any trouble  
at all about getting in touch with  
Father White to call him back and  
he'd call Walsh on the telephone  
but he thought it'd be better to  
do it this other way through a  
personal visit.

HMJr:

Oh - mean have a .....

L:

Have Father Bob White go down  
and see Walsh.

- 2 -

HMJr: I see. Well, now...

L: He's all right. Father White's a fine fellow.

HMJr: What's his position?

L: Well, he's the Dean of the Catholic University Law School here in town.

HMJr: Oh, yeah.

L: And he used to be Assistant United States Attorney up in Boston before he became a priest.

HMJr: Oh, I think it sounds perfect.

L: I don't know why I didn't think of it myself. (Laughs)

HMJr: Well, if you did, you'd have wings.

L: Yeah. (Laughs)

HMJr: Or you might....

L: Or a Roman collar or something.

HMJr: Or a priest.

L: (Laughs) Well, I'll call him and see if I can go out and see him.

HMJr: Well, don't get a Roman collar, stick with me.

L: Okay (Laughs) Thank you.

HMJr: All right.

June 24, 1941  
11:38 a.m.

Lauchlin  
Currie:

Hello, Mr. Secretary.

HMJr:

How are you?

C:

Fine.

HMJr:

If you are not busy around 3:15, would you like to sit in on a discussion on Treasury tax anticipation warrants?

C:

Yes. I'm afraid I don't know much about them, but I'd like to.

HMJr:

I tell you, I'll send you my own memorandum over.

C:

Fine.

HMJr:

And if you don't mind bringing it back, that is if you read it before....

C:

Yeah.

HMJr:

To give you the idea. The idea is one of convenience and one of drawing down on reserves.

C:

Yeah. Well, I'll be delighted to.....

HMJr:

Eccles will be here.

C:

To learn something about it.

HMJr:

I say, Eccles will be here and you might want to write a memo on it for the President.

C:

Well, maybe you want me to (Laughs)

- 2 -

HMJr: Well, I mean, anyway let's....  
C: Yeah.  
HMJr: I mean, I'd like him to know  
about it through you.  
C: Okay. I'll check with you on  
anything you'd like to have me  
do on that.  
HMJr: All right.  
C: Fine. I'll be there.  
HMJr: Thank you.  
C: Thank you.

June 24, 1941  
11:51 a.m.

HMJr:

Hello.

Operator:

Go ahead.

HMJr:

Hello.

Sumner  
Wellee:

Good morning, Henry.

HMJr:

Good morning, Sumner.

W:

Dean Acheson has brought in to me a proposed letter for me to send to you approving of this general license and also suggesting a change in the first paragraph of the suggested press release.

HMJr:

Yeah.

W:

Which would read as follows:  
"A general license was today issued under the Freezing Control Order with respect to transactions of the U. S. S. R. and its nationals, the State Department requested and the Treasury and Justice Departments approved the issuance of the license without requirement of the formal assurances which have been requested of European neutral nations affected by the Freezing Order."

HMJr:

Yeah.

W:

Is that agreeable to you?

HMJr:

Yes.

W:

I wanted to ask in view of the time element, Henry, in order

- 2 -

to save time, if it wouldn't be well for the President to be telephoned to just get his approval of this.

HMJr:

Yes.

W:

Without waiting until it goes through all the red tape involved, which might be late afternoon before we get around to it.

HMJr:

Yeah.

W:

And I wanted to ask if you didn't want to telephone him or if you wanted me to telephone him?

HMJr:

No, you telephone him.

W:

All right, Henry.

HMJr:

Now, I'm going to get a letter from you, though.

W:

I've already signed it.

HMJr:

You have?

W:

Yeah.

HMJr:

Good. Will that be coming over?

W:

Well, it's on my desk now and it will be sent over to you by messenger immediately.

HMJr:

Good. No, you telephone the President.

W:

All right, and a.....

HMJr:

On the initiative of - after all you're taking the initiative of this thing.

- 3 -

W: All right, and then this suggested change in the press release will be sent over to you at the same time.

HMJr: Well, how was it before? I don't - don't see....

W: The first paragraph read in the original version, "The Treasury Department has today issued a general license under the Freezing Control, etc.". The change which I believe you wanted indicates that we requested and that you and Justice approved.

HMJr: That's right.

W: All right. I'll ask Dean to send this over immediately to you.

HMJr: Thank you.

W: Thank you, Henry.

June 24, 1941  
12:00 noon.

HMJr: (Is talking aside)

Operator: Mr. Foley.

HMJr: Ed.

Ed  
Foley: Yes, Mr. Secretary.

HMJr: Welles just called me.  
Number one; the press release -  
release reads that this is  
being done at the direction of  
the State Department.

F: At the direction or request?

HMJr: Request.

F: At the request.

HMJr: Number two; he's signed a  
letter asking me to do it  
and number three; he asked me  
to call the President. I said  
I wouldn't, it was his job and  
he's calling the President.

F: Good. Well, that's fine.

HMJr: I tell you, I can't quite  
take both Giannini and Welles  
in the same week.

F: (Laughs) Well, I guess the  
world is getting soft. (Laughs)  
Well, that's fine.

HMJr: As a matter of fact there isn't  
a hell of a lot of difference  
between them.

, - 2 -

F: Well, we don't do anything then until we hear further that he's cleared it across the street.

HMJr: No.

F: Okay and I'll - Father White is in New York, he's at the Park Lane Hotel up there and I've got a call in for him.

HMJr: Okay. But just sit tight until this stuff comes over.

F: Fine. Thank you.

June 24, 1941  
12:56 p.m.

HMJr: Hello.

Operator: Mr. Welles.

HMJr: Hello.

Sumner Welles: Hello, Henry.

HMJr: Yes, Sumner.

W: I spoke with the President and he's entirely in accord..  
....

HMJr: Good.

W: And is quite willing for you to have it issued immediately.

HMJr: Good.

W: All right.

HMJr: Now, if you send - have we got a copy of that release?

W: Well, it left my office to go over straight to you by messenger about 50 minutes ago.

HMJr: Well, it's not here.

W: (Laughs) Well, I'll check up on it.

HMJr: I'll check at my end too, at least....

W: I'll check immediately and find out what's happened, it was to be sent by special messenger straight to your office.

- 2 -

HMJr: Well, I just asked Stephens' and he said there was nothing here.

W: I'll check, Henry.

HMJr: Thank you.

W: And if it isn't already over there, it will be.

HMJr: Thank you.

W: All right, thank you very much.

THE UNDER SECRETARY OF STATE  
WASHINGTON

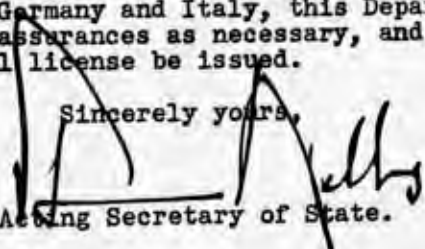
June 24, 1941.

My dear Mr. Secretary:

Mr. Acheson has told me of the recommendation of the informal committee of representatives of the Departments of State, Treasury, and Justice which is considering matters arising under the freezing order of June 14, 1941, that a general license should be issued for transactions of the Union of Soviet Socialist Republics and its nationals.

I approve of this recommendation. The press release of June 14 provided for the facilitation of transactions of certain countries and their nationals provided that assurances were given that such transactions would not be availed of to evade the purposes of the order. The Ambassador of the Union of Soviet Socialist Republics has informed us that last week he cabled his Government recommending that such assurances be given. In view of the state of war now existing between the Union of Soviet Socialist Republics and Germany and Italy, this Department does not regard further assurances as necessary, and requests that the general license be issued.

Sincerely yours,

  
Acting Secretary of State.

The Honorable

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

FOR THE PRESS

June 24, 1941.

## IMMEDIATE RELEASE

A general license was today issued under the freezing control order with respect to transactions of the Union of Soviet Socialist Republics and its nationals. The State Department requested, and the Treasury and Justice Departments approved, the issuance of the license without requirement of the formal assurances which have been requested of European neutral nations affected by the freezing order.

At the time the freezing order was extended to all of continental Europe, the President announced that it was intended through the medium of general licenses to facilitate transactions of certain countries and their nationals conditional upon the receipt of adequate assurance from the Governments of such countries that the general licenses would not be employed by such countries or their nationals to evade the purposes of the freezing order. Recent events concerning the Union of Soviet Socialist Republics have made such assurances unnecessary.

O.K. - M.J.

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Tuesday, June 24, 1941.

Press Service  
No.26-9

A general license under the freezing control order was issued today with respect to transactions of the Union of Soviet Socialist Republics and its nationals. The State Department requested, and the Treasury Department and the Department of Justice approved, the issuance of the license without requirement of the formal assurances which have been requested of European neutral nations affected by the freezing order.

At the time the freezing order was extended to all of continental Europe, the President announced that it was intended through the medium of general licenses to facilitate transactions of certain countries and their nationals. Issuance of such licenses was to be conditional upon the receipt of adequate assurance from the Governments of such countries that the general licenses would not be employed by such countries or their nationals to evade the purposes of the freezing order. Recent events concerning the Union of Soviet Socialist Republics have made such assurances unnecessary.

-000-

TREASURY DEPARTMENT  
Office of the Secretary  
June 24, 1941.

GENERAL LICENSE NO. 51  
UNDER EXECUTIVE ORDER NO. 8389, APRIL  
10, 1940, AS AMENDED, AND REGULATIONS  
ISSUED PURSUANT THERETO, RELATING TO  
TRANSACTIONS IN FOREIGN EXCHANGE, ETC.\*

(1) A general license is hereby granted licensing the Union of Soviet Socialist Republics as a generally licensed country.

(2) As used in this general license:

Any foreign country licensed as a "generally licensed country", and nationals thereof, shall be regarded for all purposes as if such foreign country were not a foreign country designated in the Order.

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

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

June 24, 1941

File

Mr. Cushman

At 2:15 this afternoon I returned a telephone call from Mr. Collado of the Department of State. He told me that the Minister of El Salvador had been in touch with him informally in regard to the desire of the Central Bank of El Salvador to borrow \$1,000,000 against gold in New York. The National City Bank had been interested in this proposition and had submitted a memorandum wherein it was indicated that the National City would be willing to lend \$1,000,000 for a period of one year against gold held as collateral in the Federal Reserve Bank of New York. A rate of  $1/2\%$  would be paid "on stand by" basis, and  $1-1/2\%$  would be the rate of interest on any money used.

Mr. Collado told me that the State Department was anxious to see the need of El Salvador for dollars taken care of. I told Collado that Mr. Knabe had told me some weeks ago that this question might arise. At that time Mr. Knabe and I had discussed the desirability of endeavoring at this time to establish a precedent transaction of the type which the National City Bank has under consideration. We agreed, however, that the present might not be the opportune time for creating such a precedent, considering that we are actually tightening our gold regulations and watching carefully all our gold movements. Mr. Collado made the point that the Department of State would feel that we should not be as strict with our Latin American friends as with nations in other parts of the world in carrying out gold transactions. I told Mr. Collado that I was sure the Federal Reserve Bank would be glad to look into the question as to what it might do to accommodate the Salvadorans, and I offered to bring the latest developments to the attention of Mr. Knabe. Mr. Collado agreed to this.

At 3 o'clock this afternoon I spoke with Mr. Knabe by telephone and gave a report of my conversation with Mr. Collado. Mr. Knabe said that he did not want us to feel that the possibility of the Federal Reserve Bank of New York taking care of the Central Bank of San Salvador should be ruled out. He said that if I would give him a memorandum in the premises he would be glad to have this studied the next day or two, since it would likely involve a recommendation to the Directors of the Federal Reserve that their rules be liberalized to permit the National City Bank of New York to make loans of the type of that contemplated by the National City Bank. Consequently I am forwarding to Mr. Knabe this evening the original of the attached memorandum.

By telephone at 3:30 this afternoon I told Mr. Collado of my talk with Mr. Knabe and let him know that the memorandum was going forward.

kmo:lsx-5/24/41

From 24, 1944

Mr. Eakins

Mr. Godman

with reference to Mr. Eakins's memorandum addressed under date of May 16 to Mr. Godman, and in confirmation of their conversation by telephone of this afternoon, the following note is submitted:

Mr. Callado of the Department of State told Mr. Godman by telephone on 5/19 this afternoon that the Minister of El Salvador had gotten with him informally in regard to the offer of the National City Bank of New York to lend \$1,000,000 to the Central Bank of El Salvador for a period of one year, with a charge of 1/2% on a "stand by" basis, and with interest at 1-1/2% on any funds drawn. This would involve, however, the use of gold deposited by El Salvador with the Federal Reserve Bank of New York as collateral for the National City Bank loan.

Mr. Godman told Mr. Callado that Mr. Eakins and he had discussed the credit problem of El Salvador some weeks ago, and that Mr. Eakins had anticipated that an approach such as the present one would be made either to the State or Treasury Department. It had been their feeling at the time that this might not be the profitable moment to establish a precedent transaction of this type, considering that the tendency has been in recent months to tighten gold regulations and suspend gold payments.

Mr. Godman told Mr. Callado that he was confident the Federal Reserve Bank of New York would be glad to study the possibility of granting an accommodation to meet the needs of El Salvador if approached on this subject. It was agreed, therefore, that Mr. Godman should telephone Mr. Eakins and report the latest developments in the present case. Then Mr. Godman telephoned Mr. Eakins this afternoon. The latter said that a memorandum on the subject would be sent as the basis for study as to whether the Directors might look favorably upon a liberalization of their credit terms to meet the situation under reference.

At 3:30 this afternoon Mr. Godman talked by telephone again with Mr. Callado and told him that the Salvadoran matter had been referred to Mr. Eakins and that some word might be had from the Federal Reserve Bank of New York after the Directors' meeting on Thursday.

In conclusion it should be stated that both the State and Treasury Departments earnestly hope that the credit needs of El Salvador may be taken care of by New York.

DMO:lag-6/24/44

June 24, 1941

Paris

Mr. Guesman

At 3:30 this afternoon Mr. Collado telephoned me from the Department of State. He said that the Haitian Legation had sought his advice as a letter addressed under acts of June 12 to the National Bank of Haiti by the National City Bank of New York. The National City was requesting the Haitian Bank to withdraw the important French deposits which the Haitian Bank has had with the National City for several years. This is a French deposit carried on the books of the National City Bank, Paris, as a deposit of the National City Bank of New York. The deposit represents funds to be used in payment of services on the 1910 gold loan of Haiti, which had been floated in France. This round-about way of making the deposits had resulted from litigation on the part of French holders of the bonds in question who demanded payment on a gold basis, and who might conceivably endeavor to attack a deposit in France made in the name of the National Bank of Haiti. The present development is that the National City desired that the letter of June 12 signed by Assistant Vice President Baitner, that it would be transferred to one of the French banks, such as the Credit Lyonnais or the Comptoir d'Escompte. Mr. Collado was uncertain as to what advice should be given the Haitians. He had telephoned me because of my familiarity with the account in question while on duty at Paris. I told him that I would gladly call Mr. Robert Pearce, who was formerly in charge of the National City Bank at Paris, but who is now in New York, and see if I could informally gain any information to implement that in the letter under reference. I told Mr. Collado that the Treasury was already aware of the efforts of the National City Bank to reduce to the minimum the deposits held with their branches in Europe.

At 3:45 I spoke with the National City Bank in New York. Mr. Pearce was absent on account of illness, so I talked with Mr. Baitner. He told me that the letter to the National Bank of Haiti was only one of many addressed to clients of the bank with the view to having them withdraw their deposits. In answer to my question, he said that he was not familiar with the extent to which complete liquidation of the bank in France might be under way, but he definitely knew that the fact was being made to reduce deposits to a minimum. He was handling this Haitian account, in the absence of Mr. Pearce, simply because he is the one in charge of the bank's Haitian transactions.

I told Mr. Baitner that I was aware that a considerable amount of interest had been paid on the account in question. He told me that interest was no factor whatever in the present question of the National City to seek the elimination of this deposit. In answer to my further question as to whether the National City Bank of New York would continue as an intermediary and hold the Haitian funds with a French bank in the name of the National City Bank of New York, he replied in the negative, stating that the National City desired to be relieved of

- 2 -

all liability for this account. So my final question, he said that he doubted whether any other American bank in Paris would be willing to take the account, but that the National City Bank had no objection to our approaching the other American banks having offices in Paris.

At 4:10 I telephoned Mr. Collado and gave him the above report. He agreed with me that the Treasury could not properly approach another American bank soliciting its taking over the deposit in question, since we have been taking the position that a reduction of the business of these banks in Europe is highly desirable. Mr. Collado said that he thought we should do nothing more in the premises pending a report of the matter to Under Secretary Welles.



HMC:dm:6.24.41

June 24, 1941  
3:15 p.m.

RE TAX ANTICIPATION NOTES

Present: Mr. Currie  
Mr. Haas  
Mr. Murphy  
Mr. Viner  
Mr. White  
Mr. Bell  
Mr. Eccles  
Mr. Ransom  
Mr. McKee  
Mr. Piser

H.M.Jr: Dan, do you want to tell them about the work you have been doing on these tax anticipation notes?

Bell: Well, we have been considering the matter of issuing a tax anticipation certificate. When we first started out, we thought we would make it a certificate and sell it on a discount basis, but the more we got into it, the more we found that an obligation of that type would cause difficulty in the collectors' offices and the taxpayer would probably have difficulty in figuring it out and there would be all kinds of adjustments.

Then we also thought that a certificate which could only be used for a year or less would not quite fit the situation, because a man might want to buy a security in January to turn in for March of the following year,

- 2 -

which is a fifteen month security.

So we then went to a note. We can't sell notes on a discount basis more than a year, so then we had to try the coupon feature.

The coupon didn't quite work because we didn't want to give a flat rate on the obligations because the taxpayer and the collector would have to do the computing on each obligation.

So finally we arrived at this conclusion, that we would issue two series of tax notes. One would be used for the small taxpayer up to, say, a twelve hundred dollar limit. He could not use more than twelve hundred dollars of these notes in any one year in payment of taxes.

The denominations would be twenty-five, fifty, and one hundred dollars. At first we had a thousand, but the Secretary thought that psychologically that was wrong, so we eliminated the thousand dollars. These notes would run for two years and could be used at any time by the taxpayer in payment of income taxes due within that two year period. He would get interest on his notes at a rate of two forty a year, but we would not express it in terms of percentage. We would express it in terms of so many cents a month, five cents a month for his twenty-five dollar denomination, ten cents for his fifty, and twenty cents for each one hundred dollar note.

If they are not used for income tax payment purposes, he could turn them in at any time and get his cash back without any interest at all.

Now, that is the limit - that is the twelve hundred dollar limit.

- 3 -

For the taxpayers who pay more than twelve hundred dollars, we would provide another series of notes with the denominations running from a hundred dollars up to a hundred thousand dollars, and they would yield a return of six tenths of one percent, again not expressing it in terms of percentage but five cents a month for each one hundred dollar denomination.

There would be no limit on these notes that could be presented in payment of income taxes except the limit is the amount of taxes that a man owes. The Secretary, however, would reserve the right to reject any and all subscriptions, because we do want to keep control over certain situations such as the communities where they have a racket of avoiding local taxes. We didn't want anybody to buy them for that purpose.

In order to get their cash back on these notes, they would have to hold them for sixty days and give us thirty days' notice. They would not get any interest on them when they turned them in in that fashion.

Ransom:

Could the same taxpayer buy both series?

Bell:

Yes. We didn't contemplate making any distinction. Every taxpayer could buy the twelve hundred dollar limit, and if he had more taxes than that, he could then jump to the other series for the balance of the taxes.

We contemplated that the value of the notes, both from a purchase standpoint and redemption standpoint, and "Turn them in for taxes," would be stated right on the face of the note and that all denominations would have the same value on a given date.

- 4 -

For instance, if a man bought his - any of these notes at any time between now and March 15 and turned them in on March 15, all the collector would have to do is count the types of denominations, turn to March 15, and multiply that figure by the number of certificates, and he has got the amount of credit on the tax.

Ransom: He pays the accrued interest up to the time he buys it if they have run a month or two?

Bell: That is right. He buys it in September for twenty-five dollars, and he pays twenty-five dollars and ten cents. He pays it in March and gets twenty-five dollars and forty cents for it. Any other way would make the collector compute what is due on each note, and he may have to compute anywhere from five to twenty or twenty-five, and that would be quite a job for him, especially during a time when he is snowed under anyhow. Tax payment time.

So we had to make it as simple as we possibly could, both from the standpoint of the taxpayer, simply figure it so that he could easily compute what his credit would be and from the standpoint of the collector in computing immediately that the return is in with the remittance as to what the credit should be.

Now, we have had some questions raised as to whether the two forty rate on the small note and the six tenths rate on the long note aren't too high in terms of the money market rates. Certainly the two forty rate is much above the money market.

McKee: On the mechanics, Dan, can any certificate be turned in within two years, or will they

- 5 -

be so issued that they are just do on a certain tax payment date.

Bell: No, they could be turned in at any time in payment of income taxes up to the maturity of the note, and I see no objection to turning them in after the maturity of the note; but they would only get interest up to the end of the period.

McKee: Let's take your twelve hundred dollars. Say a fellow had twelve hundred dollars worth of taxes. Say he had twenty-four hundred dollars worth of taxes and he would withhold his certificates until the last payment. What does he do in that case in order to earn his interest? Would you call for a certain percentage of his certificates?

Bell: No, we are going to have to put some sort of a control in the collector's office, and we don't know yet how that can be worked but he could turn in any time during the calendar year '42, twelve hundred dollars of these notes in payment of his taxes. It wouldn't make any difference whether he turned them in on one tax payment date or on four tax payment dates.

McKee: But the longer he kept them the more interest he would get, so he would probably keep his certificates until the last payment date and pay cash otherwise.

Bell: That is right, but Dr. Viner raised the question this morning as to whether we shouldn't make provisions for permitting the man to turn in all of his notes, say on March 15, and get credit for the interest that he would have gotten had he held them until the tax payment date, September - June, September and December.

- 6 -

- Ransom: What advantage to the Treasury is in that?
- Viner: In this --
- Bell: That saves bookkeeping.
- Viner: The advantage to the Treasury is that it saves the Treasury having to send - the Treasury would only have to send one bill for such persons instead of four. The taxpayer would only have to make out his payment once instead of four times. Naturally, they are exactly on a par.
- All I am suggesting is that these certificates can be presented all on March 15 for the whole year.
- McKee: That is right.
- Viner: The taxpayer saves nothing in interest, the Treasury loses nothing.
- McKee: The Treasury already has the money.
- Viner: And it saves bookkeeping on both sides.
- Bell: That is right, it does. It is a pretty good point.
- White: Since you are providing a method of saving out of your current earnings to meet the tax which is applicable during that year, doesn't that remove most of the justification for permitting an individual to spread his payments over the ensuing year? Why shouldn't it be required that he pay his complete tax in March, since you are making this mechanism possible to save a lot of bookkeeping.
- Viner: That would be another proposal.

- 7 -

- White: It might obviate --
- Viner: You see, this way, what this does, too, it enables you to compensate the person who in any case would have made advance payments on an interest basis. You are putting him on a parallel.
- McKee: Yes. Aren't you getting into the complication of changing the tax law?
- White: I thought it was a tax regulation rather than a law.
- H.M.Jr: Well, you mustn't lose sight of the fact that we are starting in the middle of the year and asking the fellow on the fifteenth of July to save for a year's taxes.
- Viner: I would also say that at a time when you are increasing taxes sharply is not a time to bunch required payments earlier. It is two blows at the same time. That would be a thing to introduce gradually, from four payments say to three or two or then to one at a time when the tax payments aren't going up, but this year to hit them all at once, dumping, as the newspapers say --
- H.M.Jr: You read the Chicago Tribune.
- Viner: They would say tripping. I say this is not the right time to do that.
- McKee: I agree with you, but Doctor, I think there have been a lot of sentiments for increasing the number of payments from four to maybe six every two months or something like that.
- H.M.Jr: Well, if you don't mind, I mean - if we could get the benefit of your advice as to principles and then these other refinements

- 8 -

could be worked out afterward with the help of you gentlemen. I am sort of anxious either to go forward on this along these lines, if you people think the principle is right, you see. I mean, if the principles are right.

- Ransom: Let me ask one other question. Is there popular demand for these obligations?
- H.M.Jr: When we said we were going to study this thing, if you can gauge your demand by the press, we got an awfully good press on it, and they liked it on the Hill.
- Bell: We have had a number of letters also asking if we were going to get out something like this.
- H.M.Jr: There is real interest in it, but it does go back to the original suggestion of Eccles' to tap these - the funds of the corporations. We think we can do this pretty successfully this way.
- Eccles: Yes. When you get ready, I would like to suggest, if it is appropriate to do so today, an alternative to part of the program, the first series, that is, the series up to twelve hundred dollars.

As you propose it here, I think it is all right and I would have no alternative suggestions to make. I think it is the only practical way that I know of that can meet the problem of the small taxpayer, that is, the taxpayer up to say twelve hundred dollars. It is an excellent way, it seems to me, of inducing him to prepare for the payment of his taxes when he is getting his income rather than spend his income. It enables the Government to get

- 9 -

the money now and avoids the lag between the period of earning and the period of collection.

When it gets to the larger amount, I would like to suggest an alternative program that I think would do all that this proposes to do in the case of the large taxpayer, and would possibly do more by way of utilizing what otherwise are idle funds and keep the banks from supplying a credit to whatever extent existing idle funds were used.

H.M.Jr: What is that, Marriner?

Eccles: I was just going to say, I was just going to suggest - would you like me to do that?

H.M.Jr: Sure.

Eccles: Well, I didn't know that we were going to have this conference today, so yesterday, knowing that this subject had been under consideration and was still under consideration, I discussed this matter yesterday with the Board, Mr. Piser and Dr. Goldenweiser, and prepared a brief memorandum here which is just a little bit more than a page.

H.M.Jr: It scared me.

Eccles: I couldn't quite get it on one page, but I practically did.

H.M.Jr: Can't you get along with a piece of paper?  
(Laughter)

Eccles: Possibly we should have taken a perfectly blank sheet and got it on one page.

H.M.Jr: When this Administration is over, the Roosevelt Administration is going to be noted as

- 10 -

a one page Administration.

Eccles:

Well, it is a good thing to teach us to say what we have to say in a short space, short period.

Well, the Board in considering this matter, I think, pretty well agreed to this sort of a proposal. I won't say anything about the Series A except that there was a question as to whether or not twelve hundred dollars was enough. There was some question as to whether we should go up to fifteen, maybe eighteen hundred dollars. That may be debatable. Nobody had any very strong feeling on it, but it did seem that it was possibly advisable to do that. We also thought of some of the mechanics.

Since we discussed it yesterday, we find that you have worked out that problem in a very excellent way here so as to avoid the complications that appeared at first and that was having the Reserve Banks pay checks for the interest, which made it rather complicated, and that has been worked out, so I won't read the first paragraph.

Bell:

That has been worked out since our conference with the Federal Reserve people.

Eccles:

That is right, and yesterday when we discussed this, we hadn't had advice as to the matter having been worked out.

Now, on the other one --

Piser:

Mr. Chairman, in the first paragraph there is also the suggestion for a receipt for payments.

- 11 -

Eccles:

Oh, yes.

There is this suggestion that John McKee made that people in paying taxes issue a check and they have the check, usually, as a receipt for their taxes. It was suggested in this case that there might be a stub form attached to these notes that would be stamped by the Bureau and returned to the tax payer which would be a receipt or an acknowledgment to the tax payer that he had paid so much in these notes in payment of his taxes. That is a suggestion that John made. I think it might be worth considering.

Now, regarding the Series B notes, it seems to me that the proposal made sometime ago for issuing the non-negotiable notes, having a two year maturity and paying semi-annual coupons at the suggested annual rates - now, these rates could be any suggested rate - of a quarter for six months, a half for the second six, three-quarters for the third, and one percent for the fourth would be preferable to the issuance of the B Series, because it would meet not only the immediate problem of tax anticipation, but also the larger problem of tapping some of the larger balances that would go into short term securities because they want liquidity, and it will not go into the long term market securities. The notes that have been suggested would be sold to investors other than banks. Banks would be prohibited from taking them. They would be registered, and they would be issued in denominations of a thousand and over, nothing less than a thousand, because this would take care of the smaller ones, you see, so it would - you could confine it to a thousand dollars or over. It would be redeemable on thirty days' notice on any interest payment date or you could say on thirty days'

- 12 -

notice any time, but - or, that is my suggestion, that thirty days' notice, but on any interest - not less than thirty days' notice, redeemable on any interest payment date, and that would reduce the problem of interest figuring because the coupon would take care of it.

A provision might also be made for extending the maturity beyond two years, if that seemed to be advisable. There is no use, it seems to me, having both the notes that were proposed and the Series B notes, since this would only add to the already large number of types of issues. The Series B notes are not necessary from the point of view of enabling the larger tax payers to budget their tax requirements. This is done in any case by most of the larger tax payers who would purchase the Series B notes. These larger companies have substantial amounts of cash available, a great many of them, not only as reserves for tax payments, but for other purposes as well. Idle money, most of it. The plan which I suggest, therefore, would tap not only the tax reserves at the time they were set up, at the time earnings were made, but large additional sums of money. This proposal would be better than the issuance of additional bills or short-term market notes, because the bills and the short-term market notes would go largely to the banks, while the special issue would not go to the banks.

Bell: You would prohibit that?

Eccles: You would prohibit it, yes. An advantage of the proposed securities over Series B notes is that the interest that the Treasury would pay would be smaller. For instance, you proposed six tenths. This would be a quarter,

- 13 -

a half, three-quarters, and one. Only in case of carrying the full two-year period would they then average six - I think it is sixty-two and a half is what it averages. Some of them would only be carried six months, some of them, maybe, a year, some of them a year and a half, but only would they equal or slightly exceed the Treasury's charge of six tenths here, which is a rather high rate to pay if they are only held for six months or for a year, so it would have that advantage.

Another advantage is that the holders, furthermore, might well find that they had sufficient cash when income taxes are due to pay the taxes out of balances rather than use the notes. They, therefore, would continue to keep the money invested in the short Treasury securities which would be - reduce the amount of market financing that might be required in the long-term securities. In this way there would be a constant increase in substantial holdings of the non-negotiable Government securities and a corresponding decrease in the need for the open market issues which the banks always take. It would tend to shut off, in other words, the inflationary development through the bank purchases.

Now, I would just like to - that is the memorandum and that is the picture.

- Viner: What does that mean, is that September 15, June 15, March 15? The interest dates are these quarterly dates?
- Eccles: No, the interest dates are semi-annual dates.
- McKee: Of any particular issue that he is speaking of,

- 14 -

it would be dated some date due in six months or a year or eighteen months or twenty-four months.

- Viner: You would have - I see. You would have to make these interest dates correspond to the tax payment dates.
- Eccles: Well, you could do that.
- Viner: And if you need a cashing in process, in fact you would need a day or two leeway.
- Eccles: Well, you would have to give thirty days' notice.
- Viner: I didn't mean that. Supposing I have a tax payment due on March 15. I also have one of your notes due on March 15. I would have to arrange it so as to get the cash--
- Haas: They could make them acceptable for taxes.
- Viner: Will you make them acceptable--
- Eccles: The notes themselves - you could do that, but my thought was, let them pay the cash. You are dealing with fairly substantial tax payers when you get into this class.
- Viner: There is this March, and the time that is necessary in order to get in before the dead line, and you would be crowding them if the thing were only to mature on March 15 and the payment has to be in before midnight on March 15, you are putting an unnecessary jam in there.
- White: I imagine it could be easily arranged to accept the maturing notes the same as a check.

- 15 -

- Eccles: There could be no objection to that.
- Viner: You are throwing everybody in on that date.
- Eccles: The point is a great many of these corporations that have a substantial amount of taxes to pay would merely invest their funds in these, and they would find maybe they have money to pay the taxes, and they would pay the tax by check and keep these running. To the extent they needed them, they have got the securities they could turn in or cash in at any interest day in anticipation.
- White: Then what interest rate would they yield?
- McKee: Fixed rate.
- White: The maximum of one percent.
- Eccles: The idea would be a quarter, a half, three quarters, and one. That would make it two years. At the end of that time you could have it mature, and they could buy some more.
- White: Oh, they would begin over again.
- Eccles: You could either do that or you could keep them running if they once had them at a five year rate.
- Viner: Then what you are doing is, even a one-day note at one percent, because after that--
- McKee: Sure.
- Viner: They are payable on thirty days notice. You are giving them a thirty-day note.
- McKee: About a two-year contract, you are right.

- 16 -

- Eccles: Would give them a two-year note, and they would mature. Then they would be buying them currently. They would automatically just run off and get the money, that is right.
- White: I think that has much to commend in it.
- Eccles: You can get a lot of money both for taxes that would meet the tax problem of a great many institutions and individuals who are the larger payers who had money that was idle, and they would say, "Well, I might just as well buy these, and then if I don't have money when my taxes come due, I have got something I can cash in."
- Ransom: But there is an advantage in relating it to your tax situation which you could easily do by dating them and maturing them so that they would fall on tax payment dates so the purchaser could use them if he chose or cash them in and use the cash or carry them on if he preferred to do it that way.
- White: Are those cheaper than what the Government is borrowing for now, that rate?
- Murphy: Yes.
- Haas: They are about equal, about the same.
- Bell: About the same.
- Haas: Including the rights.
- Viner: Dan, isn't it true that a large part of the tax payment starts flowing in, say, as early as March 5 or 10?
- Bell: About the tenth.
- Viner: You see, that is what I have in mind. You

- 17 -

don't want to force everything into the tax collector on March 15. He is very anxious to have a few days leeway. His pressure is very great. And, therefore, if you make these acceptable in lieu of cash on these dates, I think you could save a lot of work.

Eccles: You could do that.

McKee: May I ask a question, Mr. Secretary, for the benefit of all of us, and I think maybe Dan might be able to throw some light on it. The tax anticipation certificates that followed the World War that were sold for tax purposes and due on tax paying dates, was the experience of the Department - is there any evidence that much of that was used as actual payment for taxes or weren't they cashed and paid in by check, especially with the large holders?

Bell: Yes, they were cashed in just like any other public debt obligation. Some of them were turned in, but those certificates were sold to raise money. They weren't sold to facilitate tax payment at all.

McKee: I understand that, but in any--

Bell: And very few of them were used.

McKee: They could have been. You were privileged to do so, weren't you?

Bell: That is right, yes. But most of them turned them in for cash and then used the cash to pay it. And they were largely bought by banks and other institutions, financial institutions.

Eccles: This would tend to reduce the need of issuing

- 18 -

notes or bills and keep the banks - reduce your market issues and would tend to use idle funds that desire a certain amount of liquidity and won't go into the long securities, and there are a substantial amount of those funds that I think it is a sound fiscal policy to utilize rather than the creation of additional funds through bank borrowing, and this seems to me to get at both problems of providing the liquidity for tax purposes and also the use of - letting the Treasury use funds that corporations and individuals have that are now idle and that they can't put into long securities for various - a great many reasons that they may have.

- H.M.Jr: Well, could we do it this way, Marriner, because I didn't know that you were going to make this suggestion, you see. Could Dan take it and talk it over with our crowd and then have another meeting with you, maybe, tomorrow?
- Eccles: It would be fine.
- H.M.Jr: So maybe by Thursday you could tell me which one of these you think is the best.
- Bell: Yes.
- H.M.Jr: Could you do that, Dan?
- Bell: Yes. We considered some this proposal of Mr. Eccles. You remember he made this once before at a financing meeting.
- Eccles: That wasn't in connection with this present tax thing.
- Bell: No, it was not, it was a regular financing matter.

- 19 -

H.M.Jr: Can you meet with them tomorrow?

Bell: Be glad to.

H.M.Jr: And give me an answer which you think is the best?

Bell: Yes. We have got a problem to work out in making this as simple as possible.

Ransom: For the afternoon, tomorrow afternoon? Because we have an engagement in the morning.

H.M.Jr: Is that all right?

Bell: That is all right.

Eccles: I have got to go up on the Hill again.

H.M.Jr: You will enjoy it.

Bell: You should have gone up on Saturday when we all wanted to go away for the week-end.

Ransom: They tell me you did a fine job, Dan.

Bell: In two hours and a quarter, I got by.

H.M.Jr: You didn't tell me.

Bell: I told you I was going up. Oh, we had a nice time, a lot of nice questions.

Ransom: They were very complimentary to you.

Bell: Oh, really? I am surprised.

Viner: I think this two point four rate is pretty high myself. I would like to see it a four-cent rate instead of a five-cent, so that it will be just as low as Postal Savings.

- 20 -

- Bell: That would make it one ninety-two.
- White: Well, there is supposed to be some added inducement here for them to take advantage of this method in view of the fact that the rates are going to be substantially increased this year and in view of the fact that there may be a lot of people paying who hitherto have not been, so that there is an element of added inducement--
- Viner: But I don't want to throw out the Postal Savings thing by giving them another security that is more advantageous to them than Postal Savings. I would protect the Postal Savings System.
- McKee: Don't you think you can pay a little premium on this, Doctor, because they can be used for only one purpose.
- Viner: Or it can be cashed in.
- Haas: No interest?
- Viner: Yes, I know.
- McKee: The only way you are going to get revenue out of this is for a single purpose security.
- Viner: On the other hand, it has certain conveniences as compared to Postal Savings.
- Eccles: But it goes to just the comparatively little people in this thing.
- Viner: These people aren't as small as the Postal Savings people, and yet you are giving them a better rate.
- Eccles: Except the Postal Savings, you don't limit

- 21 -

them to the twelve hundred dollars.

- Haas: It is really not an investment, Jake. It is an interim investment.
- Ransom: Anybody can buy it. The fellow who would be buying the Series B could still buy the Series A.
- Eccles: The Postal Savings can be cashed in at any time. It is practically a demand deposit on which they can get two percent, whereas this is a two-year - or is a security that can only be used for a certain purpose; and, if it is cashed in prior to that time, they get nothing, so it has disadvantages--
- Viner: Yes, it has some disadvantages. In some ways it is more convenient, though. These are higher income people than the ones that get the two percent.
- White: Is the income from this taxable?
- Bell: Yes, sir.
- Eccles: It would have to be.
- H.M.Jr: Well, would you fix the time?
- Eccles: Well, any time tomorrow afternoon or the next afternoon.
- H.M.Jr: I would like, if you don't--
- Eccles: It would be satisfactory to me, Dan, if you fix it. Is it satisfactory to you, Ronald, and John?
- Ransom: Any time tomorrow afternoon.
- Bell: Three o'clock is all right with me.

- 22 -

- McKee: I was just wondering, if, instead of taking the Secretary's time, whether we could retire now with Dan and maybe work out some of these details?
- Bell: I think we would like to discuss it and see now it fits into the mechanics of the thing. Just a straight obligation is all right.
- Eccles: We might get together for a little while before we meet with the Secretary and save his time.
- H.M.Jr: I won't be here tomorrow. I wanted you to have a meeting while I was gone.
- Eccles: O.K.
- H.M.Jr: I thought you might have a meeting while I was gone.
- Ransom: We can get together, all of us.
- Eccles: You don't expect to announce this this week, necessarily?
- H.M.Jr: I had hoped to do it Thursday, but I ought to do it Monday by the latest.
- Eccles: You will be back by Monday?
- H.M.Jr: Oh, I am going down and back in the same day. I am flying.

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, June 24, 1941.  
6/23/41

Press Service  
No. 26-7

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated June 25 and to mature September 24, 1941, which were offered on June 20, were opened at the Federal Reserve Banks on June 23.

The details of this issue are as follows:

Total applied for - \$267,792,000  
Total accepted - 100,068,000

Range of accepted bids:

High	-	100.			
Low	-	99.978	Equivalent rate approximately	0.087	percent
Average Price	-	99.983	"	"	" 0.066 "

(88 percent of the amount bid for at the low price was accepted)

-oOo-

TREASURY DEPARTMENT  
Washington

119

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, June 24, 1941,  
6/23/41

Press Service  
No. 26-6

The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, today announced the plan for refinancing the outstanding notes of Series N of the Corporation maturing July 20, 1941, and raising additional funds for the Corporation, through offering for subscription, at par and accrued interest, through the Federal Reserve Banks, notes of the Corporation, designated 1 percent notes of Series W, in the amount of \$500,000,000, or thereabouts, and at the same time offering to purchase on July 3, 1941, at par and accrued interest, the outstanding notes of Series N to the extent the holders of such maturing notes subscribe for the new notes.

The notes of Series W now offered will be dated July 3, 1941, and will bear interest from that date at the rate of 1 percent per annum payable on a semiannual basis on April 15 and October 15 in each year. They will mature on April 15, 1944, and will not be subject to call for redemption prior to maturity. They will be issued only in bearer form with coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

The notes will be fully and unconditionally guaranteed both as to interest and principal by the United States. Pursuant to the provisions of the Public Debt Act of 1941, interest upon the notes now offered shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted. Otherwise the notes will be accorded the same exemptions from taxation as are accorded other issues of Reconstruction Finance Corporation notes now outstanding. These provisions are specifically set forth in the official circular released today.

- 2 -

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington; they will not be received at the Reconstruction Finance Corporation. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from holders of Series N notes tendered for purchase should be accompanied by such notes to a par amount equal to the par amount of notes of Series W subscribed for. Other subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Other subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for.

The right is reserved to close the books as to any or all subscriptions at any time without notice. Subject to the reservations set forth in the official circular, subscriptions from holders of Series N notes who tender them for purchase under this offering will be allotted in full. Payment for any notes allotted must be made or completed on or before July 3, 1941, or on later allotment. Series N notes are outstanding in the approximate amount of \$211,000,000.

The text of the official circular follows:

## RECONSTRUCTION FINANCE CORPORATION

1 PERCENT NOTES OF SERIES W, DUE APRIL 15, 1944

Dated and bearing interest from July 3, 1941

FULLY AND UNCONDITIONALLY GUARANTEED BOTH AS TO INTEREST AND PRINCIPAL  
BY THE UNITED STATES, WHICH GUARANTY IS EXPRESSED ON THE FACE  
OF EACH NOTE

1941  
Department Circular No. 664

-----  
Fiscal Service  
Bureau of the Public Debt

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, June 24, 1941.

## I. OFFERING OF NOTES AND INVITATION FOR TENDERS

1. The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, invites subscriptions, at par and accrued interest from the people of the United States for notes of the Reconstruction Finance Corporation, designated 1 percent notes of Series W. The amount of the offering is \$500,000,000, or thereabouts.

2. The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, offers to purchase on July 3, 1941, at par and accrued interest, the outstanding notes of the Corporation designated Series N, maturing July 20, 1941, to the extent to which the holders thereof subscribe to the issue of Series W notes hereunder. Tenders of Series N notes for that purpose are invited.

## II. DESCRIPTION OF NOTES

1. The notes will be dated July 3, 1941, and will bear interest from that date at the rate of 1 percent per annum, payable on a semi-annual basis on October 15, 1941, and thereafter on April 15 and October 15 in each year until the principal becomes payable. They will mature April 15, 1944, and will not be subject to call for redemption prior to maturity.

- 2 -

2. The notes will be issued under authority of an act of Congress (known as "Reconstruction Finance Corporation Act") approved January 22, 1932, as amended and supplemented. The income derived from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any Territory, dependency, or possession of the United States, or by any State, county, municipality, or local taxing authority. These notes shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

3. The authorizing act provides that in the event the Reconstruction Finance Corporation shall be unable to pay upon demand, when due, the principal of or interest on notes issued by it, the Secretary of the Treasury shall pay the amount thereof, which is authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amounts so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such notes.

4. Bearer notes with interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

- 3 -

## III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or the securities which may be allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from holders of Series N notes tendered for purchase should be accompanied by such notes to a par amount equal to the par amount of notes of Series W subscribed for. Other subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Other subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription in whole or in part, to allot less than the amount of notes applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions from holders of Series N notes who tender them for purchase hereunder will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before July 3, 1941, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Notes of Series N tendered for purchase must have coupons dated July 20, 1941, attached, and payment will be made at par and accrued interest to July 3, 1941. The principal proceeds of the Series N notes will be applied in payment of the Series W notes, and accrued interest from January 20, 1941 to July 3, 1941 on Series N notes (\$3.96409 per \$1,000) will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

June 24, 1941

TO: Harold Graves  
FROM: Secretary Morgenthau

1. Can you get me a copy of the button which this bank started to issue in New York for people who had bought a Savings Bond? I would like to see it.

2. Now that Ford has signed up with the C.I.O., how about getting him to put in a payroll deduction plan for our Savings Bonds?

Please give me a report on both of these Thursday morning.

MEMORANDUM

June 24, 1941.

TO: Secretary Morgenthau  
FROM: Mr. Sullivan

Intermittently for the last month I have been working with Lt. Colonel Greenbaum and Mr. Kyle of the War Department, informally advising them in their attempts to modify certain sections of the amortization law so that it can be more easily handled from the administrative point of view. I have made it clear to them the Treasury is not to be involved in this question in any manner which might result in our being obliged to join with any other department in issuing the necessary certificates.

Under present law a contractor is entitled to amortization of 20 percent a year, provided he obtains a certificate of necessity and — when his tax returns are examined — can successfully refute any charge by the Internal Revenue Bureau that the contractor was directly or indirectly reimbursed by the government for any part of the cost of construction of the new facilities. Under the existing law he can also request either (1) a certificate of adequate protection of the public interest or (2) a certificate of non-reimbursement. If he secures either of these two certificates he is then automatically entitled to amortization and the Internal Revenue Bureau is foreclosed from charging that the contractor was directly or indirectly reimbursed for the cost of these facilities.

The principal changes in the law proposed by the War and Navy Departments and agreed to by the Defense Commission are as follows:

1. The elimination of the Defense Commission as a certifying agency.
2. An extension of the filing period for certificates of necessity from 60 days after the completion of construction of new facilities to 6 months after said completion.

- 2 -

3. The elimination of the requirement of certificates of non-reimbursement when the contract involved is for an amount less than \$2000.

4. Under the present law the certifying agency is required to investigate every contract the contractor has with all government agencies before it is authorized to issue a certificate of non-reimbursement. It is now proposed to limit this investigation to the War and Navy Departments, the Maritime Commission, and such other departments and agencies as the President may designate.

5. The language of the present statute relating to certificates of non-reimbursement is so drafted that the mental attitude of both the contractor and the governmental contracting officer as to whether they intended direct or indirect reimbursement is a factor in determining whether such a certificate should be issued. This is a subjective approach which is very difficult of application. It is proposed to change this language to eliminate the mental attitude of contractor.

We have been requested by the Bureau of the Budget to make to them a report on these proposed changes. If you approve, I propose to notify the Budget that this is a matter with which the Treasury Department is not concerned and that we have no objections to the passage of the amendments.

JMS

June 24, 1941

MEMORANDUM FOR MR. CALLAHAN:

The invitations to the opening of the Treasury hour, Texaco program, July 2nd, should be sent to the following:

100 tickets to:

Lieut. General Hugh A. Drum,  
Commanding General, First Army,  
Governor's Island,  
New York, N.Y.

100 tickets to:

Rear Admiral Adolphus Andrews,  
Commandant, Third Naval District,  
90 Church Street,  
New York, N. Y.

N. M. Chauncey

June 24, 1941

PERSONAL

My dear General Drum:

I take pleasure in having sent to you 100 invitations for the opening of the Treasury hour, July 2nd, at 9 p.m., at the studio of the Columbia Broadcasting Station. They will be delivered to you on Friday.

This hour has been given by the Texas Oil Company to the Treasury in the interest of promoting the sale of Defense Savings Bonds. The performances will run for 13 weeks and if the users of the tickets enjoy the first performance, I will be very glad to furnish you with additional tickets for the succeeding 12 performances.

With kind regards, I remain

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Lieut. General Hugh A. Drum,  
Commanding General, First Army,  
Governor's Island,  
New York, N. Y.

June 24, 1941

PERSONAL

My dear General Drum:

I take pleasure in having sent to you 100 invitations for the opening of the Treasury hour, July 2nd, at 9 p.m., at the studio of the Columbia Broadcasting Station. They will be delivered to you on Friday.

This hour has been given by the Texas Oil Company to the Treasury in the interest of promoting the sale of Defense Savings Bonds. The performances will run for 13 weeks and if the users of the tickets enjoy the first performance, I will be very glad to furnish you with additional tickets for the succeeding 12 performances.

With kind regards, I remain

Yours sincerely,

(Signed) E. Sargent Shriver

Lieut. General Hugh A. Drum,  
Commanding General, First Army,  
Governor's Island,  
New York, N. Y.

June 24, 1941

PERSONAL

My dear General Drum:

I take pleasure in having sent to you 100 invitations for the opening of the Treasury hour, July 2nd, at 9 p.m., at the studio of the Columbia Broadcasting Station. They will be delivered to you on Friday.

This hour has been given by the Texas Oil Company to the Treasury in the interest of promoting the sale of Defense Savings Bonds. The performances will run for 13 weeks and if the users of the tickets enjoy the first performance, I will be very glad to furnish you with additional tickets for the succeeding 12 performances.

With kind regards, I remain

Yours sincerely,

(Signed) E. Sargent Snow

Lieut. General Hugh A. Drum,  
Commanding General, First Army,  
Governor's Island,  
New York, N. Y.

Copy to Mrs M.  
" " Robert

The Secretary:

Colonel Lindroth, aide to General Blum, assured me the Army in the New York Area would be most happy to make use of the 100 tickets. He further extended the General's thanks.

Address:

LIEUT. GENERAL HUGH A. DROM  
COMMANDING GENERAL,  
FIRST ARMY,  
GOVERNOR'S ISLAND  
NEW YORK, N.Y.  
(PERSONAL)

June 24, 1941

PERSONAL

My dear Admiral Andrews:

I take pleasure in having sent to you 100 invitations for the opening of the Treasury hour, July 2nd, at 9 p.m., at the studio of the Columbia Broadcasting Station. They will be delivered to you on Friday. I would appreciate it if 25 of them could be allocated to the "PRAIRIE STATE".

This hour has been given by the Texas Oil Company to the Treasury in the interest of promoting the sale of Defense Savings Bonds. The performances will run for 13 weeks and if the users of the tickets enjoy the first performance, I will be very glad to furnish you with additional tickets for the succeeding 12 performances.

With kind regards, I remain,

Yours sincerely,

(Signed) E. Morgenthau, Jr.

Rear Admiral Adolphus Andrews,  
Commandant, Third Naval District,  
90 Church Street,  
New York, N. Y.

June 24, 1941

PERSONAL

My dear Admiral Andrews:

I take pleasure in having sent to you 100 invitations for the opening of the Treasury hour, July 2nd, at 9 p.m., at the studio of the Columbia Broadcasting Station. They will be delivered to you on Friday. I would appreciate it if 25 of them could be allocated to the "PRAIRIE STATE".

This hour has been given by the Texas Oil Company to the Treasury in the interest of promoting the sale of Defense Savings Bonds. The performances will run for 13 weeks and if the users of the tickets enjoy the first performance, I will be very glad to furnish you with additional tickets for the succeeding 12 performances.

With kind regards, I remain,

Yours sincerely,

(Signed) E. Morgenthau, Jr.

Rear Admiral Adolphus Andrews,  
Commandant, Third Naval District,  
90 Church Street,  
New York, N. Y.

June 24, 1941

PERSONAL

My dear Admiral Andrews:

I take pleasure in having sent to you 100 invitations for the opening of the Treasury hour, July 2nd, at 9 p.m., at the studio of the Columbia Broadcasting Station. They will be delivered to you on Friday. I would appreciate it if 25 of them could be allocated to the "PRAIRIE STATE".

This hour has been given by the Texas Oil Company to the Treasury in the interest of promoting the sale of Defense Savings Bonds. The performances will run for 13 weeks and if the users of the tickets enjoy the first performance, I will be very glad to furnish you with additional tickets for the succeeding 12 performances.

With kind regards, I remain,

Yours sincerely,

(Signed) H. Worgenthau, Jr.

Rear Admiral Adolphus Andrews,  
Commandant, Third Naval District,  
90 Church Street,  
New York, N. Y.

*Copy to Mrs. M. J. Andrews  
Robert*

The Secretary:

Sten. Jahnke, aide to Admiral Andrews, said he would effect distribution of the 100 tickets for the Navy in the New York Herald and would earmark 25 for the "TRAIKIE STATE". He extended thanks.

Address:

REAR ADMIRAL ADOLPHUS ANDREWS  
COMMANDANT, THIRD NAVAL DISTRICT,  
90 Church Street,  
New York, N.Y. (Personal)

JUN 24 1941

My dear Dr. West:

I have been greatly impressed with the prompt and thorough distribution by the Boy Scouts of America of the Government Posters announcing the sale of United States Savings Bonds and Stamps for Defense. I learn that to date Scouts have distributed in excess of 1,100,000 posters throughout America. This is a splendid response to the President's request. Will you kindly convey to the members of your organization our very sincere appreciation of this "Good Turn for Uncle Sam."

In appraising our publicity program we have come to the conclusion that we should distribute an additional 400,000 of the larger posters which are more commanding of attention. Because of the fine work already done, we request that the Boy Scouts assume the responsibility for this additional distribution as a further service to our country.

I am confident that the Boy Scouts of American will undertake this service and that it will be done effectively and with dispatch and will prove a real contribution to our Defense Program.

Sincerely,

(Signed) H. Worgenthaler, 577

Secretary of the Treasury.

Dr. James E. West,  
Chief Scout Executive,  
Boy Scouts of America,  
2 Park Avenue,  
New York, New York.

File to Mr. Thompson

HNS:DW

JUN 24 1941

My dear Mr. Secretary:

You will recall giving me a note at Cabinet meeting on June 6th about Defense Bond sales in Auglaise County, Ohio.

I have now had this matter investigated, and quote below significant extracts from the report of the investigation:

"General Information

"The inhabitants of Auglaise County, which is a thriving agricultural district are chiefly of German descent. However, through interviews had with the various officials, as mentioned, and also with several farmers, whose names I did not obtain, it is my opinion that residents of this county constitute a good American community. Undoubtedly, there are a few people living in that territory who, through their descent are somewhat pro-German, but from all the information obtained and my general impression, I feel that Auglaise County is as fairly American as any average community one might visit.

"The only towns in which industries are located that benefit through the Defense Program are Minster and St. Marys, and the benefits so derived by these two localities are not sufficient to noticeably increase wage income materially over an average period in years wherein the Defense Program is not involved. Bearing that in mind, and the fact that the county is primarily agricultural, ready money generally is not available to a farmer this time of the year. Several of the persons interviewed stated that they are of the opinion that later on during the year, when the farmers begin to receive money for their

- 2 -

produce, in all probability the investments in United States Savings Bonds and Stamps in Auglaise County will compare favorably with those of any other similar community. While calling on the banks, records were produced for my examination which showed that the investments in United States Savings Bonds were in creditable amounts.

### Summary

"This investigation has shown that the sale of United States Defense Bonds and Stamps has not been as large as in some other communities. However, I believe that conditions such as the high rate of interest received by depositors in two of the local loan associations has had considerable to do in governing how the people invested their money. The lack of increased wages coming into the community through defense manufacture has resulted in no noticeable addition to the regular income received from the ordinary agricultural district. Subversive or un-American activities were not encountered during my investigation, and I do not believe that the fact the majority of the people are of German descent materially affects their attitude toward this government. It is my opinion that Auglaise County is a thriving, average American community."

Sincerely,

(Signed) E. Hergenthan, Sr.

The Honorable,

The Secretary of Agriculture.

By Messenger

ES

THE SECRETARY OF THE TREASURY  
WASHINGTON



My dear Mr. Secretary:

You will recall giving me a note at Cabinet meeting on June 6 about Defense Bond sales in Auglaise County, Ohio.

I have now had this matter investigated, and I enclose herewith the report of the investigation, for your information.

Sincerely,

A large, dark, scribbled-out signature, likely of the Secretary of the Treasury, which has been redacted from the document.

The Honorable,

The Secretary of Agriculture.



TREASURY DEPARTMENT  
OFFICE OF COORDINATOR  
TREASURY ENFORCEMENT AGENCIES  
WASHINGTON

June 12, 1941.

TO: Mr. Graves  
FROM: Elmer Ireby

There is attached a communication of Special Agent H. R. Sunball dated June 11, covering his investigation of conditions relating to the sale of defense bonds and stamps in Auglaize County, Ohio.

Enc.

*H.R.*  
*Sunball*  
*transmitted to Mr. Graves*



INTELLIGENCE UNIT

Treasury District #8.  
(Name of Division)SI\*Special  
Unjacketed.  
HRS:meg

## TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

425 Federal Building,  
Detroit, Michigan,  
June 11, 1941.Report Examined, Approved and  
forwarded to Chief, Intelligence Unit

JUN 11 1941

*A. C. Grunewald*Special Agent in Charge  
Treasury District No. 8Chief, Intelligence Unit,  
Bureau of Internal Revenue,  
Washington, D. C.In re: Sales of U. S. Defense Bonds  
and Stamps,  
Auglaize County, Ohio.

In compliance with your telephonic instructions of Friday, June 6, 1941, an investigation was made in Auglaize County, Ohio, to determine the reason for the relatively small amount of money that has been invested by the inhabitants of that county in United States Defense Bonds and Stamps. The following listed Post Offices and Banks in Auglaize County and the officials who were interviewed are noted:

First Class Post Office

None

Second Class Post Office

A. J. Brown, Postmaster - Wapakoneta, Ohio  
William H. Utrecht, Postmaster - St. Marys, Ohio  
Herman J. Laut, Postmaster - New Bremen, Ohio

Third Class Post Office

Mrs. Ruth H. Brinkman, Postmistress - Minster, Ohio  
E. H. Katterheinrich, Postmaster - New Knoxville, Ohio  
Mrs. Theodore C. Gilroy - Waynesfield, Ohio  
(Wife of Postmaster and Postal Clerk)

SI\*Special  
Unjacketed.

Fourth Class Post Office

C. E. Dingleline, Postmaster - Buckland, Ohio  
 S. W. Frazier, Postmaster - Uniopolis, Ohio  
 Vernon Mertz, Postmaster - St. Johns, Ohio  
 A. O. Wagstaff, Postmaster - New Hampshire, Ohio  
 Fred Reichelderfer, Postmaster - Criddersville, Ohio

National Banks

First National Bank - Wapakoneta, Ohio  
 Edwin J. Stroh, Cashier  
 Peoples National Bank - Wapakoneta, Ohio  
 H. W. Knost, Cashier  
 First National Bank - New Bremen, Ohio  
 W. W. Grothaus, President

State Banks

Home Bank - Criddersville, Ohio  
 Robert DeLong, Cashier  
 Home Banking Company - St. Marys, Ohio  
 H. H. Brinkmeyer, President  
 Minster State Bank - Minster, Ohio  
 Leo H. Frericks, Cashier  
 Peoples Savings Bank - New Knoxville, Ohio  
 H. H. Kuhlman, President

The information obtained during this investigation in Auglaize County through interviews had with the above-named bank and postal officials can be grouped as follows:

Information Obtained through Interviews had with Postmasters

The various postmasters of the small fourth class offices informed me that they had not received orders from the Post Office

SI\*Special  
Unjacketed.

Department instructing them to handle Defense Savings Bonds or Stamps. They also stated that they had not stocked the Defense Bonds or Stamps, and the few inquiries that they had received relative to Defense Bonds or Stamps they had in turn directed the person making the inquiry to go to Wapakoneta, Lima, or some other village or city where a larger Post Office was maintained. The postmasters now referred to also advised me that they were of the opinion that it would not be worth their while to handle these bonds, as the inquiries they had received were not sufficient to warrant carrying Defense Bonds and Stamps in stock. However, they stated that if it were the wish of the department that they have the Stamps and Bonds for sale, all agreed that they would willingly comply with such instructions.

Postmasters of the second and third class offices also showed me their reports relative to the sale of Defense Bonds and Stamps. In several instances, when the bonds first came out, sizable sales were made by several of the offices. During the last month, most of the reports show that there has been a drop in sales, but this undoubtedly is in a large part due to the fact that Auglaize County is primarily an agricultural district and available money at this particular time of the year is rather scarce with the farmers. A rather lengthy interview was had with Mr. A. J. Brown, Postmaster at Wapakoneta, who stated that in his opinion the sales had been fair for his office, considering the fact that there are no noticeable defense industries in his territory which would tend to boost the current wages received by workers in manufacturing plants. Mr. Brown further advised me that the farmers in and about Wapakoneta were displeased with the acreage or wheat quota that has been imposed upon them by the government regulations, but he added that he did not believe that would in any way affect these farmers in purchasing Defense Bonds or Stamps had they the available money with which to make the purchases. Mr. Brown continued by stating that he believed that the rate of interest received by depositors in the City Loan and Savings Association (Home Office in Wapakoneta) and also the Welfare Finance Company, which are paying four and five per cent respectively, was in a large measure a controlling factor in regulating where the people deposited their extra funds. According to Mr. Brown, these two finance and loan associations are financed practically in their entirety by money received from people in and around Auglaize County, and they went through the last depression without necessitating any loss whatsoever to their depositors. In other words, he stated that these two companies have gained the confidence of the people. He added that

SI\*Special  
 Unjacketed.

he did not wish to infer that there was any doubt whatsoever in the minds of the local people with respect to the worth of United States Bonds or Stamps, but because of the high rate of interest -- four and five per cent--that they could command on investments in these companies as compared with a lower rate received through government investment, he felt that it was in a large measure a controlling factor.

Information Received During Interviews With Banking Officials

None of the Federal or State Banks in this county handle Federal Defense Bonds. The various cashiers and presidents interviewed advised me that when calls were had for Defense Bonds, they referred the prospective purchaser to the local Post Office, where the bond could be procured. All officials were of the opinion that because these towns are rather small, that it was not necessary for both the banks and the Post Offices to handle the United States Bonds. These men stated that they did all they could to promote the sale of bonds, in that when people made inquiries as to a good investment, they often referred them to the Post Office and instructed them to invest in government bonds. The information given me by Mr. Brown and several other postmasters with respect to interest received from depositors at the City Loan and Savings Association and the Welfare Finance Company was corroborated by the bank officials interviewed. They even added the information that because of the high rate of interest paid by the two aforementioned finance groups, that they in turn suffered somewhat because the rate of interest they pay is far below that paid by the finance groups.

"General Information

" The inhabitants of Auglaize County, which is a thriving agricultural district are chiefly of German descent. However, through interviews had with the various officials, as mentioned, and also with several farmers, whose names I did not obtain, it is my opinion that residents of this county constitute a good American community. Undoubtedly, there are a few people living in that territory who, through their descent are somewhat pro-German, but from all the information obtained and my general impression, I feel that Auglaize County is as fairly American as any average community one might visit.

cy  
 2  
 |  
 " The only towns in which industries are located that benefit through the Defense Program are Minster and St. Marys, and the benefits so derived by these two localities are not sufficient to noticeably increase wage income materially over an average period in years wherein the Defense Program is not involved. Bearing that in mind, and the fact that the county is primarily agricultural, ready

SI-Special  
Unjacketed.

money generally is not available to a farmer this time of the year. Several of the persons interviewed stated that they are of the opinion that later on during the year, when the farmers begin to receive money for their produce, in all probability the investments in United States Savings Bonds and Stamps in Auglaize County will compare favorably with those of any other similar community. While calling on the banks, records were produced for my examination which showed that the investments in United States Savings Bonds were in creditable amounts.

" Summary

11  
 This investigation has shown that the sale of United States Defense Bonds and Stamps has not been as large as in some other communities. However, I believe that conditions such as the high rate of interest received by depositors in two of the local loan associations has had considerably to do in governing how the people invested their money. The lack of increased wages coming into the community through defense manufacture has resulted in no noticeable addition to the regular income received from the ordinary agricultural district. Subversive or un-American activities were not encountered during my investigation, and I do not believe that the fact the majority of the people are of German descent materially affects their attitude toward this government. It is my opinion, that Auglaize County is a thriving, average American community."

H. R. Sunball

H. R. Sunball,  
 Special Agent

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

TUESDAY - JUNE 24, 1941

Time: 1:00 - 1:15 P.M.

Program: Light of the World

Station: WRC

Time: 8:30 - 9:00 P.M.

Program: Fibber McGee and Molly

Station: WRC

Note: In addition to the above, each of the 868 radio stations in the United States, territories, and possessions are broadcasting five Defense Bonds and Stamps announcements each day.

THESE PROGRAMS PROMOTE SALE OF DEFENSE BONDS AND STAMPS.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 24, 1941

TO       **The Secretary**  
FROM     **Mr. Blough**

Attached is an early rough draft of the outline for the proposed speech on inflation, which you requested. I have talked it over with Mr. Kuhn.

**Attachment**

June 24, 1941

OUTLINE FOR PROPOSED SPEECH ON INFLATION

## I. Introduction.

- A. Inflation is here; what are we going to do about it?
- B. Inflation is very harmful.
- C. Inflation is a hard spiral to stop but it can be stopped through action on all fronts.
  - 1. Profits
  - 2. Wages
  - 3. Prices

## II. The threat of rising prices.

- A. The increases in prices during and after the World War and their undesirable effects.
- B. The increases in prices and cost of living since the beginning of this war, compared with increases in prices and cost of living before the first World War.
- C. Price increases may take the form of decreases in volume or quality at the same unit price; such increases in price are insidious and should not be tolerated.

- 2 -

**III. The interrelation of prices, wages and profits.**

**A. If prices are expected to increase, everyone tries to get his income increased.**

1. Workers strike for higher wages in anticipation of higher living costs.
2. Farmers seek governmental action to increase prices and are stimulated to this end by increases in wages.

**B. The wage increases and farm price increases are themselves an important cause of inflationary price rises.**

1. They add to costs of production. While there are often profits out of which increases in costs may be absorbed, this is frequently not the case. Furthermore, monopolies may use the increased costs as an excuse to increase their prices.
2. The increase in income results in greater demand, which leads to higher prices. This would not happen in large degree if there were free expansibility of goods which the workers and farmers want, but this expansibility does not exist in numerous lines due to shortages of raw materials, plants and labor.

- 3 -

C. Profits in some industries, especially those affected by defense, go up markedly due to larger volume, even when prices do not increase. They go up even more when there are price increases in excess of cost increases. In other industries profits may decline or disappear due to shortages of materials or of demand.

1. The increases in profits stimulate workers to demand increases in wages and farmers to demand increases in prices.

D. Profits, wages and prices must accordingly be considered together if inflation is to be avoided.

IV. What can be done to prevent rising prices?

A. Non-fiscal steps that can be taken.

1. Price controls, such as the freezing of prices by government order. Opinion differs as to effectiveness of the controls when applied to numerous commodities and at the retail level. Rising costs make price controls very difficult.
2. Credit controls, such as curbs on installment buying.

- 4 -

**B. Fiscal policy.**

1. The Savings Bond program encourages saving and the withdrawal of purchasing power from the purchase of goods.
2. Heavier taxes. The \$3.5 billion tax program will take a large volume of purchasing power out of circulation and thus reduce the danger of inflation.
3. Excess profits taxes. This is one element in the tax program. It is particularly important both as a matter of equity and for its psychological effects.
  - a. It is equitable that those who make profits out of the defense program should return to the Treasury as much of such profits as can be taken without paralyzing the incentive to be efficient and productive.
  - b. Concerns making larger than average returns on their investment have, by and large, greater ability to pay taxes than other corporations and can equitably be called upon to pay additional taxes. When such heavy financial

- 5 -

burdens must be met as we face today, it is fair and economically sound to burden the prosperous concerns relatively more heavily than the less prosperous.

- c. The stabilization of profits through the taxation of defense profits and excess profits is necessary if we are to expect workers to avoid demanding higher wages and farmers to avoid demanding higher prices.

V. The Excess Profits Tax Act of 1940.

- A. Although the Treasury last Summer urged a tax that would have reached both defense profits and excess profits, the Excess Profits Tax Act of 1940 as passed failed to do so. It imposed taxes on part of the defense profits but left a large part of defense profits free from tax and imposed no tax on other excess profits.
- B. This Spring the Treasury again urged the passage of a tax that would reach both defense profits and other excess profits. The Committee on Ways and Means in the House tightened the tax on defense profits but chose not to subject other excess profits to taxation.

- 6 -

C. Tightening the tax on defense profits, while in itself a good thing, further accentuates the discrimination among business competitors which results when well-established, high-profit corporations are free from tax on amounts of profits which they earned in years prior to the defense program and are taxed only on amounts in excess of such earnings.

VI. Conclusion: The control of inflation and the prevention of great resulting harm can be achieved only through a combined effort along many fronts.

A. The taxation front is an important one, and a sound excess profits tax is one of the key elements in the sound taxation policy to prevent inflation.

B. The government should take a firm hand to prevent large price increases, and its citizens should not aggravate the problem through demands which must inevitably lead to further increases, but should put the national interest ahead of their apparent immediate self-interest.

June 24, 1941

Dear Francis:

I am enclosing herewith a copy of a letter which I sent to the President last week.

Yours sincerely,

(Signed) Henry

Honorable Francis Biddle,  
The Solicitor General,  
Department of Justice,  
Washington, D. C.

*No extra copy  
attached*

By Messenger 3<sup>30</sup>

June 24, 1941

Dear Francis:

I am enclosing herewith a copy of a letter which I sent to the President last week.

Yours sincerely,

(Signed) Henry I

Honorable Francis Biddle,  
The Solicitor General,  
Department of Justice,  
Washington, D. C.

By Messenger

June 24, 1941

Dear Francis:

I am enclosing herewith a copy of a letter which I sent to the President last week.

Yours sincerely,

(Signed) Henry

Honorable Francis Biddle,  
The Solicitor General,  
Department of Justice,  
Washington, D. C.

By Messenger


THE SOLICITOR GENERAL  
WASHINGTON

June 24, 1941

Dear Henry:

I appreciate more than I can  
tell you, your letter to the President, which  
was as vigorous as it could have been.

Sincerely yours,



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

Treasury Department  
Division of Monetary Research

159

Date.....June 24.....19 41

cc: Mr. White  
cc: Mr. Ullmann

Export Control - Shipments to Japan  
Week ending June 21

---

Gasoline: 211,000 barrels - - all high octane.  
Crude oil: 70,000 barrels - - all high octane.  
Lubricating oil: 2,000 barrels.  
Fuel and gas oil: none.

MR. COE  
Branch 2061 - 210

Exports of petroleum products to Japan in the first ten months they were under export control (July 26, 1940 - May 31, 1941), compared to the whole year 1939

Confidential

	<u>10 months: export control</u>	<u>12 months: 1939</u>
<u>Gasoline</u>		
High octane (licensed)	3,778,000 bbls	1/
Unlicensed	<u>681,000</u>	<u>1/</u>
	<u>4,459,000 bbls</u>	<u>1,200,000 bbls</u>
<u>Lubricating Oil - Total</u>	<u>1,437,000 bbls</u>	<u>480,000 bbls</u>
<u>Crude Oil</u>		
High Octane (licensed)	5,516,000 bbls	1/
Unlicensed	<u>4,560,000</u>	<u>1/</u>
Total Crude	<u>10,076,000 bbls</u>	<u>16,000,000 bbls</u>

1/ Breakdown not available

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

June 24, 1941.

MEMORANDUM

TO: Mr. Schwarz  
FROM: Mr. Shaeffer *S.*

Copies of the Secretary's talk before the 4-H Clubs yesterday were sent to our regular list, I arranged for its distribution to the list of the Department of Agriculture, and delivered it personally to the following papers in agricultural areas:

St. Paul Pioneer Press  
St. Paul Dispatch  
Duluth Herald  
Duluth News-Tribune  
Des Moines Register  
Minneapolis Star-Journal

JUN 24 1941

**Dear Claude:**

I appreciate your thoughtfulness in sending me the outline of an idea for rationing scarce foods through a modification of your Stamp Plan. While it is not quite clear to me, from your brief description, just how the plan would operate to simplify the administration of a rationing system -- particularly with respect to the problem of allocating "food conservation stamps" -- the idea would seem well worth further study.

**Sincerely,**

(Signed) Henry

**The Honorable****The Secretary of Agriculture****Washington, D. C.**

Copy to NMC.

File to Mr. Thompson

By Messenger 945 ✓

C  
O  
P  
Y

We hope, of course, to prevent the price-fixing of foods in this country by planning for abundant production. Should rationing become absolutely necessary, however, we have warable machinery in existence for doing a much better job than the British are now doing or than the Food Administration did in the last war.

Scarce foods could be rationed, by throwing the Stamp Plan "into reverse." By prohibiting the purchase of scarce foods with money and by limiting their purchase to those who had bought "food conservation stamps" in predetermined amounts, supply and demand could be adjusted in such a fashion as to assure an equitable distribution between our various income groups at reasonable prices.

This would avoid the administrative difficulties inherent in policing millions of individual transactions at hundred of thousands of licensed grocery stores on a price-compliance basis. If farm prices fell too much because of reduced consumption, the amount of conservation stamps sold could be increased or heavier purchases for Britain could be made to assure stability of farm income.

The list of foods which it might be desirable to conserve could be changed from time to time as the list of surplus foods is now changed. Food Conservation Stamps could be bought from present stamp selling offices or from post offices or even from grocery stores.

## DEPARTMENT OF AGRICULTURE

Washington

26635

June 18, 1941.

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury.

Dear Henry:

Sometimes ideas develop that may be of considerable utility later on. Just with the thought of letting you have this one in the back of your mind for possible later use, I am sending a copy of a suggestion from Milo Perkins that has to do with the handling of scarce foods by throwing the Stamp Plan "into reverse."

I shall be glad to have your comments.

Sincerely,

/s/ Claude R. Wickard

Secretary

Enclosure

THE WHITE HOUSE  
WASHINGTON

June 24, 1941

My dear Mr. Secretary:

Section 3(a)(2) of the Act of March 11, 1941--the Lend-Lease Act--empowers me to authorize you to transfer to any country whose defense is vital to ours defense articles procured from funds appropriated prior to March 11, 1941 to the extent of \$1,300,000,000.

Will you please let me know as soon as possible what defense articles your department has available and will have available for transfer under this Section 3(a)(2) now and month by month until the end of the fiscal year 1942.

Sincerely yours,



The Honorable

The Secretary of the Treasury

MEMORANDUM

RE: INCLUSION OF "ADMINISTRATIVELY DIFFICULT"  
U.K. IMPORTS UNDER LEASE-LOAN PROCEDURE.

---

During March and April 1941 a series of meetings were held by the competent Departments in London to consider the creation of machinery for bringing under lease-lend U.K. imports (valued at approximately \$140 millions a year) of certain miscellaneous goods. There were two main problems:-

(a) The range and variety of goods was so great that it would be essential to retain the specialized services of existing importers in order to obtain the products rapidly, to correct specification (often a vital matter), and at the right price. It must be borne in mind that as a result of war demands there is now in the United Kingdom a most acute shortage of personnel suited to administrative work and that it would therefore be very difficult to establish or extend the appropriate government departments to take over from existing trade channels the detailed work and specialized knowledge involved.

(b) Assuming, however, that the specialized knowledge of the trade could be retained but the goods themselves were imported under government auspices, there would remain the problem of handling and distributing the goods on arrival, and in particular of dealing with the documents and invoicing work. Although the value of the miscellaneous manufactures class is relatively small, the number of transactions covered is altogether out of proportion to the value. A very large staff would have to be established and trained before the work could be handled smoothly. It is most

-2-

important that delays should be avoided in procuring goods in this class which include many small components required to ease bottlenecks and maintain U.K. production in balance, or to replace output interrupted by enemy action. Here again the shortage of administrative personnel was a serious difficulty.

Difficulty would also arise in planning the organisation which would have to be established in America to handle the documents involved, together with the general agency and forwarding business which would arise. At present the documents are handled and the forwarding business despatched smoothly and efficiently by existing commercial organisations. It was clear that a very large staff would have to be assembled and trained in the U.S. to deal with the great numbers of transactions - a purchase costing \$10.00 may involve just as many documents as a large consignment under lease-lend.

After considering a number of projects, the Committees examining this problem were unable to devise any entirely satisfactory scheme. The accompanying Appendix outlines a procedure which had been tentatively put forward, but which was far from meeting all the problems. It would have overcome part of the difficulties in the U.K. by retaining the specialised skill and connections of commercial importers and by cutting down the need for organisation in Great Britain to handle documents. But it would still have required a very large addition to the B.P.C. staff in America and the establishment of an organisation in the U.K. to receive payment from importers' banks against the goods obtained under lease-lend.

-3-

Mr. Harriman, who was privately consulted, told that he gravely doubted whether Washington could even consider a procedure which left the negotiation to private traders. At the end of April it was decided that no further work should be done on these projects, the hope being entertained that as a result of an extension of lease-lend in other directions, a sufficient current surplus might accrue in dollars from exchanges between the sterling area and the dollar area to provide means of payment for this "administratively difficult" class.

If, however, the U.S. administration were prepared to consider a procedure which left the detailed work of negotiation and specification to private traders and only brought in the lease-lend procedure when the stage was reached where the order itself could be confirmed, it is possible that a considerable part (by value) of the miscellaneous class could be brought within lease-lend without imposing too great a burden on the administrative organization at either end. Since the miscellaneous manufactures have never been handled by Government purchase, little information on detailed schedules is available in Washington. But it is known that among miscellaneous manufactures there are classes, which both in point of being essential to the war effort and in representing substantial sums, appear suitable for requisition under lease-lend.

---

Washington, D.C.,  
June 26, 1941.

SUGGESTED PROCEDURE FOR BRINGING MISCELLANEOUS  
MANUFACTURED GOODS UNDER LEASE-LEND PROCEDURE. \*

1. The B.P.C. puts in a blanket requisition for, say, \$20 millions worth of miscellaneous manufactured goods for delivery by H.M. Government to persons other than its agents.

2. The U.K. importer (who is presumed to have been in touch with his potential American supplier and to know prices and delivery possibilities) approaches the U.K. Import Licencing Department for permission to import the goods. This is normal procedure under present arrangements. The Import Licencing Department satisfies itself that the goods are essential\*\* and fall within the total amount (and value) for such class of goods as passed by the Inter-departmental Import Licencing Committee\*\* (also current procedure), and issues a licence subject to:-

(a) The import being submitted by the B.P.C. to the appropriate U.S. authority for decision on its eligibility for lease-lead procedure. If it is passed eligible it must be handled under lease-lead.

(b) Opening at his bank an irrevocable credit for the appropriate sterling c.i.f. value of the goods in favour of the appropriate department of H.M. Government. It would be agreed that in the event of the goods not being passed eligible for lease-lead the credit would be cancelled.

3. On issuing the import licence the I.L.D. would allot lease-lead serial number to the transaction and cable to the B.P.C. Stores Clearance Department (in standardized form) giving the serial number and brief particulars of the goods, price, supplier, importer and importer's bank (for subsequent forwarding of documents). The B.P.C. Stores Clearance will transfer the particulars to a standardized card and file under serial number, with a cross-index to importers' name for safety.

\* The above is not an actual draft but has been put together by a member of the Commission from his memory of what was under discussion.

\*\* The Import Licencing Department and The Import Licencing Committee have established a searching standard in assessing the essentiality of imports in the "Miscellaneous" class, and have an efficient machinery for investigation.

4. U.K. importer informs American supplier of serial number and instructs him to confirm particulars of specification, price, delivery, terms, etc., to B.P.C. Stores Clearance Department.

5. B.P.C. S.C. Department check supplier's particulars against the card in their file and submit a requisition to the U.S. Government representatives (who, it is suggested, might sit in with the Stores Clearance Department in New York for this purpose). If the U.S. Government approves the application, they confirm the order to the supplier and instruct him to make delivery to the B.P.C. Stores Clearance Department as agents for the U.K. importer. The cost of the goods is charged off against the market requisition referred to in (a) above.

6. On taking delivery, the B.P.C. Stores Clearance Department sign the receipt in the usual way, and forward the documents to the U.K. bank named in the original cable from the Import Licencing Department. On receipt of the documents the bank pays H.M.G. under the irrevocable credit referred to in 2(b) above, and releases the documents to the importer.

---

Washington, D.C.,  
June 24, 1941.

June 24, 1941

171

Photostats given today to Foley, Bell,  
White, and Cochran.

THE WHITE HOUSE  
WASHINGTON

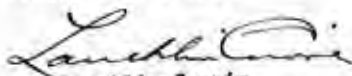
June 20, 1941.

Dear Mr. Secretary:

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

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

Yours sincerely,

  
Lauchlin Currie  
Administrative Assistant  
to the President.

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

THE WHITE HOUSE  
WASHINGTON

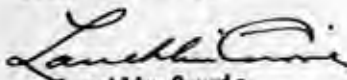
June 20, 1941.

Dear Mr. Secretary:

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

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

Yours sincerely,

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

THE WHITE HOUSE  
WASHINGTON

June 20, 1941.

Dear Mr. Secretary:

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

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

Yours sincerely,

  
Lauchlin Currie  
Administrative Assistant  
to the President.

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

THE WHITE HOUSE  
WASHINGTON


June 20, 1941.

Dear Mr. Secretary:

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

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

Yours sincerely,

  
Lauchlin Currie  
Administrative Assistant  
to the President.

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

6/25/41 175

Original to Mrs. Klotz for the Secretary

Photostats to:

Mr. Bell

Dr. White

Mr. Foley

Mr. Cochran



HEADQUARTERS

## TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

24 June, 1941.

From: Spagent, Hongkong, China.  
To : Secretary of the Treasury.

We need confidential clerical assistance as none is available in Chungking from the embassy. Have managed somehow and continue to do so, but all of us have been devoting time which could have been more profitably otherwise employed.

We have been working ten to twelve hours a day under most difficult conditions. It is quite necessary to have adequate living quarters if we are to keep reasonably well and function efficiently. Although Kung has ordered the matter to be taken care of, it has proceeded slowly, but trust that it can be effected during our short absence.

Have seen Kung a number of times in a shelter during air raids and have discussed any matters of particular and general interest and he always reaffirms his complete support of our efforts.

In conversation with Vice-Minister of Finance Y. C. Koo in the presence of Kung in an air-raid shelter, Fox learned that it has seriously been suggested that stabilization funds should be used to bring gold to China from America to be made into rings and trinkets and thus absorb excess note issue. Further suggested that funds should be used to allow Chinese to remit abroad again absorbing Fapi. In conversation with the Generalissimo noted below, Fox, without revealing

- 2 -

the source, noted these and other nonsensical propositions.

Both Pei and Hsi in a number of private conversations have indicated the importance of Shanghai to stabilization operations.

Met with a number of leading government economists on the 21st to get their views and cooperation. During our absence statements from these and others will be analyzed and summarized.

Pei informed Fox after returning from a meeting of joint board of four government banks that question was raised about financing of small industries in mining areas where they are badly needed. Vice Governor remarked that financing of such undertakings by the issuance of additional notes might not be in accord with the policy of the stabilization board. He asked Pei what the stabilization board proposed to do about such matters and would it be willing to finance these particular industries. Pei replied that of course he could not speak for the board, but he was sure that it would approve the issuance of more notes for such worthwhile undertakings. Pei is also a member of fund and revealed that on June 13th there was remaining 965,000 pounds.

At the Generalissimo's request, had a three-hour conference including dinner. Madame Chiang and Wellington were present. The Generalissimo was greatly interested in the discussion of economic problems and approved the procedure thus far of the board. He is desirous of having the board organized formally at the earliest opportunity. Fox replied that unless it did so within a month he would be

- 3 -

on his way home. The Generalissimo said that would not be necessary for if the British did not appoint their member to the board, it would organize anyway. He is not going to allow the British to dominate the situation. He asked if Fox the Rogers situation, for he wanted him to be fully acquainted with all the facts and stated that on the British ambassador's return to Chungking on the 18th a compromise was proposed which he summarily rejected. Madame Chiang said that the Generalissimo has definitely made up his mind in this matter and will not change his position. She also stated that the Generalissimo knew all about the operations of the Anglo-Chinese board and did not like the set-up or its operations, and felt that Rogers was experienced only along narrow exchange lines.

In connection with the discussion on production facilities, Fox manifested interest in visiting during spare moments production units in vicinity of Chungking. Madame Chiang thereupon offered to take Fox on a tour of women's Chinese industrial cooperatives within one day's journey from Chungking. Conference entirely satisfactory and gave definite evidence of interest in economic problems and full support in putting into effect alleviation measures. The Generalissimo also stated that the way we were going about developing and shaping up the economic problems and possibilities of going in immediately with mobilization boards' operations made him doubt the need of an economic mission at this time. The Generalissimo and Kung are vitally interested

- 4 -

in the possibilities of developing immediate and future exports for United States market.

Have the Tariff Commission send me immediately a few copies of Japanese report containing analysis of 271 items and if convenient follow up with tabulation of import items since publication of report.

Please tell our wives our air-mail letters to them have been delayed, but we are all well.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, via H.K.

DATE: June 24, 1941, 9 a.m.

NO.: 253

Supplementing American Embassy's telegram No. 252 of June 23, 1941, 4 p.m.

The following is from Fox for the Secretary of the Treasury:

QUOTE Having reference to instructions in your telegram of June 18, 1941 on the matter of confidential secretary, Ambassador Gauss tells me that the Embassy here is short of confidential clerical assistance. It is expecting an additional staff but it will probably be sometime before it can get it. It may then be possible to spare one person part time. In view of the poor transportation facilities and the long distance in Chungking, such arrangements will be accepted. END QUOTE.

GAUSS

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

JUN 24 1941  
10 50 AM '41

THE DEPARTMENT  
RECEIVED

EA:FL:PAK

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE June 24, 1941

TO Secretary Morgenthau  
 FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	244,000
Purchased from commercial concerns	£ 2,000

Open market sterling moved from an initial quotation of 4.03-1/4 to 4.03-1/2 at the close. There were no reported transactions.

The Canadian dollar discount widened to 11-3/4% by the close, as compared with 11-1/2% yesterday.

The Uruguayan free peso opened 1/2¢ higher at .44-3/8 and remained steady for the rest of the day. The rise of 2-1/2¢ in the free peso quotation since the current movement began on June 13 may be due in part to conversions of dollar holdings into pesos by Europeans who have taken refuge in Uruguay. A Central Bank official in Montevideo expressed the belief that such immigrants have brought sizable amounts of dollars into his country. Another factor that may have influenced the rate is that Uruguayan importers of goods from the United States are no longer permitted to sell pesos in the free market in order to obtain dollar exchange. A Uruguayan measure requiring that such importers cover their exchange only at controlled and compensated exchange rates has been in effect since the first week of June.

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

Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	1-1/16% discount

In Shanghai, the yuan was quoted at 5-13/32¢, off 1/32¢. Sterling was 1/2¢ lower at 3.91-1/2.

We purchased \$194,000 in gold from the earmarked account of the Central Bank of Chile.

The State Department forwarded to us a cable reporting the following gold shipments from Australia, for sale to the San Francisco Mint:

\$4,991,000 shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.  
 177,000 shipped by the Bank of New South Wales, Sydney, to the American Trust Co., San Francisco.  
 \$5,168,000 Total

- 3 -

According to a cable from Bombay, the gold price in that center on June 21 was equivalent to \$34.10, not far above export parity. A New York bank stated this morning that its estimate for the Indian gold export point was about \$34.04, but only if shipping space could be obtained within a reasonable time. The bank further reported that the Bombay gold price fell 9¢ over last week-end to the equivalent of \$34.01 on June 23. The decline to below export parity was attributed by the bank to the bearish effect of the German-Russian situation. As for silver in Bombay, we were informed that the price for June 21 was equivalent to 44.76¢, or 1/8¢ higher than the quotation of June 14.

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

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

We made no silver purchases today.

The report of June 18 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 \$6,690,000, an increase of \$9,000 in the short position since June 11. Net changes were as follows:

Country	Short Position June 11	Short Position June 18	Change in Short Position*
England**	\$1,120,000	\$1,230,000	+ \$110,000
Europe	3,211,000	3,040,000	- 171,000
Canada	372,000 (Long)	463,000 (Long)	- 91,000
Latin America	498,000	523,000	+ 25,000
Japan	373,000	639,000	+ 266,000
Other Asia	1,883,000	1,777,000	- 106,000
All others	32,000 (Long)	56,000 (Long)	- 24,000
Total	\$6,681,000	\$6,690,000	+ \$ 9,000

\*Plus sign (+) indicates increase in short position, or decrease in long position.  
 Minus sign (-) indicates decrease in short position, or increase in long position.

**CONFIDENTIAL**

BRITISH EMBASSY,  
WASHINGTON, D.C.

Personal and Secret

June 24th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Wark Butler*

The Honourable

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

TELEGRAM FROM LONDON DATED JUNE 22nd 1941.

1. German s.s. "Raritonga" 4422 tons disguised as a Dutch ship when intercepted by the "London" scuttled herself. Vichy - French "Desirade" 9645 tons intercepted 7th and taken into St. Helena. Vichy - French hospital ship "Canada" intercepted by H.M.S. "Jackal" on 21st and taken to Haifa for examination.
2. During the night of 21st - 22nd, parachute mines and high explosives dropped in Southampton and surrounding district. Fires started in the docks and central station, latter badly damaged. About 55 people known injured but full details not yet to hand. Other incidents are Orpington, Poole, Ryde, Isle of Wight, Tisted, Hasleleigh, Fareham, Durley, also Orkneys. Two enemy bombers destroyed by night fighters definite, and one probable.
3. On the night of 20th - 21st Royal Air Force dropped 134 tons of high explosives on industrial areas of Kiel. During daylight of 21st Blenheims escorted by fighters attacked aerodromes near St. Omer and Boulogne. One Blenheim missing. Twenty-six He. 109's destroyed and 7 probable. We lost six fighters four pilots safe. On the night of 21st - 22nd 152 aircraft attacked Cologne, Dusseldorf and Boulogne. One Manchester missing.
4. No details yet available of Russo-German operations.
5. Libya and Egypt.  
Reconnaissance confirms reduction of 300 to 400 M.T. in frontier area since June 18th.

- 2 -

6. Abyssinia.

Patriot forces led by British Officers have captured Gisma.

7. Syria.

June 21st - Vichy forces evacuated Damascus. Town occupied same day by Free French. Centre sector. Our attack on Merjayoum from the North unsuccessful. After heavy fighting our troops forced to withdraw to a line on River Litani north-west of Merjayoum. Coastal sector. Our infantry consolidating at Jadra 10 miles north of Sidon. 20th. Eight Tomahawks destroyed or disabled 100 mechanical transport on Damascus - Bayrout road, further 20 mechanical transport were destroyed or damaged by Blenheims in the same area.

RESTRICTED

G-2/2657-220; No. 425 M.I.D., W.D. 12:00 M., June 24, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: German pressure, so far as it can be identified, continues to be exerted in the North. Brest-Litovsk has been captured.

Air: Good indications of German air superiority.

II. Western Theater.

Air: German. Extremely limited offensive activity.

British. Strong daylight sweeps over Northern France yesterday. Last night attacks were renewed on Dusseldorf, Cologne and Kiel, together with several minor raids over Germany.

III. Middle Eastern Theater.

Ground: North Africa. No important developments.

Syria. The British column invading Northern Syria has reached Palmyra (Tadmor)

Air: Raids on Alexandria and Beirut.

RESTRICTED

## CONFIDENTIAL

Paraphrase of Code Calligram  
Received at the War Department  
at 18:00, June 24, 1941

London, filed: 18:00, June 24, 1941.

1. British Air Activity over the Continent.

a. Night of June 23-24. (Erroneously transmitted as the night of June 23-24 - 0-2.) During this night 51 tons of high explosive bombs and 3700 incendiaries were dropped upon Bremen; 6 tons of high explosive bombs were dropped upon Essen; and 3000 incendiaries and 29 tons of high explosive bombs were dropped upon Wilhelmshaven.

b. Day of June 23. Six Heinkel bombers escorted by two squadrons of fighters and supported by twelve squadrons of fighters made an attack on the airbase at Mardyk. The chemical works at Chocques was attacked by twenty-three Heinkels escorted by six squadrons of fighters, with twelve squadrons of fighters furnishing the support. Off the coast near Brest mines were laid by six Beaufort mine-laying aircraft. Attacks were also made upon shipping off the Dutch Coast by ten Heinkel aircraft.

c. Night of June 23-24. At dusk 73 nightfighters were sent to the areas of Vitry, Merville, Lille, Le Bourget and Villacoublay, during which mission very small German activity was encountered. Aircraft of the Bomber Command attacked the railway center at Calogne with a force of 44 bombers, the industrial area of Calogne with 20 bombers, Düsseldorf with 41, Kiel with 26, Boulogne 2, Essen 1, Bremen 1, and Hannover with 1. Eight bombers dropped leaflets over Vichy and Paris.

CONFIDENTIAL

INFORMATION COPY

2. German Air Activity over Britain.

a. Night of June 22-23. During this night Germany operated against England with a force of 19 pursuit aircraft, 50 long range bombers, 5 reconnaissance and 20 minelaying aircraft.

b. Night of June 23-24. Small operations against shipping and some mine laying missions were carried out by the Germans in the Thames Estuary and off the coast of East Anglia. There were also a few raids over Norfolk and Suffolk.

3. Aircraft losses Reported.

a. British losses. Two Blenheim and four Spitfires were lost in the operations of the day of June 22.

b. Axis losses. During the daylight attacks of June 23 fifteen ME-109's and five ME-109F's were destroyed, two more ME-109's were probably destroyed and four were damaged. British night fighters shot down one HE-111 and one JU-88 during the operations over occupied France the night of June 23-24.

4. British Air Activity, Other Theaters.

a. Middle Eastern Theater. All operations were on a very small scale.

LEE

Distribution:

Secretary of War  
State Department  
Secretary of Treasury  
Under Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence  
G.H.Q.

CONFIDENTIAL

CONFIDENTIAL.

189

Paraphrase of Code Cablegram  
Received at the War Department  
at 13:40, June 25, 1941.

London, filed 20:07, June 25, 1941.

The Fieseler Storch liaison planes were used by the Germans only for liaison purpose in the Balkan invasion. It was not used for observation of Artillery fire. In any campaign where there was opposing air force present this airplane has not been found successful.

LEE

**Distributions:**

Secretary of War  
State Department  
Secretary of Treasury  
Under Secretary of War  
Chief of Staff  
Assistant Chief of Staff, G-2  
War Plans Division  
Office of Naval Intelligence  
G-3  
Air Corps

CONFIDENTIAL.

INFORMATION COPY

**SECRET**

By authority A. U. of S., G-2

Date JUN 27 1941 (H.M.J.)  
Initials

Paraphrase of Code Sublogram  
Received at the War Department  
at 15:58, June 26, 1941.

Cairo, filed 21:15, June 21, 1941.

The Allies have used two squadrons of Tomhawks. One squadron in the Western Desert since June 12, prior to that it had been used in Cairo and Alexandria. The other squadron is in use in Syria and Palestine. In Alexandria formations of two Tomhawks patrolled over the harbor at twenty-five thousand feet when advised by warning net of the enemy's approach.

In the first skirmish of Tomhawks, one was directed by radio and antiaircraft bursts to the altitude of a Gunt 1007. Attacks were made from the beam and from above. One fifty caliber gun jammed because of a split shell case and two thirty caliber guns were not loaded. The Gunt dove down to sea level and fled with the Tomhawk chasing it until the ammunition was expended. The rear gunner was claimed.

The second encounter was with a JU-88 at eighteen thousand feet. Two Tomhawks attacked from the stern and from above. The encounter finally developed into a stern chase until the German plane was lost in the overcast. It was claimed that white smoke exuded from one engine.

On the third occasion a Tomhawk flying at eighteen thousand feet was directed to attack a two engined plane at twenty-four thousand feet but it could not catch up with the enemy. At seven hundred fifty yards the P-40 opened fire, but as the Tomhawk guns are set for 250 yards it had no effect. There was a stoppage due to failure of the gun to extract. Carpenter and Hong investigated and it was found that on some guns in the

**SECRET**

INFORMATION COPY

**SECRET**

191

engines the couplings had not been cleaned off. The head space in all guns was not correct. There has not been any trouble since they were cleaned and correctly adjusted. From Lewis.

**SECRET**

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Chief of Staff  
Assistant Chief of Staff, G-2  
War Plans Division  
Office of Naval Intelligence  
CNR  
Assistant Chief of Staff, G-3  
Air Corps

+  
**SECRET**

Paraphrase of Code Sublogram  
Received at the War Department  
at 17:12, June 26, 1941.

**SECRET**

By authority A. C. of S., G-2

Date JUN 27 1941 (M.M.M.)  
Initials

Cairo, filed 21:15, June 22, 1941.

Two Tomahawks in echelon made an attack at twenty-three thousand feet on an Italian Cant 1007 in the fourth encounter. One made a diving attack and then came up underneath, while the other made its attack from below and hung on the Cant's rear with all guns firing. The Cant dove with parts falling off, then crashed.

The Tomahawk, making the dive, expended one hundred twenty rounds of thirty caliber and twenty rounds fifty caliber. The other fired three hundred thirty rounds of fifty caliber and twelve hundred rounds thirty caliber. One Tomahawk was hit by an Italian fifty caliber bullet in leading edge which pierced the wing tank. There was no fire, but the engine bearings failed, due to following the Cant down in a full throttle dive. The other P-40 was hit in the flap by its own antiaircraft but landed all right.

The same pilots in their fifth skirmish, encountered a JU-88 at twenty-two thousand feet. One made stern quarter attacks and rear passes from out of the sun while the other sat on the JU-88's tail after making two front quarter attacks. The JU-88 crashed in the sea with both engines damaged. The German plane used extensive evading action by pulling up, diving and turning.

One Tomahawk received four hits, one in the windshield, and the other fourteen hits. These were detailed in a previous cable on the same subject.

**SECRET**

FILLING

Distribution:

Secretary of War  
State Department  
Department of Treasury  
Chief of Staff  
Assistant Chief of Staff, G-2

War Plans Division  
Office of Naval Intelligence  
G-3  
Assistant Chief of Staff, G-3  
Air Corps

INFORMATION COPY

## TREASURY DEPARTMENT

WASHINGTON

FOR RELEASE, MORNING NEWSPAPERS,  
Wednesday, June 25, 1941  
6/24/41

PRESS SERVICE  
NO. 26-8

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 1 per cent notes of Series W of the Reconstruction Finance Corporation closed at the close of business Tuesday, June 24, except for the receipt of subscriptions from holders of Series N notes of the Corporation who tender them for purchase by the Secretary in a par amount equal to the par amount of notes of Series W subscribed for. The subscription books will be closed for the receipt of subscriptions of the latter class at the close of business Wednesday, June 25, at which time the offer to purchase Series N notes of the Corporation will terminate.

Subscriptions of either class addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight of the respective closing days, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made the afternoon of Friday, June 27.

ooOoo

June 25, 1941

Ferdinand Kuhn

Secretary Morgenthau

I wish you would pass this suggestion on today to Howard Diets. I wonder if the motion picture industry would be willing to do for us a movie in four colors, having somebody like Grace Moore, or any other equally good American singer, possibly Deanna Durbin, sing "America The Beautiful" with various shots of America as a background. Then at the end, I would like to have her turn towards the audience and say, "Now join me in singing the chorus."

I wouldn't expect to try to plug defense bonds other than to say at the beginning that this was under the auspices of the Defense Savings Bonds Organization of the United States Treasury, and possibly say the same thing at the end.

I wish you would get this over to Diets today and ask him to think about it.

I also thought that possibly we might ask Walter Disney to do it for us unless it would take him too long to do it. In any event, get this suggestion to him today so that I can have his reaction when I come back.

I spoke to Diets last night, and he is either going to contact you or call Carmer today. Diets was not feeling well last night, but he said if he felt well enough he would like very much to see Carl Carmer this morning.

DEFENSE SAVINGS STAFFADVANCE NOTICE RADIO PROGRAMS

WEDNESDAY - JUNE 25, 1941

Time: 3:15 - 3:30 P.M.

Program: Stella Dallas

Station: WRC

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

Program: Easy Aces

Station: WNAL

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

Program: Big Town

Station: WJSV

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

Program: TEXACO STAR THEATRE

Mr. Harold N. Graves, Assistant to the Secretary of the Treasury, will officially accept the Texas Company's time for the summer months. The approximate time at which Mr. Graves will broadcast is 8:30 P.M.

Station: WJSV

THESE PROGRAMS PROMOTE SALE OF DEFENSE BONDS AND STAMPS.



THE SECRETARY OF COMMERCE  
WASHINGTON

June 25, 1941

Dear Mr. Secretary:

I have initialed and am  
returning herewith the memorandum of our  
conference of June 10, 1941.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Joseph P. Kamp", with a long, sweeping underline.

Honorable D. W. Bell  
Under Secretary of the Treasury  
Washington, D. C.

June 10, 1941

Secretary Morgenthau

Mr. Cochran

At 11 o'clock this morning the Secretary of the Treasury received the Secretary of Commerce. Messrs. Bell, Foley, White and Cochran were present.

Mr. Morgenthau told Mr. Jones that he is receiving Sir Edward Peacock this afternoon. He added that he would like to speak to Sir Edward Peacock along the following lines. Now that Mr. Jones has received the required legislation from Congress, the British representatives should approach Mr. Jones directly in any instance where they desire to obtain a loan against British direct investments in the United States, or where British owned American corporations wish to borrow for the purpose of making funds available to the British Government. The responsibility for passing on such transactions would be that of Mr. Jones. Mr. Jones agreed to accept this responsibility with the understanding that he be free to call upon the Secretary of the Treasury and members of his staff for support, assistance and information, with a view to obtaining for the British, or British companies, the largest possible amount of dollar loans in each situation. Mr. Morgenthau and Mr. Jones agreed that their basic desire was to see that the British do not have to sacrifice their investments in this country through forced sales, or fail to obtain the maximum amount of dollars through loans to British owned American companies, or upon the security of British owned American investments, to meet their commitments in this country.

The foregoing outline of the approach to Sir Edward Peacock was agreed upon by the two Secretaries. Mr. Morgenthau stressed the point that he could not look into every transaction which the British proposed to enter. Unless some system such as the above is adopted, there would be chance for confusing triangular conversations such as took place this past week in the case of Coates thread deal. Mr. Morgenthau considers it undesirable for the British to approach consummation of a deal with private bankers and then come to the Treasury in a rush at the last minute to obtain approval of the Secretary to the transaction under reference. He believes that British interests would best be served by the plan which he has suggested. The point was made that the Secretary of the Treasury, with the assistance of the British, made known to Congress the various holdings of the British in the United States at the time the Lend-Lease Bill was under consideration. It is now the duty of the British themselves to handle these assets in the manner most likely to procure a maximum of dollar exchange to pay for their commitments in this country. Mr. Jones agreed to inform the Treasury of the results of any transactions upon which he passes, and stated that his purpose was, as far as practicable, to make EFG loans available to the British to enable them to meet their commitments for American supplies.

subB  
 HMC:lap-6/17/41

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

June 25, 1941.

TO Secretary Morgenthau

FROM

J. J. O'Connell, Jr.

For your information

The regular weekly meeting of the Price Administration Committee was held in Mr. Henderson's office this morning at 11 o'clock. All agencies which are members of the Committee were represented. The important matters discussed follow:

1. Automobile prices. Mr. Henderson reported on the results of conferences held with a number of the automobile manufacturers as a result of his request for a recision of the recent advance made in the price of cars by most companies. Mr. Henderson advised that a very unsatisfactory conference was held with the Chrysler people yesterday, the attitude of the company being that the question of the price of automobiles was one of business judgment and that the company would not brook any Government intervention in that field. The company officials in effect said "We'll run the automobile business and you can run the Government."

The Company's earnings are at a very high level (Chrysler has consistently earned higher profits than any other company in the industry for a number of years) and the action suggested by Mr. Henderson would have resulted in a saving to consumers on this year's models of about \$4 million. This would have reduced the earnings of the company by less than one dollar a share (their earnings for the first six months of this year will exceed \$5 a share). The only offer the company was willing to make was that as a "gesture" they would be willing to reduce their prices for this year's models by an amount which would equal about \$250,000 if, in return, they were given credit for their "cooperative" attitude.

2.

Mr. Henderson pointed to the contrast between this type of leadership in the industry and that represented by General Motors, which has not advanced its prices at all, and with that of the Packard Company, which, at Mr. Henderson's request, refrained from putting into effect a price increase when the other companies did, although to do so would have meant an increase in its income of about \$9,000 per day. Mr. Henderson also reported that the smaller independent companies were generally willing to cooperate. He advised the Committee that the Studebaker people had indicated that they were entirely willing to do what the Government told them to, provided only that all companies were treated the same way.

Mr. Henderson also advised that in spite of a letter and three telegrams to the Ford Company he has not yet been in consultation with them.

The situation described represents the first case in which a substantial company has absolutely refused to cooperate with Henderson's office in its attempt to control the trend toward inflation. Henderson's office proposes to issue a statement either today or tomorrow outlining the situation fully and, it is understood, placing responsibility for the fact that there will be no price reductions for automobiles where it rightfully belongs. Obviously, under the circumstances, the smaller companies will not be asked to reduce their prices nor will Packard be asked not to increase its prices in line with the others. What General Motors will do is not known. No attempt will be made to fix a ceiling on prices for this year's models inasmuch as the season only has five weeks to run. However, the recalcitrant attitude of Chrysler will doubtless give impetus to a move to fix ceiling prices for next year's models, as well as give impetus to legislation to give Henderson's office the powers it sadly needs.

3.

2. West Coast steel facilities. Henderson also referred to the request made by Henry Kaiser for approval of his plan to build steel producing facilities on the West Coast in an amount of 1,500,000 tons capacity, and his request for its financing, through RFC, in an amount approximating \$150,000,000. OPACS has been asked by the President to give him its views, as has OPM. Mr. Henderson feels that the situation is not sufficiently clear at this time to permit of a definite yes or no answer on Mr. Kaiser's proposal, and feels that he should suggest to the President that some impartial group study the over-all picture in the steel industry so as to determine more definitely than is known now where the additional facilities should be built, how much expansion is needed and what kinds of steel should be produced. Mr. Henderson is, of course, highly sympathetic to the idea of expansion of capacity in steel. At the present time, however, he apparently inclines to the view that this can be done more cheaply, more quickly, and to better all-around advantage if the additional capacity results from the expansion of existing facilities rather than through the creation of new ones. For example, he points out that it is estimated that it will cost approximately \$100 per ton of capacity to build a new plant on the West Coast whereas existing facilities can be expanded at a cost of about \$35 per ton of capacity. These figures do not give any weight to the cost of transportation, which might, if taken into account, reduce if not remove the apparent disadvantage of the West Coast plan. Obviously there are many other considerations that should enter into a decision to build or not to build new facilities on the West Coast, and it is for this reason that Mr. Henderson intends advising the President that some study should be made of the over-all problem before a definitive answer can be given to Mr. Kaiser. I gathered the very definite impression that Mr. Henderson had in mind a somewhat more objective approach in such a study to that of Mr. Gano Dunn in his recent studies of the capacity of the steel industry to produce.

4.

3. Cotton textiles. Mr. Henderson's office is presently working on an order fixing ceiling prices on the more important types of cotton textiles. He stated that it has been reported to him that Senator Smith's Committee on Agriculture intends making some move to prevent Henderson's office from taking such action. Mr. Henderson stated that in the absence of express instructions to the contrary from the President, or of legislation by the Congress which would prevent it, he proposes to issue the order irrespective of what Senator Smith or his Committee may indicate as their attitude on the subject.

The meeting adjourned at 12.30.

Joseph J. Connell Jr

June 25, 1941

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389, as amended, was held in Mr. Foley's office at 3:00 p.m., June 25, 1941, attended from time to time by the following:

Messrs. Foley, Bernstein, Pehle, Coe, and Aikin for the Treasury, Messrs. Acheson and Luthringer for State, Messrs. Shea, McNamara, Kreeger and Rosenwald for Justice, and Mr. Cohen.

Mr. Foley stated that he believed it would be a good idea to have representatives of all the Federal Reserve banks come to Washington for a conference relative to the administration of the Executive Order. Following this conference, the Treasury could send two representatives on an educational tour to each of the Federal Reserve banks. It was agreed that immediate consideration should be given to Mr. Foley's proposal.

Mr. Foley mentioned that since the last meeting Russia had been licensed as a "generally licensed country" and that he understood the Spanish Ambassador had indicated his government would furnish assurances. In connection with Spanish transactions, Mr. Pehle explained an application relative to the "Santa Helena", a vessel registered in Panama and owned by a Greek presently in Barcelona. The Greek wished to sell the ship, which has been loaded with a cargo of oil and is ready to sail for Spain from a Texas port. According to Mr. Pehle, Admiral Land of the Maritime Commission is opposed to the sale of the vessel to Spanish interests. If the ship is permitted to depart the sale, in one way or another, is likely to be consummated. Hence, it was decided that the application should not be approved.

Mr. Foley mentioned that Breckinridge Long had telephoned to say that the State Department was negotiating with Admiral Land for a vessel to repatriate Italian and German officials. Mr. Acheson said that the State Department did not wish to search the Italian and German diplomats because of retaliatory action which the Germans and Italians might take in respect to American citizens departing from Axis-dominated Europe. Mr. Acheson said that a memorandum had been prepared outlining a tentative procedure to be followed in connection with departing officials. The

- 2 -

State Department proposed to ask what the Italian official accounts were and where located, who has signing power on such accounts, what are the accounts for, and how much must be withdrawn to wind up the affairs of the officials. The Italians are also to be told that it will facilitate matters if we are advised of all cash and other assets held in the United States. If this information is obtained, State will turn it over to the Treasury. Mr. Foley emphasized the necessity of the State Department's indicating exactly what steps it wishes the Treasury to take in connection with the departure of these officials.

Mr. Foley stated that the International Telephone and Telegraph Company had proposed a swap of their German property, worth approximately 23 million dollars, for stock physically located in the United States of the General Aniline Film Company, which stock is owned by I. G. Chemie. Mr. Acheson reiterated Mr. Welles' position with respect to the sale by American concerns of foreign property for blocked funds. Mr. Acheson mentioned other companies which had approached the State Department for an expression of its views on the sale of foreign properties. After considerable discussion, it was decided that these firms should submit their proposals in writing, setting forth full details. The companies should be informed that each proposition will be scrutinized very carefully, and considered entirely on its own merits.

Mr. Acheson stated assurances had been received from the Finns, but that Mr. Atherton preferred that no action in respect to a General License for Finland should be taken at this time. Mr. Pehle mentioned that Finnish diplomatic and consular expenses could be treated in the same manner as in the Rumanian and Hungarian cases.

Mr. Luthringer brought up the Leonardo da Vinci exhibit, suggesting that the Italians be permitted to ship it to Japan. Since to do this would be inconsistent with previous policy in respect to French paintings, and would have the effect of giving the Italians free dollars, the Treasury questioned the policy of allowing the export. It was decided to take no action until the State Department had had an opportunity to go into the matter further.

Mr. Foley stated he had told the Associated Press permission would not be granted for the payment of \$10,000 in free funds to the DNB for the repatriation of the AP's European representatives.

- 3 -

It was explained that this Government can not get into a bargaining position for preferred classes. Mr. Bernstein stated that, when considering the whole question of free funds for Italy and Germany, it must be remembered that, as a result of General Licenses 32 and 33 and the negotiation of State Department drafts, free dollars are accumulating to these countries. Before requests for additional free dollars are granted, these countries should be told to use those they already have.

Mr. Pehle stated that from 60 to 70 applications had been received for licenses relative to import and export transactions with South American firms which were German or Italian. Some of the latter are on the British Statutory and Rockefeller lists. It was agreed that these applications should not be approved and that the applicant be requested to furnish complete information similar to that called for on TFBE-1 Reports, in respect to the German or Italian concern.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

Personal and Confidential

DATE June 25, 1941

TO Secretary Morgenthau  
FROM John C. Wiley

I had word last night from Colonel Donovan's secretary that the Colonel wanted to get in touch with me but that his plans for this week were very indefinite; that towards the end of the week he would communicate with me by long distance telephone. I told the Colonel's secretary to let him know that I could make myself available at any time, anywhere.

Bullitt wants me to come over there for the week-end. If you have no objection, I shall leave late this afternoon.

Colonel Donovan's secretary has Bullitt's telephone number, which is Ambler 1510.

*Wiley*

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

*Farm 206*  
*Rec'd July 9, 1941*

DATE June 25, 1941.

TO Secretary Morgenthau  
FROM Mr. Gulick and Mr. Groves.

In accordance with your recent request we are submitting herewith certain documents relating to the project on Federal-State-Local fiscal relations. There are six memoranda, as follows:

1. Statement of objectives - this is primarily for our own use to keep our aim clear.
2. Summary of program, indicating major divisions.
3. Summary of possible special projects and personnel.
4. Copies of proposed letters inviting selected persons to participate actively in the project and a more general letter seeking wider cooperation.

The next two memoranda are more detailed supporting statements concerning:

5. The program.
6. Specific projects and personnel.

*Harold M. Groves*  
*Harold M. Groves*

## MEMORANDUM

Number 1.  
Statement of Objectives

The long-standing problem of federal-state-local fiscal relations is rendered more acute by the defense program and post-war fiscal prospects. Governments must draw upon fiscal resources to a greater degree than in the past and the post-war problems will especially require fiscal policy carefully adapted to economic ends. The prospect of price rises during the war period is one that has serious implications for state and local finance. In these times of emergency the case for coordination and integration of tax and expenditure systems becomes especially strong. It is therefore the objective of this study to gather the facts, develop principles and seek out specific suggestions leading toward a better coordination of federal, state and local revenue and expenditure systems and to plan for their cooperative development, in harmony with sound fiscal policy, to meet the needs of the Federal Government and at the same time to maintain the independence and vitality of state and local institutions.

## MEMORANDUM

Number 2.

Summary of Tentative Program of Investigation  
of Federal-State-Local Fiscal Relations.

## 1. Complaints and Possible Modifications.

COMPLAINTS

1. Dual administration of state and federal tax laws; unsuitability of revenue sources.
2. Multiple taxation.
3. Diversity of state tax laws and regulatory procedures.
4. Competition among states for tax bases.
5. Inadequacy of local sources.
6. State and federal financial embarrassment due to increased revenue demands.

POSSIBLE MODIFICATIONS

1. Federal-State agreements for the joint administration of taxes.
  2. Federal credits for state taxes.
  3. Federal-Collection-State-Sharing.
  4. An extension of federal aid to the states.
2. Possible changes in federal revenue laws to meet the financial requirements of proposed modifications in federal-state-fiscal relations; proposals for a new system of business taxation.
3. Impact of expanding federal revenues and expenditures on state and local finance.

4. The over-all picture of governmental taxes, expenditures, and so forth; status of public debt at various governmental levels.
5. Quantitative estimates of future revenues and expenditures and of prospective national income; prospects for the post-war period.
6. History and literature of the Coordination movement; federal state fiscal relations in other systems.

## MEMORANDUM

Number 3.

Summary of Supplementary Memorandum on  
Special Projects and Personnel

1. Problems of administration and suitability of taxes at different levels of government. Prof. Martin of Kentucky.
2. Diversity of revenue laws; impact of the federal defense program. Mr. Lepawsky. Federation of Tax Administrators.
3. Multiple taxation; other legal aspects. A good tax lawyer yet to be selected.
4. Quantitative estimates. Prof. Shoup, Columbia University.
5. Inadequacy or unsuitability of the property tax and sales tax. George Mitchell, Illinois Tax Commission; Mr. Jacoby, University of Chicago.
6. Federal aid programs and the allocation of governmental services in relation to resources. Prof. Heer, University of North Carolina.
7. Federal-State-Fiscal relations in other federal systems. Prof. Newcomer of Vassar.
8. Status of public debt at various governmental levels. Prof. Leland of Chicago.
9. New system of business taxation. Prof. Haig of Columbia University.

10. Interstate competition; federal credits; federal collection - local sharing; prospective changes in Federal revenue laws; fiscal capacities of the states; factual picture of over-all taxes. The Treasury Staff.

Each of these programs will require the cooperation of federal agencies including at many points the Bureau of Internal Revenue.

The budgetary implications of these appointments cannot be determined until we have conferred with the specialists concerned. On the basis of preliminary estimates we are allowing about \$35,000 for the projects here set forth.

Dear Jim:

The Treasury Department, as you may have seen from Secretary Morgenthau's recent announcement, is making an examination of a number of fiscal and administrative questions arising from the interrelation of Federal, state and local revenue needs and tax systems. Luther Gulick, Clarence Heer and I are doing some preliminary planning and are helping to get work in this field started.

Among the vital aspects of this problem is the matter of the suitability of taxes for different levels of government particularly from the administrative point of view. Because of your very extensive contact with the problem of revenue coordination and equally extensive experience with state tax administration you are uniquely qualified for a study of this kind.

What we have in mind is this:

It is proposed that a study be made of state and local administration of taxes in comparison with actual or possible federal administration. The object is to determine the unit of government most suitable for the administration of taxes. Among the matters which might be taken into account are:

1. Actual costs of administration; especially where state and federal administration exist side by side;
2. Possible saving from the elimination of duplication;
3. Unnecessary cost of compliance;
4. Leakage in administration and collection;
5. Other limitations in state or federal administration:
  - (a) Propensity of the base to migrate;
  - (b) Inadequacy of information;
  - (c) Inability to allocate properly;
  - (d) Constitutional barriers (as in sales tax):

- 2 -

- (e) Extra-territorial incidence (as in Manufacturers' excise on cigarettes);
- (f) Inefficiencies of centralization;
- (g) Vitality of local institutions.

Possibly much of this information could be obtained by correspondence and some of it certainly must come from personal experience such as you have had, but the whole problem calls for a rigorous, comprehensive and fresh analysis.

I am writing to see if we can persuade you to join us in this enterprise and to undertake this important and difficult study. We will have to talk over the work involved and see what sort of arrangements are appropriate. Perhaps you could arrange to take off one semester, or at least to lighten your schedule. But in any case the Treasury is prepared to pay for the service rendered.

I hear that you are to be West this summer and that you are working on a state tax program. Does this mean that you will be unavailable here in the East before September?

Perhaps you better write about your plans. I can then suggest when and where we can get together most conveniently.

We are very anxious indeed to see this project launched and we are sure that you are the man to do it. We know that you are interested, we hope that arrangements can be made, and we shall look for an early reply.

With best wishes

Sincerely yours,

Professor James E. Martin,  
University of Kentucky,  
Lexington, Kentucky.

Dear Simeon:

The Treasury Department, as you may have seen from Secretary Morgenthau's recent announcement, is making an examination of a number of fiscal and administrative questions arising from the interrelation of Federal, state and local revenue needs and tax systems. Luther Gulick, Clarence Heer and I are doing some preliminary planning and are helping to get work in this field started.

Among the projects we have in mind, three appear to be especially "down your alley". One has to do with debts, their status, economic significance, relation to fiscal policy, and intergovernmental and administrative relations.

A second project consists of a survey of the status of the property tax including rates, further elasticity, delinquencies, symptoms of revolt, attitudes of farmers, homeowners, city officials and so forth. The objective is to learn how valid is the contention that the sources of local revenue are highly inadequate and breaking down.

A third project consists of a survey similar to the above but in the field of sales taxation. Here it would be important to inquire as to the present status and significance of the constitutional barriers, the effectiveness of the use tax, the acceptability of these taxes to the public and other matters which would throw light on the degree to which the sales tax states have solved their revenue problem.

We are definitely counting on you for a comprehensive memorandum on debts - just as soon as you have finished your book, unless, perhaps, you think it feasible for you to do the memorandum for us first and your book second. Is this possible?

Assuming that "Debts" will keep you occupied for the time being, what about George Mitchell for number two

- 2 -

and Jacoby for number three? Frankly we want your advice before talking turkey to them.

We very much hope that you and the University of Chicago group can help us along the lines above suggested. If you have any other ideas for work in this field we would be glad to get them.

Best wishes

Sincerely yours,

Professor Simeon Leland,  
University of Chicago,  
Chicago, Illinois.

Dear Mr. Lepawsky:

As you probably know the Treasury Department is making a preliminary examination of a number of fiscal and administrative questions arising from the interrelation of Federal, state and local revenue needs and taxes. We appreciate the assurance you have already given of your interest in this work and your willingness to cooperate.

We very much need your help, first, in making plans, and second, in carrying through specific sections of the research.

Can you by any chance be in Washington conveniently on the 1st and 3rd of July? If so, we can talk things over more fully. If that is not possible we can, I am sure, arrange a more convenient date.

As things shape up now we hope you and the Federation will help us with two preliminary studies:

- (a) The diversity of revenue laws and the cost of compliance;
- (b) The impact of defense on state and local taxation.

Will you be thinking about these questions so that we may work out together their scope and content, their timing and the costs of the research work involved?

We would also appreciate any further suggestions you may have as to this whole inquiry.

- 2 -

When you come to the Treasury, you will find us  
in Room 118½.

Sincerely yours,

Mr. Albert Lepawsky,  
Federation of Tax Administrators,  
1313 East 60th Street,  
Chicago, Illinois.

General letter asking for suggestions and cooperation to be sent to selected administrators and tax experts.

As you already know from Secretary Morgenthau's recent announcement, the Treasury Department is now making a preliminary examination of a number of fiscal and administrative questions arising from the interrelation of federal, state and local revenue needs and tax systems. This is something which has concerned you and me and others for many years.

What we are now doing is preliminary in nature. Especially at this stage it will be most helpful to the Treasury to have the benefit of suggestions from those who, like yourself, are really informed and interested in the problems involved. What aspects now seem to you most to deserve investigation? Is the situation changed by the emergency? Is the work now called for primarily knowledge, i.e., research, or primarily thinking, planning, contriving and action?

Though I am writing you informally now, I hope we can talk things over at length in the not too distant future.

If you come to Washington won't you let me know and look me up? (Treasury, Room 118 $\frac{1}{2}$ ). We shall, of course, keep you posted.

Very truly yours,

## MEMORANDUM

Number 5.

Tentative Memorandum for a Program of Investigation  
concerning Federal-State-Local Fiscal Relations.

It is proposed to approach the subject from the following angles:

I. What are the complaints leveled against the present system of intergovernmental relationships and what are the proposed modifications in these relationships? Each of the complaints and proposed modifications should be examined in some detail as to its nature and validity. Among the complaints the following are especially recommended for consideration.

1. Dual administration of state and federal tax laws.

What are the wastes of dual administration in terms of:

- (a) Unnecessary costs of duplicate administration;
- (b) Evasion of taxes because of unsuitable administration;
- (c) Unnecessary cost of compliance.

2. Use (that is, collection) by the State of sources of revenue unsuited to them because of

- (a) Propensity of the base to migrate;
- (b) Inadequacy of information;
- (c) Inability to allocate properly;
- (d) Constitutional barriers (sales tax);
- (e) Extra-territorial incidence (manufacturers' excise on cigarettes).

- 2 -

An attempt should be made to appraise the advantages of federal as compared with state administration for each tax.

3. Inadequate revenues from available and desirable tax bases to provide an adequate standard of public services:
  - a. Among cities;
  - b. In rural districts;
  - c. In depleted areas;
  - d. In districts with sub-normal tax resources.

It is complained that the property tax, now heavily relied upon for local support, has reached the limit of its elasticity and that it is regressive. The retail sales tax is also criticized for regressivity. Some study of the social effects of these taxes and their expansion could be made. For example, what is the effect of the property tax on housing and what is its effect on farm and home foreclosure?

4. Bad correlation in location of wealth and need for public services; unfair allocation of such wealth for taxation (for example the taxation by Delaware of a domestic corporation nearly all of whose assets and business are located elsewhere; or the taxation by New York of estates built up in nation-wide distribution of ability and need by means of tables and maps.) (See Blough: Geographic Distribution of Wisconsin Tax Bases.)

- To what extent are differences in taxation resources inter-local as well as interstate? Are poor counties in New York as "bad off" as good counties in Mississippi?
5. Multiple taxation in the application of state taxes.
  6. Undue diversity of tax laws and procedure resulting in confusion and excessive cost of compliance. The outstanding case of this is business taxation, an institution which "cries aloud" for simplification and standardization.
  7. The importation of value; for example, unfair allocation in the application of the property and gross income taxes to railroads.
  8. Competition among states for tax bases and the migration of wealth and industry to avoid state and local taxes. Some data on the relation of taxes to the costs of manufacture and the relation of tax differentials to these costs would be helpful.
  9. Extent of state and local fiscal embarrassment resulting from "mandatory" expenditures incident to federal programs.
  10. Limitation of Federal defense program alleged to result from state occupation of tax fields otherwise fully available for Federal utilization.

11. Uncertainty and confusion in state and federal fiscal planning; neither level of government can predict with assurance what the other will do.
12. Local resources have been strained by federal projects which have tempted local matching of federal funds.
13. Intergovernmental embarrassment caused by the fact that governmental instrumentalities have certain immunities from intergovernmental taxation. (State sales taxation of defense contracts.)

Is there a popular consciousness of this problem, a demand by large numbers of people and their legislatures that "something should be done" in the field of intergovernmental fiscal relations?

Do these complaints taken collectively add up to a cause for action and if so what should it be?

Among the proposed remedies the following are specially recommended for consideration:

14. Legislation to implement federal-state agreements whereby the Federal Government will undertake to administer certain state taxes for an agreed fee or on a cost basis.
15. A federal-state commission (with equal representation) to:
  - (a) Arrange agreements for the exchange of intergovernmental administrative services;
  - (b) Facilitate exchange of information;

- 5 -

- (c) Encourage reciprocal legislation;
  - (d) Discourage diversity of tax laws;
  - (e) Conduct research concerning federal-state and interstate fiscal relations.
16. An extension of federal aid to the States. This presumably would be a post-defense program. The aid might take the form of a general subsidy or of a grant for one or more specific functions (such as education, welfare, highways). It might be a differential aid distributed in some ratio of need related to resources; or it might be distributed on some other basis without regard to ability to support the function.

What is the degree of local and central interest in the various functions of Government and how does it correlate with the responsibility for the support of these functions?

- 17. An extension of federal credits for state taxes (as presently applied in death taxes).
- 18. Federal collection plus state distribution.
- 19. Further reallocation of functions. If, in the post-defense era, the Federal Government embarks on a program of works in such fields as housing, nutrition, health, highways, and electricity, it will be necessary to decide whether this should be through the assumption

- 6 -

of these functions by the Federal Government directly, or through grants-in-aid to subordinate units, or through direct outlays to individuals.

20. Federal assistance to facilitate state and local borrowing.

II. What are the possibilities of federal revenue adequate to finance additional fiscal support for the states? What are the proposed means of "strengthening" the federal tax system and are these desirable or undesirable? Some consideration might be given to the following:

1. Proposals to strengthen the federal income tax:
  - a. Collection-at-the source; corresponding proposals to lessen the time-span between earning income and paying income taxes;
  - b. Taxation of undistributed profits (to the corporation or the individual);
  - c. Elimination of tax-exempt securities.

What is the maximum proportion of the income of the United States which it is feasible to collect through an income tax? What are the limiting factors?

2. Proposals to develop a new system of business taxation.
3. Use of special excises or general sales taxes.

- 7 -

4. Development of a stronger - perhaps permanent-excess-profits tax.
5. Increased payroll taxes to cover the obligations of the social security program.
6. Use of a flexible tax, automatically adjustable.
7. For the period of defense financing some attention might be given to possible programs of borrowing from individuals, as for example, in the Keynes Plan for financing the British war budget.

Are there important possible sources of federal, state or local economy which would release fiscal resources? For example, how sizeable are the economies, if any, which might result from the reorganization of local units of government?

III. What is the impact of the defense program on state and local finance? To what degree have tax bases been improved by government spending? To what degree have they been depleted by federal tax expansion? What are the prospects of the taxpayer subject to the impact of both federal and state systems?

The above would constitute the major theme of the investigation. However, it should be supported by much background material including:

IV. The over-all picture of present taxes, expenditure, debts, and governmental transfers (aids) at all levels of government. What is the incidence and impact of the over-all tax system?

V. Quantitative estimates of future revenues, expenditures and of effects of changing the fiscal system.

VI. Prospective national income and its effect on revenue possibilities and fiscal policy; the relation of fiscal policy to inflation.

VII. Possibilities of relieving post-war fiscal pressure by means of a "capital budget" and a partially self-liquidating public works program.

VIII. A survey of the literature on federal-state-local fiscal relations and of the practices in other federal systems. Introductory material portraying the development of present problems in intergovernmental fiscal relations. Some reference should be made to the roots of these problems extending into economic history, economic geography, and constitutional history.

Conclusion: Coordination of state and federal taxes is a subject to which great quantities of writing and speaking have been devoted. A very considerable amount of funds and effort have been invested in this cause. Yet singularly little real progress has been made. Why?

## SUPPLEMENTARY MEMORANDUM

## Number 6.

## Suggested Special Projects and Personnel.

1. Suitability of taxes (particularly from the angle of administration.) (Prof. Martin)
2. Diversity of Revenue laws. (Mr. Lepawsky)
3. Multiple Taxation (including the importation of value.) (A good tax lawyer.)
4. Immunity from intergovernmental taxation (instrumentalities.) (A good tax lawyer.)
5. Interstate competition for tax bases; migration of industry to escape taxation. (Treasury Staff)
6. Impact of the federal defense program upon state and local sources of revenue. (Treasury Staff - Mr. Lepawsky)
7. Federal credits and federal-collection-state-sharing of revenue. (Treasury Staff)
8. Proposals to strengthen the federal tax system from the revenue standpoint. (Treasury Staff - Carl Shoup)
9. Future financial balance sheet of the social security program; Prospective trends in expenditures. Payroll taxes. (Social Security Board)
10. Quantitative estimates of future revenues, expenditures and effects of changing the fiscal system. (Prof. Shoup)
11. Prospective national income and its effects on revenue possibilities and fiscal policy; the relation of fiscal policy to inflation. (Prof. Shoup)
12. Possibilities of relieving post-war fiscal pressure by means of a "capital budget" and a partially self-liquidating public works program. (National Resources Board)
13. A survey of the present status of the general property tax.

- |                       |                      |                             |
|-----------------------|----------------------|-----------------------------|
| 1. rates              |                      | George Mitchell             |
| 2. elasticity         |                      | (Illinois Tax Commission)   |
| 3. delinquencies      | (Tax delinquency     | Possibly                    |
| 4. symptoms of revolt | (Tax limitation      | Mr. Silverkerz.             |
|                       | (Homestead exemption | Help from the Census Bureau |
14. A survey of the general status of the state sales tax;
    1. Significance of the no-taxation-of-interstate-commerce impediment.
    2. Effectiveness of the use tax.
    3. Incidence and effects of the tax. (Mr. Jacoby)
  15. Inadequacies in state and local support for education. (Prof. Heer)
  16. Inadequacies in state and local support for welfare and health. (Social Security Board)
  17. Possibilities for economy in the reorganization of governmental machinery or the reallocation of governmental functions.
  18. Federal state aid programs. (Prof. Heer)
  19. Federal-state-fiscal relations in other federal systems. (Prof. Newcomer)
  20. Roots of present difficulties in federal-state-fiscal relations (economic history, economic geography, and constitutional history). History of the Coordination Problem. (Treasury Staff)
  21. Bibliography. (Prof. Newcomer)
  22. Status of public debt at various governmental levels; prospects for the larger units serving the smaller in the latter's public borrowing. (Prof. Leland)

23. A new system of business taxation for the United States.  
(Prof. Haig. Possibly Prof. Studenski)
24. Fiscal capacity of States. (Treasury Staff - Social Security Board)
25. The over-all tax picture in statistical and graphic terms.  
(Treasury Staff)

Other personnel who have been suggested for specific projects are:

- Prof. Wynne - Comparison of fiscal coordination problems in Canada, Australia, and the United States.
- Frederick Bird - The fiscal plight of the cities.
- John Maxwell - Fiscal coordination in Canada and the United States.

STRICTLY CONFIDENTIAL

DELIVERIES OF AIRPLANES, BY KODIAKREK AND HE TYPES OF PLANE

January 1, 1940 - June 21, 1941

TOTAL ALL PURCHASERS		Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
<b>1940</b>							
Jan. 1 - June 29	580	905	610	905	105	400	2,600
June 30 - Jan. 4 (1941)	254	2,050	1,225	2,050	95	681	2,609
Total	1,234	2,955	1,835	2,955	200	1,081	1,299
<b>1941</b>							
Jan. 5 - Jan. 18	80	188	97	188	5	36	406
Feb. 1 - Feb. 15	75	323	151	323	23	22	604
Feb. 16 - Mar. 1	175	352	175	352	13	27	604
Mar. 2 - Mar. 15	175	352	175	352	13	27	604
Mar. 16 - Mar. 29	100	297	101	297	13	17	321
Mar. 30 - Apr. 12	155	356	114	356	17	21	444
Apr. 13 - Apr. 26	166	361	116	361	16	18	444
Apr. 27 - May 10	171	360	136	360	18	18	470
May 11 - May 24	133	319	159	319	21	26	419
May 25 - June 7	151	368	127	368	16	13	475
June 8 - June 21	121	288	101	288	21	12	415
Total	1,543	3,432	1,490	3,432	130	28	4,063
Grand Total Jan. 1, 1940 - June 21, 1941	2,780	6,387	3,325	6,387	330	1,109	14,094

ANAC		Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
<b>1940</b>							
Jan. 1 - June 29	34	511	47	511	64	-	656
June 30 - Jan. 4 (1941)	78	934	266	934	17	-	1,008
Total	106	1,445	333	1,445	81	-	1,955
<b>1941</b>							
Jan. 5 - Jan. 18	6	86	6	86	-	-	92
Feb. 1 - Feb. 15	13	166	8	166	4	-	189
Feb. 16 - Mar. 1	13	178	9	178	4	-	195
Mar. 2 - Mar. 15	45	153	23	153	7	-	208
Mar. 16 - Mar. 29	55	180	27	180	6	-	214
Mar. 30 - Apr. 12	16	125	11	125	2	-	138
Apr. 13 - Apr. 26	55	237	22	237	7	-	271
Apr. 27 - May 10	19	202	14	202	4	-	221
May 11 - May 24	15	262	14	262	4	-	285
May 25 - June 7	27	154	10	154	9	-	195
June 8 - June 21	32	222	8	222	13	-	275
Total	295	2,030	133	2,030	69	-	2,207
Grand Total Jan. 1, 1940 - June 21, 1941	401	3,475	786	3,475	150	-	4,177

NAVY		Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
<b>1940</b>							
Jan. 1 - June 29	42	85	3	85	37	-	155
June 30 - Jan. 4 (1941)	86	282	76	282	76	-	530
Total	128	367	79	367	113	-	685
<b>1941</b>							
Jan. 5 - Jan. 18	17	79	14	79	5	-	115
Feb. 1 - Feb. 15	11	113	11	113	35	-	168
Feb. 16 - Mar. 1	17	121	17	121	8	-	167
Mar. 2 - Mar. 15	20	121	12	121	12	-	166
Mar. 16 - Mar. 29	17	110	10	110	10	-	147
Mar. 30 - Apr. 12	30	60	15	60	10	-	110
Apr. 13 - Apr. 26	28	53	20	53	6	-	104
Apr. 27 - May 10	27	58	20	58	14	-	109
May 11 - May 24	33	51	19	51	12	-	115
May 25 - June 7	16	89	15	89	15	-	135
June 8 - June 21	44	58	10	58	17	-	129
Total	300	750	178	750	146	-	1,310
Grand Total Jan. 1, 1940 - June 21, 1941	468	1,127	251	1,127	259	-	2,105

BRITISH EMPIRE AND FINANCE		Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
<b>1940</b>							
Jan. 1 - June 29	468	123	276	123	2	9	1,068
June 30 - Jan. 4 (1941)	436	793	447	447	4	27	1,703
Total	904	640	1,107	640	4	36	2,771
<b>1941</b>							
Jan. 5 - Jan. 18	57	69	69	69	-	5	140
Feb. 1 - Feb. 15	44	126	67	126	-	10	209
Feb. 16 - Mar. 1	44	67	67	67	-	10	166
Mar. 2 - Mar. 15	75	54	54	54	-	2	121
Mar. 16 - Mar. 29	38	56	38	56	-	2	133
Mar. 30 - Apr. 12	64	6	6	6	-	2	122
Apr. 13 - Apr. 26	73	49	26	49	-	-	166
Apr. 27 - May 10	67	68	68	68	-	-	211
May 11 - May 24	103	51	51	51	-	-	225
May 25 - June 7	77	42	42	42	-	-	179
June 8 - June 21	74	52	52	52	-	-	180
Total	693	679	679	679	1	21	1,315
Grand Total Jan. 1, 1940 - June 21, 1941	1,703	1,846	1,846	1,846	5	57	4,066

FRANCE		Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
<b>1940</b>							
Jan. 1 - June 29	16	146	146	146	2	291	731
June 30 - Jan. 4 (1941)	64	68	68	68	-	594	1,067
Total	80	214	214	214	2	885	1,778
<b>1941</b>							
Jan. 5 - Jan. 18	-	8	8	8	-	31	57
Feb. 1 - Feb. 15	1	12	12	12	-	27	67
Feb. 16 - Mar. 1	1	-	-	-	-	21	26
Mar. 2 - Mar. 15	30	4	4	4	-	17	55
Mar. 16 - Mar. 29	16	20	20	20	-	32	63
Mar. 30 - Apr. 12	-	6	6	6	-	26	58
Apr. 13 - Apr. 26	-	6	6	6	-	26	57
Apr. 27 - May 10	-	13	13	13	-	20	53
May 11 - May 24	1	14	14	14	-	12	31
May 25 - June 7	1	4	4	4	-	12	21
June 8 - June 21	46	69	69	69	4	200	511
Total	128	337	337	337	6	1,095	2,291
Grand Total Jan. 1, 1940 - June 21, 1941	128	574	574	574	8	2,190	4,291

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

Deliveries under French contracts were made up to June 30, 1940.

June 25, 1941.

STRICTLY CONFIDENTIAL

DELIVERIES OF AIRPLANE, BY PURCHASERS AND BY TYPES OF PLANES  
January 1, 1940 - June 21, 1941

231

	Bombers	Torpedo	Fighters	Other military planes	Domestic aircraft	Total
<b>TOTAL ALL PURCHASERS</b>						
<b>1940</b>						
Jan. 1 - June 29	260	510	905	105	400	2,601
June 30 - Jan. 4 (1941)	652	1,215	2,020	55	621	5,609
Total	1,238	1,825	2,925	300	1,021	7,809
<b>1941</b>						
Jan. 5 - Jan. 18	80	97	128	5	35	305
Jan. 19 - Feb. 1	75	75	121	3	22	306
Feb. 2 - Feb. 15	175	133	152	15	37	592
Feb. 16 - Mar. 1	170	108	158	19	31	586
Mar. 2 - Mar. 15	166	114	152	17	34	569
Mar. 16 - Mar. 29	156	110	151	16	34	547
Mar. 30 - Apr. 12	146	109	140	15	34	544
Apr. 13 - Apr. 26	171	136	140	13	27	577
Apr. 27 - May 10	173	129	139	21	22	564
May 11 - May 24	151	127	128	16	15	527
May 25 - June 7	152	101	128	21	12	514
June 8 - June 21	152	78	127	21	12	510
Total	1,232	1,225	1,437	220	241	6,845
Grand Total Jan. 1, 1940 - June 21, 1941	2,780	3,080	6,362	620	1,312	18,004
<b>ABBY</b>						
<b>1940</b>						
Jan. 1 - June 29	14	41	512	64	-	656
June 30 - Jan. 4 (1941)	72	286	524	17	-	1,509
Total	106	333	1,036	81	-	1,965
<b>1941</b>						
Jan. 5 - Jan. 18	6	6	46	1	-	99
Jan. 19 - Feb. 1	1	2	166	4	-	169
Feb. 2 - Feb. 15	13	7	14	1	-	100
Feb. 16 - Mar. 1	43	34	125	7	-	279
Mar. 2 - Mar. 15	26	24	125	7	-	214
Mar. 16 - Mar. 29	24	67	126	6	-	201
Mar. 30 - Apr. 12	35	61	126	6	-	228
Apr. 13 - Apr. 26	19	42	127	7	-	215
Apr. 27 - May 10	15	37	128	6	-	226
May 11 - May 24	23	27	128	9	-	289
May 25 - June 7	27	10	128	9	-	290
June 8 - June 21	31	4	128	11	-	294
Total	292	413	2,038	99	-	2,897
Grand Total Jan. 1, 1940 - June 21, 1941	401	746	3,475	150	-	8,772
<b>HAVE</b>						
<b>1940</b>						
Jan. 1 - June 29	42	76	45	72	-	165
June 30 - Jan. 4 (1941)	26	77	292	16	-	530
Total	108	153	317	113	-	995
<b>1941</b>						
Jan. 5 - Jan. 18	17	14	19	5	-	115
Jan. 19 - Feb. 1	11	17	117	3	-	148
Feb. 2 - Feb. 15	21	15	41	8	-	85
Feb. 16 - Mar. 1	30	15	32	12	-	86
Mar. 2 - Mar. 15	23	-	35	12	-	70
Mar. 16 - Mar. 29	30	15	41	10	-	143
Mar. 30 - Apr. 12	28	22	53	9	-	112
Apr. 13 - Apr. 26	24	20	58	6	-	108
Apr. 27 - May 10	33	15	51	12	-	111
May 11 - May 24	19	15	49	12	-	115
May 25 - June 7	19	10	48	11	-	129
June 8 - June 21	48	10	58	17	-	179
Total	340	178	750	146	-	1,410
Grand Total Jan. 1, 1940 - June 21, 1941	468	331	1,127	259	-	2,405
<b>BRITISH ENGINE AND FINANCER</b>						
<b>1940</b>						
Jan. 1 - June 29	448	375	197	2	9	1,068
June 30 - Jan. 4 (1941)	436	792	447	2	27	2,703
Total	884	1,167	644	4	36	2,771
<b>1941</b>						
Jan. 5 - Jan. 18	27	57	9	-	5	140
Jan. 19 - Feb. 1	67	126	40	-	-	309
Feb. 2 - Feb. 15	67	67	26	-	10	316
Feb. 16 - Mar. 1	72	77	46	-	2	327
Mar. 2 - Mar. 15	62	52	46	-	2	243
Mar. 16 - Mar. 29	77	52	30	-	2	322
Mar. 30 - Apr. 12	64	6	40	-	-	168
Apr. 13 - Apr. 26	93	26	56	-	-	211
Apr. 27 - May 10	107	46	56	-	-	235
May 11 - May 24	107	62	51	-	-	235
May 25 - June 7	77	62	48	-	-	219
June 8 - June 21	78	59	48	-	-	180
Total	859	679	555	1	21	2,115
Grand Total Jan. 1, 1940 - June 21, 1941	1,743	1,846	1,195	5	57	4,886
<b>OTHER</b>						
<b>1940</b>						
Jan. 1 - June 29	16	126	116	2	291	711
June 30 - Jan. 4 (1941)	64	60	347	2	594	1,067
Total	80	286	463	4	885	1,778
<b>1941</b>						
Jan. 5 - Jan. 18	-	4	14	-	21	57
Jan. 19 - Feb. 1	1	12	11	-	26	60
Feb. 2 - Feb. 15	30	-	21	-	27	78
Feb. 16 - Mar. 1	16	20	10	-	13	60
Mar. 2 - Mar. 15	16	4	14	-	12	60
Mar. 16 - Mar. 29	-	4	2	-	39	45
Mar. 30 - Apr. 12	-	4	1	-	26	31
Apr. 13 - Apr. 26	-	4	1	-	27	32
Apr. 27 - May 10	-	13	7	-	12	32
May 11 - May 24	-	18	8	-	12	38
May 25 - June 7	4	4	2	-	24	34
June 8 - June 21	4	4	2	-	24	34
Total	48	89	107	4	270	513
Grand Total Jan. 1, 1940 - June 21, 1941	128	377	565	6	1,155	2,291

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

\* Deliveries under French contracts were made up to June 30, 1940.

June 29, 1941.

MEMORANDUM

232

FROM British Supply Council in North America

TO Mrs. Henrietta Klotz

Compliments of E.N. Gray

6/26/41

STATEMENT NO. 20AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

	DESTINATION	ASSEMBLY POINT	By Sea During week ending May 31, 1941	By Air During week ending June 22, 1941
<u>STER</u>				
Buffalo I	F. E.	Singapore	6	
<u>ISS</u>				
Tomahawk	M. E.	Port Sudan	46	
<u>ED</u>				
Nesapeake	U. K.	U. K.	4	
<u>LAS</u>				
Boston II	U. K.	U. K.	2	
Boston III	U. K.	U. K.	8	
<u>HEED</u>				
Edson V	U. K.	U. K.	1	
Edson V	U. K.	U. K. (VIA GANDER)	-	13
<u>OLIDATED</u>				
Catalina	U. K.	U. K. (VIA BERMUDA)	-	3
Catalina	F. E.	Singapore (VIA SAN DIEGO)	-	1
<b>T A L S</b>			67	17

ish Air Commission  
25, 1941

COPY

THE WORLD OVERSEAS

CHINA'S EXPORT TRADE

(From Our Shanghai Correspondent)

JUNE 25th

China's export season started in June. The various districts had one feature in common--no increased production of any export commodity, but a very general decrease. Obstacles to exporting, such as inland transport difficulties, Chinese and Japanese control of trade and foreign exchange, as well as a scarcity of shipping space for transport overseas, are all considerably greater than a year ago. But in other respects, export conditions vary substantially in the different regions.

Free China now relies for exports upon the Yunnan-Burma Road almost exclusively. The Road continues to be improved on the Chinese side, and some 150 miles of new railroad track to relieve the road traffic are under construction from Kunming westward; but the rainy season is just ahead threatening to curtail, if not to block entirely, the outgoing road traffic. The recent month's extension of Japanese naval operations on the South China coast, and especially the quasi-piratical Japanese raids on a large number of coastal or near-coastal points still controlled by China, sharply reduced what remained of Free China's commercial and shipping intercourse with Hongkong in the sphere both of legitimate trade and smuggling. In the interior of Free China, many chronic bottlenecks and traffic jams also obstruct the outflow of export commodities. The Chungking Chinese Government early this month amalgamated the semi-official Fooching and Fuhua export monopolies in order to centralize Government-managed exports, but the immediate result is not important. The growing of agricultural export produce in Free China for the past year and a half has been discouraged by the comparatively low prices which Government monopolies allow for such produce, and farmers prefer to cultivate produce for their own requirements and the domestic market. Free China's metal output does not promise any further increase in the near future.

In the countryside of Japanese-occupied North China, the output of export produce has also not improved. The recent large-scale military campaigns in Honan and Shanai Provinces; Japanese inability to oust from this territory the Chinese Government and Communist armies; the revived guerrilla warfare everywhere behind the Japanese front lines; Japanese monopolist regimentation and seizure of farm produce by methods and at prices which make these measures appear to Chinese farmers little short of confiscation--

China's Export Trade (cont'd) - 2 -

all these factors combine to keep production for export by North China at a very low level and far below pre-war standards. Moreover, exports to countries outside the yen bloc are permitted only under the export-import link system at an artificial rate of U.S.\$0.115 per Peking F.R.B.\$1.00, which is paid by the Japanese Yokohama Specie Bank for foreign exchange proceeds from all exports. Japan's efforts to divert additional export trade from Tientsin's British Concession to Tsingtao, which is dominated by Japan and since early this spring has enjoyed direct railroad connection with West Hopei and Shansi, are also upsetting export trade. North China transit trade via Shanghai is being systematically obstructed by Japan's treatment of North and Central China as different countries.

In Central China, the forwarding to the coast of all produce from Japanese-occupied areas is now subject to strict regimentation by the Japanese military and to payment in military yen. This regimentation has had the same adverse effects on production as elsewhere in China. Non-Japanese Shanghai exporters may secure supplies of export produce only on the condition that the Japanese are allowed a share in the export profits and part of the foreign exchange proceeds. Except for tea, arrivals at Shanghai of Free China produce have practically stopped since the recent Japanese onslaught against the East Chekiang coast. The production of Central China's major export commodity, raw silk, is being discouraged by the Japanese in an effort to relieve the silk market of Japan proper; the 1941 spring cocoon gathering in Central China yielded 30 per cent less than the past year's crop. However, high silk prices, almost reaching the peak quotations of November-December, 1939, compensate for the reduction in output. Shanghai's silk stocks are extremely low, and domestic demand competes sharply with export requirements.

#### SHANGHAI'S SHARE

Shanghai's exports continue to dominate the exports of the whole of China. During the first half of this year, North China and Free China accounted for one-sixth each of the whole of China's export trade, while Shanghai alone accounted for two-thirds. This is now primarily due to the fact that produce coming from the interior plays but a secondary part in Shanghai's exports while the products of Shanghai's industries rank first. Most important among these products are cotton yarns and piece-goods, followed by iron, steel and other metal manufactures. These textiles and metal manufactures sell successfully in South-East Asiatic countries and British India, taking the place of former imports from Continental Europe.

China's Export Trade (cont'd)

- 3 -

Great Britain and Japan. More than half of Shanghai's exports in January-May, 1941, were contributed by these and other local industrial products, while the share of raw silk in local exports declined to 12.5 per cent.

Shanghai's chief foreign customer remains the British Empire, which in January-May this year purchased 40 per cent of Shanghai's exports. In this trade, Hongkong ranked first as the leading distributor of local textiles and metals in South-East Asia; British India as a large-scale buyer of the same goods was second; while the United Kingdom ranked third owing to its continued purchases of raw silk, bristles, egg products and vegetable oils. The United States maintained a 25 per cent share in Shanghai's exports, so that the two great Anglo-Saxon Powers together accounted for two-thirds of all local export shipments. The Japanese Empire with a 19 per cent share was third, but a large part of Shanghai's shipments to Japan's Kwantung Leased Territory (Dairen) went via Siberia to Germany, and this latter trade has been completely interrupted by Germany's attack on Russia.

from--THE ECONOMIST--August 9, 1941.

Copy:wec:9-2-41

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE June 25, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

# CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£37,000
Purchased from commercial concerns	£91,000

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

Open market sterling held steady at 4.03-1/2. The only reported transactions consisted of £10,000 in sales to commercial concerns.

Continuing its improvement, the Uruguayan free peso opened 11/16¢ higher at .45-1/16, remaining at that level for the rest of the day.

The Cuban peso, which closed last night at 1-1/16¢ discount, eased to a final quotation of 1-1/4¢ today.

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

Canadian dollar	11-3/4¢ discount
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2070

In Shanghai, the yuan was again quoted at 5-13/32¢, and sterling remained at 3.91-1/2.

There were no gold transactions consummated by us today.

No gold engagements were reported.

A price of 23-7/16d was again fixed in London for spot and forward silver, equivalent to 42.55¢.

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

We made two purchases of silver totaling 100,000 ounces from the Bank of Canada. So far this month, we have bought 1,025,000 ounces from that source under our regular monthly agreement to purchase up to 1,200,000 ounces.

The Federal Reserve Bank's report of June 18, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$66,839,000, a decrease of \$3,157,000 since June 11. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on June 18:

	<u>June 18</u>	<u>Change from June 11</u>
Liabilities: Deposits for Japan and Manchuria.....	\$44,025,000	-\$4,294,000
"      : Deposits for China.....	15,917,000	+ 565,000
"      : U.S. Treas. Bills, comm. paper, etc..	30,831,000	- 17,000
Claims      : Loans.....	\$14,325,000	-\$5,214,000
"      : Other - mainly Jap. import bills.....	7,515,000	+ 1,605,000

It will be noted that the decline of \$4,294,000 in Japanese and Manchurian bank deposits was accompanied by a reduction of \$5,214,000 in Agency loans.

CONFIDENTIAL

C  
O  
P  
Y

Copenhagen, June 25th 1941.

Mr. Horace Merle Cochran,  
The United States' Treasury,  
Washington, D.C.

Dear Mr. Cochran,

I take the liberty to trouble you with the following question:

During the present difficult period we in the National Bank of Denmark have made an effort to continue the payments in the United States on the various Danish Dollar loans. I am glad to say that this effort has been successful and that it has been possible for us up to now to meet all our Dollar obligations in respect of interest and amortization within the United States of America. The National Bank has been using its funds within the United States for these purposes. We appreciate this very much as we feel that the financial prestige of Denmark in the United States has been maintained by means of these payments.

A special situation, however, has now arisen as far as the Danish Dollar bonds in Swedish possession are concerned. These bonds are now in default, and as I am sure that you are aware of the very close and friendly co-operation existing between Sweden and Denmark I hope that you will realize that this state of affairs is very disagreeable to us. In order to render a service to the Sveriges Riksbank with which we are on very friendly terms we are

now endeavoring to resume the payments on the Danish Dollar bonds in Swedish possession. We are doing this not only to meet the demand of Sweden, but also because we find that there is no reason why a certain section of our Dollar bonds should be in default and give cause for complaints.

The Swedish Riksbank has just given us figures showing the amount involved, viz. \$,137,603.25, and the National Bank of Denmark which has no other funds available for this purpose has today on the basis of these figures sent an application to our correspondent in the United States, the Federal Reserve Bank of New York, and asked them to secure a license from the United States' Treasury for the release of such an amount of our blocked Dollar funds in the United States as will be necessary for the payment in Dollars to the Sveriges Riksbank in New York. The Swedish Riksbank will thereafter make payments in Sweden in Swedish Kroner to the bond-holders in question. They have given us the assurance that they will only make payments to Swedish bond-holders and make the payments dependent on an affidavit securing that the bonds are in the possession of Swedish citizens and have been so since April 9th 1940.

I should be very much obliged to you if you would give your attention to this question which we are anxious to see settled in a satisfactory manner. I trust that you will realize the value of a settlement which will be fair and in common interest of the countries concerned.

- 3 -

For the details I refer to the enclosed copy of our letter of yesterday to the Federal Reserve Bank of New York.

I hope that you are very well and that conditions will change so that it will be possible for us to meet again.

Thanking you beforehand for your valuable help I remain with kind regards,

Yours sincerely,

(Signed) Bramnaes

Governor of Danmarks Nationalbank

Copy:lg 7/15/41

C  
O  
P  
Y

## DANMARKS NATIONALBANK

Copenhagen, June 24th 1941.

Original by Air-Mail.

The Federal Reserve Bank of New York,

New York.

Dear Sirs,

By the present we ask you to apply to the United States Treasury Department for license to transfer from our ordinary account

\$137,603.25

to the credit of Sveriges Riksbank's free account with you. This amount represents proceeds of coupons of Danish dollar bonds on Swedish hands and bonds of the following loans are concerned:

Kingdom of Denmark, 6%, 1921  
 Kingdom of Denmark, 5-1/2%, 1925  
 Kingdom of Denmark, 4-1/2%, 1928  
 Danish Producers Loan, 5%, 1928  
 Mortgage Bank of Denmark, 5%, 1927  
 City of Copenhagen, 5%, 1927  
 City of Copenhagen, 4-1/2%, 1928

We have been negotiating the question of payment of the said coupons with Sveriges Riksbank, and we on the part of the Danmarks Nationalbank are anxious to fulfill the Danish obligation to the Swedish bond-holders of the said loans. The Sveriges Riksbank is willing to pay the Swedish bond-holders as soon as the credit has been placed at their disposal in New York, and the Riksbank has given us the formal assurance that they will only make payment to Swedish bond-holders and make the payments dependent on affidavits securing that the bonds are in the possession of Swedish citizens and have been so since April the 9th 1940.

When the license is obtained please give us telegraphic advice.

Yours faithfully,

DANMARKS NATIONALBANK

H. Haugen-Johansen

/H. Meiner

Copy:lg 7/15/41

243

BRITISH EMBASSY,  
WASHINGTON, D.C.

June 25th 1941.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED JUNE 23rd 1941.

On June 21st "Arrow" mined off Flamborough Head has arrived harbour.

2. On June 22nd/23rd two M.S. trawlers bombed and sunk.

3. Marsdale O.B.V. a.m. June 22nd. Sighted suspicious vessel believed enemy supply ship which escaped to the north east at 21 hours. Catalina aircraft attacked her with bombs but without success, operations continuing.

4. During air raid Alexandria Harbour night of June 20th/21st no naval or military damage caused.

5. British ship of 5,000 tons bombed and sunk whilst in convoy off Cromer night of June 21st/22nd.

6. Convoy previously sighted off Lampedusa on June 22nd attacked and medium sized merchant vessel severely damaged.

7. LIBYA and EGYPT. Enemy covered by offensive patrols of A.F.V.S. appears to have carried out extensive recovery of derelict vehicles.

8. BENHAZI. Night of June 21st/22nd again attacked: one ship set on fire.

9. ABYSSINIA. After sharp engagement June 20th our troops captured prepared enemy position 15 miles west of Lechemti inflicting severe casualties and capturing four guns and 20 machine guns. Small enemy parties still being rounded up southwest of Soddu.

Deserters have confirmed presence of 3,000 white and 1,000 Banda 10 miles north of Debarach. Steps being taken to round these up.

- 8 -

10. SYRIA. All resistance in Damascus has ceased. Capture of Mezze complete. Merjayoun sector operations proceeding.

11. IRAC. Tigre's convoy arrived at the area on the evening of June 19th.

12. ROYAL AIR FORCE. June 22nd. Formation of Blenheims attacked railway centre at Zealbrouck. Sixteen squadrons of fighters acted as escort and destroyed 29 enemy fighters in air combats. Two were lost but one pilot safe. The Blenheims also probably destroyed one enemy aircraft and destroyed another which had already been damaged by fighters.

13. Night of June 21st/22nd. Manchester reported missing yesterday has returned.

14. Night of June 22nd/23rd. 111 bombers sent to Bremen and Wilhelmshaven. Three missing. Seven coastal command aircraft operated against shipping. One missing.

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, June 25, 1941

TENTATIVE LESSONS BULLETIN  
No. 124  
G-3/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

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

THE LEWIS LIGHT MACHINE GUN IN ANTI-  
AIRCRAFT DEFENSESOURCE

This is the first of a series of three bulletins based upon information contained in a British handbook for light machine gunners. The handbook was written by a retired English army officer and its publication was approved by the Ministry of Information.

The second bulletin of the series will cover similar data on the Bren and the Hotchkiss light machine guns, together with firing instructions, and the third will give instances of light machine gun successes against low-flying aircraft.

CONTENTS

1. GENERAL
2. .303 LEWIS GUN
3. .300 LEWIS GUNS
4. MINOR VARIATIONS BETWEEN THE .303 AND THE .300

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALSTHE LEWIS LIGHT MACHINE GUN IN ANTI-AIRCRAFT DEFENSE1. GENERAL

Originally introduced into the British Army during the World War to supplement the fire power of infantry platoons engaging ground targets, Lewis light machine guns are now used mainly as weapons of antiaircraft defense - both ashore and afloat - against low-flying enemy aircraft.

Against ground targets, short bursts of about ten rounds are sufficient for good fire effect, a fresh aim being taken after each burst to ensure accuracy and fire control. For antiaircraft defense, however, short bursts are ineffective, and continuous fire is essential. With its special air cooling system, the .303 Lewis is capable of sustained fire to a greater degree than other air cooled automatics, and is thus well suited for use against air targets.

The ring foresight formerly fitted to Lewis guns was designed when the maximum speed of a plane did not exceed 150 M.P.H. It provided for a lead of six degrees, the angle of deflection needed to engage a target crossing the gun position at that speed. Since this rate has increased to an average of about 300 M.P.H. - fighters fly considerably faster than that; bombers somewhat slower - the angle of deflection necessary to engage targets crossing at right angles to the line of fire is now approximately twelve degrees, or double the old angle.

The result is that not only has the ring foresight become obsolete, but in addition it has been found impracticable to align any sight on crossing targets moving at top speeds within effective range. Accordingly, aiming and fire control are now carried out by the "hosepipe" method of continuous fire, aided by observation of tracers.

2. .303 LEWIS GUN

The .303 Lewis is air cooled, gas operated, and magazine fed. Normally the magazine, a circular rotating steel drum, is made to hold 47 rounds, but the design of the drum enables it to be enlarged to double normal size. Some of the enlarged 94 round magazines are in use, and they have greatly increased the value of the gun for use against air targets. The .303 has the following characteristics:

Weight of gun	26 lb;
Weight of bipod	2 3/4 lb;

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

Weight of magazine (empty)	1 1/2 lb;
Weight of magazine (full)	4 1/3 lb;
Length of gun	50 1/2 in;
Length of barrel	26 1/4 in;
Normal rate of fire*	10 rounds per second;
	3 to 4 magazines - about 150 rounds - per minute.

The barrel is in close contact, throughout its length, with an aluminum radiator casing. Concentrated in the barrel mouthpiece, and from thence striking against the fore radiator casing, the gases act to create a vacuum and consequent suction, which draws a continual current of cool air through the radiator flanges, thus rapidly expelling heat from the barrel.

To ensure even greater volume of fire for antiaircraft purposes, Lewis guns are also used in naval craft, mounted in pairs or in multiple form to engage enemy dive bombers attacking convoys, etc.

When the gun is fixed on an antiaircraft mounting - either a folding tripod or a vertical pillar - it is held according to one of the following methods for firing against aircraft:

- a. Gun is rested firmly against hip with butt under right arm, and is held down by left hand pressing on small of butt. Sights cannot be used, and elevation and point of aim must be estimated;
- b. Gun is held tightly to shoulder. Sights may be used.

### 3. .300 LEWIS GUN

Lewis guns of .300 calibre purchased from the U.S.A. are the same as those used by the United States Air Force in its aircraft. Since the speed of the plane through the air automatically cooled the .300, no system of cooling was necessary, and the guns were not fitted with aluminum radiator and radiator casing. A considerable reduction in weight was thereby accomplished, the .300 Lewis weighing about 17 pounds as compared with the 26 pounds of the .303 gun.

In England, however, the .300 has been issued to the Home Guard, not to the Air Corps, so that the gun there has no natural cooling system and has a normal rate of fire limited to short bursts. Consequently it is not so well suited for antiaircraft firing as the .303.

\* Lewis guns mounted in aircraft have been speeded up for air fighting to 20 rounds per second or 1,100 rounds per minute, about double the normal rate of fire.

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

Enemy aircraft diving down to attack troops on the move, or other military objectives, are fleeting targets though, and present themselves for only a few seconds at a time. At such moments all units must protect themselves with the weapons at their disposal, and it may be necessary to use the .300 Lewis to engage such planes.

4. MINOR VARIATIONS BETWEEN THE .303 AND THE .300

Aside from the difference in cooling systems of the two Lewis guns, the .300 type varies from the .303 as follows:

- a. The cocking handle is fitted on the left-hand side of the body instead of on the right;
- b. The pinion is painted with a red band to distinguish it from that of the .303. The pinions of the two guns are not interchangeable.
- c. The trigger spring is fitted to the sear, and not to the trigger itself, as in the .303;
- d. The gas regulator has four holes - Nos. 1, 2, 3, and 4 - varying in size. That of the .303 has two holes only. The gun should be regulated so as to use the smallest hole that gives sufficient gas.
- e. The gas chamber includes a gas chamber gland.

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

RESTRICTED

G-2/2657-220; No. 426 M.I.D., W.D. 12:00 M., June 25, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: German main pressure seems to be developing along the axes Konigsberg-Vilna (Lithuania) and Luvow-Kiev. The Germans are advancing on a broad front in Central Poland. Fighting is in progress all along the front. In general the intensity of combat is still undetermined.

Air: German. No detailed reports available. It is assumed that the primary air effort continues against the Russian air force and communications.

U.S.S.R. Numerous scattered attacks, including Memel, Konigsberg, Danzig, Lublin, Warsaw, Constanza and Sulia (both in Rumania) and probably points in Bulgaria.

II. Western Theater.

Air: German. Night attacks involving an estimated 100 planes against Liverpool and ports on the Tyne and Tees.

British. Continuation of the day offensive across the Channel and of the night offensive against Germany. In the latter Cologne, Dusseldorf and Kiel were attacked. The invasion coast was also raided by the coastal command.

III. Middle Eastern Theater.

Ground: No change in the situation.

Air: Axis. Attacks on Haifa and around Tobruk.

British. Raids on Tripoli (Libya), Benghazi and Beirut.

RESTRICTED

# CONFIDENTIAL

251

Paraphrase of Code Cablegram  
Received at the War Department  
at 15:40, June 25, 1941

London, filed: 20:09, June 25, 1941.

1. British Air Activity over the Continent.

a. Night of June 23-24. During this night British bombers dropped the following number of tons of high explosive bombs and numbers of incendiary bombs upon the targets specified: the railway yards at Cologne, 54 and 5700; the industrial center of Cologne, 17 and 800; Dusseldorf, 38 and 1600; Kiel 52 and 2500, which included three high explosive bombs of 4000 pounds each.

b. Day of June 24. The power station at Comines was attacked by 15 Blenheim bombers, with the protection of 19 fighter squadrons.

c. Night of June 24-25. The following number of British bombers attacked the following objectives: Dusseldorf, 31; Cologne, 54; Boulogne, 1; Emden, 2; and Kiel, 48.

2. German Air Activity over Britain.

a. Day of June 25. On this day the Germans operated against England with 80 fighters, 5 long range bombers and 20 reconnaissance aircraft. Over the occupied countries defensive patrols were maintained by 250 German fighters.

b. Night of June 23-24. During this night were dispatched 18 fighters, 40 long range bombers and 5 reconnaissance aircraft.

c. Night of June 24-25. A few operations were carried out in the area of the Midlands, Cornwall, Bristol and Liverpool.

CONFIDENTIAL

INFORMATION COPY

CONFIDENTIAL

252

3. Aircraft Losses Reported.

a. British losses. Two Spitfires were lost from the fighter protection furnished during the daylight operations of June 24. One bomber was shot down and two were unreported in the raids of the night of June 24-25.

b. Axis losses. During the day of June 24 nine ME-109's were destroyed, 7 probably destroyed and five damaged, 6 ME-108's being included in the total.

4. British Air Activity, Other Theaters.

a. Middle Eastern Theater. No change is reported.

LEE

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Chief of Staff  
Assistant Chief of Staff, G-3  
War Plans Division  
Office of Naval Intelligence  
G-2  
G-3  
Air Corps

CONFIDENTIAL

Paraphrase of Code Cabling  
Received at the War Department  
at 21:49, June 23, 1941.

SECRET <sup>253</sup>  
By the Bureau of Military Intelligence, G-2  
Date JUN 27 1941  
Initials

Cairo, filed 21:30, June 23, 1941.

The ground strafing of motor vehicles on roads and no protective patrols over forward troops and airdromes was the mission assigned to the squadron of F-40's in the Western Egyptian desert.

Two or more sections of two planes each would fly at altitudes of from four thousand to fifteen thousand feet to spot columns of vehicles for ground strafing. They would then attack, with all guns firing on the column or concentration, from altitudes of fifty to one hundred feet. Four missions have been reported. Without loss to the Tomhawk squadron, several motor vehicles have been destroyed and some casualties to ground personnel caused. Several F-40's received hits from machine guns mounted in trucks. It was reported that one concentration of motor vehicles had seven machine guns.

Four Tomhawks, on returning from a mission, at four thousand feet altitude were surprised by four ME-109's and all failed to return; one was seen to go down in flames. One pilot took to his parachute but was shot on the way down. A fifth Tomhawk near this formation turned and fired 2 or 3 bursts, then surprised by a ME-109, then dived and got away by flying at ground level. Due to the possibility of being out of ammunition after these strafing missions, there are standing instructions to return to their base by flying at ground level.

**FILLING**

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Under Secretary of War  
Chief of Staff

Assistant Chief of Staff, G-2  
War Plans Division  
Office of Naval Intelligence  
Assistant Chief of Staff, G-3  
Air Corps

SECRET

254

By authority A. V. of S., G-2

Date JUN 28 1941. (JCH)

Initials

Paraphrase of Code Sablogram  
Received at the War Department  
at 13:38, June 25, 1941.

Cairo, filed 21:30, June 24, 1941.

Four Tomahawks, on patrol over the forward area in the Egyptian desert, saw a formation of two ME-109's at 22,000 feet. Two of the Tomahawks made a surprise attack on them, one of the ME-109's turned in front of a Tomahawk. The P-40 fired a burst of 50 caliber and then followed the ME-109 down in a dive, firing 2 more 50 caliber bursts at a range of 500 yards. Hits on engine and smoke were seen. The ME-109 dived out to sea. The other Tomahawk flew formation with the other ME-109 after having approached unobserved. He fired a three second burst of thirty caliber only, as he had forgotten to change his fifty caliber guns. The ME-109 lost some freestone and began to smoke, then dived to ground level and got away.

Two other ME-109's were seen five hundred feet above the P-40 and the latter attacked with both fifty and thirty caliber guns.

Over Sollum, another patrol of four Tomahawks at eighteen thousand feet, in three ship Vee formation with a fourth as Tail End Charley, were surprised by tracer from one ME-109 which dived past them. The Charley took chase and had two turns of a dog fight. The ME-109 broke away and dived for sea level. Bursts of fire, in the squadron, are limited to two or three seconds. A pilot stated that the P-40 will compare favorably, if not be better than the ME-109, after the pilots have had more combat practice.

FELDER

Distribution:

Secretary of War  
State Department  
Secretary of Treasury  
Under Secretary of War  
Chief of Staff  
Assistant Chief of Staff, G-2

War Plans Division  
Office of Naval Intelligence  
Air Corps

SECRET

INFORMATION COPY