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July 2, 1941
9:00 A.M.

RE AID TO BRITAIN

Present: Mr. Cox
Mr. Kades
Mr. Foley
Mr. Lovett
Mr. White

H.M.Jr: We have got a new committee here in the Treasury which has been set up to be a clearing house for the Allied Treasuries on their dollar requirements, and Mr. Cox represents Mr. Hopkins and he has given him full authority to act for him.

(Mr. White entered the conference).

H.M.Jr: Sit down, Harry. You know Mr. Lovett.

I am particularly interested in this. We gradually getting at - the Dominions, you see - everything where it means dollars, and they send their orders over here now every day, the Purchasing Commission with the British Treasury's signature on them and we try to work out Lend-Lease. If we can't, we try to find the dollars. We have got the thing now going pretty well. We are only interested in dollars. Hopkins called up after a meeting with Air Marshal Harris, and he was particularly interested

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in this project of ferrying English planes via Takoradi. Under a ruling which Mr. Cox has given, under Lend-Lease they can't pay for the personnel. The matter will run into somewhere between ten and fifteen million dollars.

Cox: Yes, as far as they can estimate.

H.M.Jr: Which is, considering the amount of dollars they have, a very large proportion of what they have got left, I am sorry to say. Now, what I would like to put up to the War Department is this: Why can't the War Department - we make so many - I say we, the Administration - make so many statements in the papers of what we are going to do for England and so forth and so on, why can't the War Department with its regular personnel, rather than the Pan American, just take this job over and say to the English, "We will deliver those planes for you to Cairo, Alexandria, or some place or other, just the way we are taking the stuff in the American ships and delivering it up through the Suez. The President hasn't changes his order yet, has he, that the Suez is open?"

Cox: No.

H.M.Jr: We are delivering stuff, aren't we?

Cox: Yes.

Lovett: The answer to that, Mr. Morgenthau, is relatively easy. The War Department hasn't got the pilots to do this job and to do the other tasks which have been turned over to it. It is already using two hundred twenty-odd pilots to ferry this stuff domestically. It has had pilots diverted to the Chinese. It has got pilots

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diverted to the South American airlines being taken over from the Germans, and at the present time we are just at that turnover period before coming into big production on them. We have been hit with a number of tasks, all within two months, and we haven't got the personnel to handle it. Now, we haven't got either the ground facilities or the pilot personnel to take over this job. There is available private personnel in the form of the Pan American organization which can be diverted from certain non-essential runs and put on this and they can do it. It is just that simple, sir. We haven't got the men and they have.

H.M.Jr: Pan American has?

Lovett: Yes, sir.

H.M.Jr: Well, I am in no position to argue, but without questioning you, it seems unbelievable.

Lovett: Well, it is a relatively simple thing to prove. We need six transport ships and the ground crews for the staging fields from Takoradi up to Khartoum and Cairo. The British are using about a hundred and twenty ferry pilots on the job. The Army has - will have to take over the North Atlantic ferry work sooner or later because out of the total of a hundred and ten odd pilots, fifty-two, I think, were American and seventy-three have been R.A.F. We have been put on notice that that is one of the next problems to take over.

H.M.Jr: You mean from Newfoundland --

Lovett: Newfoundland to England. We have six hundred

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ninety odd pilots at the present time on extended duty not related to Air Corps training at all.

H.M.Jr: Six hundred ninety?

White: In your estimate of the use of pilots, did I gather that you were assuming that these would be ferried from the United States to their final destination? I thought the Secretary had in mind merely ferrying them across the Atlantic, and that from that point on the British could take them on with their own men.

Lovett: No, that is not it.

H.M.Jr: No, I said to take them right up to Cairo.

Lovett: The British don't touch the aircraft from now on, that is the proposal at the present time.

H.M.Jr: No, my proposal was to take them right up to Alexandria or Cairo.

Lovett: You see, Mr. Secretary, the British have requisitioned DC-3's as transport ships. We have already released twenty of them. Nine, I think, have arrived in Bathurst already. We flew them out to the factory, had their tanks changed and flew them down to Miami and Trinidad, and they went over to Bathurst.

H.M.Jr: Weren't some of those Lockheeds?

Lovett: Some of them. Some were DC-2's and some were DC-3's. In addition to that, the British have requisitioned twenty-four DC-3's from

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domestic airlines, of which they are presently to receive twelve. If they get those twelve, that will release in the neighborhood of thirty-six pilots, approximately, and it is those thirty-six pilots that Pan American would be prepared to hire to handle the ferry service, and they can do it because they can pay the man a wage abroad which is attractive, and in addition to that, the men would be working for an American company. They will not work for the British.

H.M.Jr: How many planes are backed up in the United States awaiting ferry, either to Takoradi or to England?

Lovett: I don't know of any that are backed up and waiting ferry to Takoradi, sir, except the eleven transports which are down at Miami waiting for the pilots to be flown back from Bathurst.

H.M.Jr: What happens to the planes once they get to Takoradi?

Lovett: These transports?

H.M.Jr: No, the fighting planes?

Lovett: Fighting planes are assembled in Takoradi, sir.

H.M.Jr: How many are backed up there?

Lovett: There were seventy-eight a week ago, and we offered to send out today thirty mechanics from the Curtiss Company by Clipper, pulling a Clipper off the Caribbean run, to have them over there by Saturday, and those thirty men could assemble the seventy-eight planes in about fourteen days. We got a radio from England yesterday saying that that would not be necessary.

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H.M.Jr: Not much help.

Lovett: There are a hundred and three Lodestars - rather Hudsons - that is Lockheed 14 type, at various stages of completion, flyable, but not full of British equipment yet in the country as of last week. We flew over seventeen in one day and fourteen the day previous. They are short on British radios, oxygen equipment, certain navigation instruments, and so forth.

H.M.Jr: You mean when they leave here?

Lovett: The reason they are grounded now and are not in transit to England is because they haven't got the necessary fuel equipment.

H.M.Jr: Grounded at the factory?

Lovett: Some are at the factory and some are at Army staging fields.

H.M.Jr: My motto is "Nothing ventured, nothing gained". You know your facts; I don't.

Lovett: I think Oscar sat in on this type of thing a number of times, Mr. Secretary, and the fact of the matter is, we have been to the well pretty regularly in the last two months in a growing program, particularly when we have been filling island bases.

H.M.Jr: Island?

Lovett: Island. Hawaii, Alaska, Phillippines, Panama Canal, Porto Rico, Trinidad, Newfoundland. I don't think people realize just how many - how we are spread from hell to breakfast in this thing right now.

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H.M.Jr: All right. I throw up my hands.

White: It wouldn't be possible or advantageous or gain anything to split the trip up, letting the Americans take them over as far as the Near East African port and letting the British handle them from then on?

Lovett: That is a cinch. That is what we are doing now.

White: I thought you were having the Americans take them all the way through.

Lovett: No, the Americans are taking them over to the British ports now.

H.M.Jr: Pan American will take them as far as Takoradi, is that right?

Lovett: Yes.

H.M.Jr: Is that what will happen?

Lovett: The Pan Americans are taking them as far as Bathurst and Takoradi now, sir. They are taking these transport ships over right now.

H.M.Jr: Yes, but the rest of the flying from Takoradi up --

Lovett: Is done by the British.

H.M.Jr: But this American company for which they need ten million dollars is to be run by Pan American?

Lovett: Yes, to continue the flight all the way through to Cairo.

H.M.Jr: And it is that ten million dollars that I

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was trying to save them.

Lovett: Right, sir.

H.M.Jr: And you say you can't help me out.

Lovett: I say I can't help you that way with pilots.

H.M.Jr: Well, that is what we need. Who pays for these thirty mechanics?

Lovett: The Curtiss Company.

H.M.Jr: You mean the English do.

Cox: Lend-Lease can pay for that.

Lovett: That is repair and maintenance.

H.M.Jr: Will they pay for that?

Cox: Oh, yes.

Lovett: They are not going to use them. They now say they don't need them.

H.M.Jr: But this Pan American thing is dollars?

Cox: Dollars for the pay of the flight personnel but it didn't contemplate dollars for assembling the planes, but that is out.

H.M.Jr: But you can pay for repair and maintenance, but you can't for flight?

Cox: Yes.

Lovett: That is right, sir, that is one of those funny things in the bill.

White: Is it in the bill or is it their interpretation?

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Lovett: No, it is in the bill. You can pay for things but you can't pay for services.

White: Well, you can pay for maintenance. Isn't that a service?

Cox: The specific provision in the bill is to put a definite article in good working order, and an unassembled plane won't work.

Lovett: That is right.

White: I don't know how specifically it states that, but in economic literature, transportation of a necessity from where it is manufactured to where it is needed is equivalent to manufacture, production.

Cox: Well, they pay for it on Lend-Lease stuff but you have got a lot of planes that are purchased under British order before Lend-Lease.

Lovett: We can transport Lend-Lease stuff because the Army retains title until the ultimate turnover, but this is stuff which was bought before.

H.M.Jr: I want you to come again, so I won't waste your time. Thank you very much.

July 2, 1941

I told Harold Graves and Gene Sloan, this morning, to bring me a report at 9:15 tomorrow on how we can get all the chain stores in America to put in the sale of savings stamps. I don't want to wait for the Michigan experiment.

They said it would take 60 days to get it started and I said I wanted to get it started at once with all the chain stores.

July 2, 1941
9:30 a.m.

GROUP MEETING

Present: Admiral Waesche
 Mr. Johnson
 Mr. Haas
 Mr. Stewart
 Mr. Schwarz
 Mr. Thompson
 Mr. Cochran
 Mr. Sullivan
 Mr. Blough
 Mr. Kuhn
 Mr. Odegard
 Mr. Bell
 Mr. Graves
 Mr. Foley
 Mrs. Klotz

H.M.Jr: Norman?

Thompson: The May Military Affairs Committee report
 will not be printed until about the end of
 the week.

 Mr. Lubin has a good many people coming in
 and is there any objection to using your
 entrance?

H.M.Jr: Yes, there is. Let them go the other way.

Thompson: Can Lubin use it himself?

H.M.Jr: Can he use the elevator?

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Thompson: No, just the entrance.

H.M.Jr: No, let him use those steps up the other way. That is just exactly what I don't want. Why should he come in that way? Then he has got to use the elevator.

Thompson: No, he wouldn't want to use the elevator.

H.M.Jr: How would he come up?

Thompson: Just go through the runway there.

H.M.Jr: That he can do. But he wants his visitors checked, does he?

Thompson: Well, I think rather than send the visitors around the other way in the evening it would be better to let them come in there. I think probably it would be better to let the visitors come through the other door.

H.M.Jr: Let the visitors go through the other door.

Thompson: The Admiral will probably tell you he got his thirteen million dollars.

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

Waesche: We got our thirteen million dollars from the Lend-Lease Bill when we told them exactly what the committee of Congress said; why, they came across quick. I talked to them over the phone and the whole inference over the phone was that there was no chance of our getting that money at all. It was all earmarked and probably we would have to wait until they got the next Lease-Lend appropriation several months from now. I told them that the Appropriations Committee had put in their report that this had the effect - if they appropriated the whole amount, this

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had the effect of increasing the Lend-Lease appropriation, so we quoted the whole report of the House Appropriations Committee in our letter over there, and I think right after they read that letter and saw what the Appropriation Committee said, they immediately authorized the thirteen millions of dollars.

H.M.Jr: Who did you speak to?

Waesche: Philip Young.

H.M.Jr: What time was this?

Waesche: I talked to him three or four times yesterday afternoon beginning at - in the morning at about eleven o'clock and two and four. I talked to him, I think, three times.

H.M.Jr: The reason I asked that is because Oscar Cox was there at three-thirty yesterday and he said you couldn't have it until the Maritime Commission Bill went through, so I wouldn't be too sure unless --

Thompson: I have got the report of that nine-twenty this morning.

H.M.Jr: But Oscar Cox sat here yesterday at three-thirty and the thing was brought up in connection with the English wanting Lend-Lease to take over those sixty ships, and they said no, they can't do Coast Guard either.

So you got it?

Waesche: Yes, sir.

Bell: General Burns called me last night at six o'clock and said that he was approving it.

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H.M.Jr: Wonderful. I congratulate you, Admiral.

Thompson: That is all I have.

Bell: The Commodity Credit Bill is before the President for signature, or it was yesterday evening. Whether he signed it or not I haven't heard.

I would like to do that financing either Tuesday or Wednesday of next week if you are going to be here and available.

H.M.Jr: It is all right.

Bell: That is the eighth or ninth, either one.

H.M.Jr: Yes.

Bell: The Maritime --

H.M.Jr: Should I say something at my Thursday press conference?

Bell: Yes, I think you might. I will give you something on it. That is tomorrow, isn't it?

H.M.Jr: Well, I think you will be here anyway, because I hope to say something then about these --

Bell: Tax certificates?

H.M.Jr: Yes. But would you keep both in mind, please?

Bell: Yes, sir.

H.M.Jr: I hear that you personally picked those hostesses over at the Treasury House.

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Bell: No, I can't be given credit for that. I am sorry.

H.M.Jr: That is what the rumor is. Pearson and Allen called me up and said - wanted to know whether it was true that he personally passed on those out of one hundred, that you selected those four.

Bell: Gee whiz! I think out of one hundred I should have done better than that on one or two, anyhow. (Laughter)

No, I am not guilty. Yesterday was the first time I had seen them.

H.M.Jr: That doesn't check with what Pearson and Allen had.

Bell: Well, they ought to be accurate.

Klotz: More accurate.

Bell: Oh yes. The Maritime Commission has called Admiral Waesche and wants him to give a German ship a dock trial. They have heard rumors that it has been sabotaged and apparently they can't tell until they give it a trial as to whether or not it has been sabotaged. I understand from Mr. Cairns that the vessel is under libel and you (Waesche) will have to take it up with the Department of Justice and the United States Attorney down there to get a court order. Did you hear anything about it, Ed?

Foley: Yes. That is so, and if we want it done, Justice wants us to ask them to get the order.

Bell: If you see no objection, we will go ahead with it.

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H.M.Jr: It is all right.

Foley: Did it also go out, Dan, to Justice and to the --

Bell: You mean the one you gave the Secretary?

No, I have got them here now for signature.

Foley: Because Shea apparently called up Welles and Welles said that he adhered to his original position that the State Department had no objection in so far as foreign policy was concerned, and he would telephone the Secretary to that effect. We don't want a phone call. We want the letters.

H.M.Jr: That is right. Somebody told me - is that all, Dan?

Bell: Yes.

H.M.Jr: Who has ten o'clock meetings this morning?

(Sullivan and Foley raised their hands)

Kuhn: You wanted to see me at ten o'clock.

H.M.Jr: I want to see you and Peter at ten o'clock. I am in no hurry.

Sullivan?

Sullivan: We are within thirty-five million dollars of our three and a half billion and --

Bell: Sold. (Laughter)

Sullivan: We are hoping to wind that up this morning.

H.M.Jr: I see you got the Bell tax through yesterday.

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Sullivan: Yes, one sixth of a cent a bottle rather than one cent a bottle. That is the little Bell tax. (Laughter)

Schwarz: Ding-dong.

White: That will cover the carbonic gas.

Foley: Hardly. One burp, Harry. (Laughter)

H.M.Jr: These boys are naughty around here.

Sullivan: We had a luncheon yesterday noon. The Chairman gave a luncheon for the committee, and Stam, Beaman, O'Brien and myself at the conclusion of the luncheon - somebody says, "What, no cigars? This is a fine luncheon the tobacco interests puts on for us."

Of course, the Chairman resisted any effort to have any tax on tobacco. But I think we can get that other thirty-five this morning.

They called me at about twenty minutes past nine from Biggers' office. They are having a meeting of the automotive industry to try to arrange plans for cutting down on consumption, and asked me to be there at ten o'clock this morning; but I explained to them that I couldn't.

H.M.Jr: Well, O'Connell can go to that.

Sullivan: Yes, he could, and we sent an observer from Mr. Blough's office, too, who isn't to say a word, just listen.

H.M.Jr: Well, the natural person would be O'Connell, and he is sitting in with Leon Henderson.

Sullivan: Do you want me to call him?

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H.M.Jr: Yes, I would send O'Connell.

Sullivan: All right. They are going to adjourn until a week from next Monday because it will take at least that long for Beaman and O'Brien and Tarleau's crowd and Stam's to draft this bill. I kind of thought I would like to get out when this thing is over today and stay up there unless something came up that I was needed on.

H.M.Jr: It is all right.

Sullivan: Because it will be my last chance, probably, if this thing gets out of the Senate.

H.M.Jr: Good idea.

Sullivan: So when it gets through today, unless something develops I am needed, I think I will shove along and I will leave my number with the operator so you can get me all the time.

H.M.Jr: All right.

Ed?

Sullivan: I will tell Mr. O'Connell to go up there..

Foley: Here is the letter to Iokes. It is written by Joe O'Connell.

(Mr. Sullivan left the conference.)

H.M.Jr: This should go by hand.

Foley: The meetings with the Federal Reserve people and the Comptroller's people are progressing very nicely. They are now being held in the board room of the Federal Reserve Building. The quarters are quite elegant and they are very comfortable. I still think it would be a good idea before they break up this evening - I think they will be through tonight - if you could just say a few words to them.

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H.M.Jr: I will try and do it.

Foley: Fine. They met until half past ten last night. There seems to be an unusual amount of interest, and I think a lot of good is being accomplished by the meeting. It is being conducted very well.

H.M.Jr: I will try and stop there on my way home. I go right by there.

Foley: Grand.

H.M.Jr: If I go, I will let you know and you can go with me.

Foley: Fine.

H.M.Jr: What else?

Foley: Nothing else.

H.M.Jr: Who else has a ten o'clock meeting. (Mr. Blough raises his hand.)

H.M.Jr: You?

Blough: I haven't anything of importance, sir.

H.M.Jr: All right, you are excused.

(Mr. Blough left the conference.)

H.M.Jr: Harold?

Graves: You said this morning that you would like to talk with us again tomorrow morning about this chain store thing. I am having my people meet with me at eight-thirty, and if you would care to have us, we can come in at nine.

H.M.Jr: I never know from day to day. Let's just say

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nine-fifteen.

Graves: Very good. And we may want to bring with us Mr. Young, who is the counsel here of Safeway Stores.

H.M.Jr: That is all right.

Graves: Fine. That is all I have.

H.M.Jr: Harry?

White: Nothing, sir.

H.M.Jr: What is the answer on Patterson?

Graves: Patterson wanted time to consider this further and to talk it over with associates of his in New York. He told me that he would let me know in a very few days.

H.M.Jr: O.K.

White: I have that answer - I mean, I have an answer from Keynes, orally. Apparently there is some misunderstanding.

H.M.Jr: On what? On his visit and terminating it?

White: Yes.

H.M.Jr: He spoke to me afterward in the meeting yesterday, and he said he wanted to wait on writing the letter, so I said, well, that was all right, that was his business, but he had made the statement Friday that he could go home because everything was in such fine shape, and I again repeated that a letter would be nice, but it was entirely up to him. I said in view of his other letter--

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White: He said he had assumed that this question of these planes and tanks would be taken care of. I don't know how he got that way, because to my knowledge there was nothing that had been said that would justify that impression on his part, but he said he had that in mind, and he had assumed that that would be taken care of.

H.M.Jr: He didn't say anything like that to me.

White: That is what he said to me, and he said, "Let's wait until this afternoon," because we had discussed that matter in the morning meeting.

H.M.Jr: All right.

I mean, he effervesced, everything was lovely, and "I just wanted to let you know I could go home now as far as my mission to the Treasury was concerned, and I have got other responsibilities," and I just thought, "Well, you talk that way," let him put it in writing.

White: I got the impression he seized on the other as an out when it came to putting it in writing.

H.M.Jr: It is all right. I just called his bluff.

White: I think that is probably what it was.

H.M.Jr: Anything else?

Chick?

Schwarz: If you are interested, I will make an effort today to get back here Wally Deuel, who was in Berlin for the Chicago News for about ten years. He has just finished writing.

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H.M.Jr: I just haven't got the time, Chick.

Schwarz: He is testifying in the Auhagen case today.

H.M.Jr: I just haven't got the time. Thanks for the suggestion.

Schwarz: That is all.

H.M.Jr: Right after this, Peter, I would like to see you and Kuhn for a minute or two.

George?

Haas: I have nothing.

Waesche: Last night there was a small fire on the Campbell, three twenty-seven foot cutter in the Brooklyn Navy Yard. It did about five thousand dollars worth of damage. They are painting that ship war color, the Navy is. That is the first one of our white ships that is being painted war color. The cutters which are going to Greenland, they are camouflaging them by painting them all white, the top of the masts, stack, guns, and everything. They say they look very much like an iceberg when they are painted that way.

In connection with the transfer of the Redwing, the cutter Redwing--

H.M.Jr: If you don't mind, I don't want to get down to that. Unless it is something important.

Waesche: Then I haven't anything else.

H.M.Jr: Unless it is something important.

Waesche: That is all, sir.

Johnson: An act of Congress, approved June 21, authorizes

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the President to set up controls over arrivals and departures of citizens and aliens in all ports of the United States. The order is in draft now which will put that into effect everywhere except on the Canadian border, and I suspect there is a little friction between State and Justice as to who will handle it, Justice wanting it for the Immigration Service and State apparently possibly thinking that it is going to take away the passport business, so two representatives from State came to see me to tell me how well Customs had handled that matter during the last war and asking whether we couldn't do it now.

H.M.Jr: Aliens?

Johnson: Aliens and citizens. Every man who crosses the border will have to have a permit, which may be term or special.

H.M.Jr: Well, what does the whole - that whole service of Justice to do?

Cochran: Immigration Service.

H.M.Jr: What do they do?

Johnson: They handle income persons, but they have had little to do with outgoing persons.

H.M.Jr: They should handle that. That is not our business. That is their business. I don't want to get in on it. It gets into the whole espionage business, and I told Foley and Sammy Klaus and Wiley and all the rest of them I don't want anything to do with it. So don't let them wish it on you.

Johnson: All right, sir.

H.M.Jr: That is what the Immigration Service was hired

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for. I don't want to get in on it.

Johnson: I had already told them that we couldn't do anything on the Mexican border, but that we might have facilities they could use at the seaports and airports.

H.M.Jr: That is Immigration Service. I mean, that is their job. That is what they are set up for. Then there is this whole question of espionage and all that, I don't want a piece of it.

Johnson: That is right. Today they have made somewhat of a failure, particularly through deserting seamen. We understand some Yugoslavs have gotten as far as Montana already where they are herding sheep.

H.M.Jr: Well, I don't want a piece of it. (Laughter)
Anything else?

Johnson: No, sir.

H.M.Jr: Walter?

Stewart: No.

H.M.Jr: Walter, with Bell - I hope Bell is ready - I am sure he is ready. He is always ready.
At eleven o'clock we will go into the reports from the Federal Reserve.

Bell: Yes, sir.

H.M.Jr: And as Mr. Stewart is down here just on that, so if he and you could get together for a little background.

Bell: I will be delighted.

You have a meeting with the Federal at three,

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too, haven't you?

H.M.Jr: Yes, but I want to assimilate the thing first among ourselves.

Bell: Fine.

H.M.Jr: At eleven.

Who else sits in on that?

Bell: George and Harry and Lauch Currie have been on the larger meetings. Do you want them at the eleven meeting?

H.M.Jr: If possible, yes.

Bell: Well, Harry could come, if he has got a free moment. I don't know as you need to call Lauch over just for the eleven o'clock meeting. He is coming to the three.

H.M.Jr: No, just make it Treasury.

Bell: All right.

Cochran: Alphand stayed over and is being received by Mr. Welles at four this afternoon and would still like to see you a minute, if you can.

H.M.Jr: I don't know why I got a four or five page letter from John Wiley about Alphand, as to why he was resigning, and I returned it to John Wiley and said I just didn't have time to read it. Why it came that way, I don't know.

Cochran: He has known him a long while. They are close personal friends.

H.M.Jr: Anyway, I just haven't got - ten forty-five.

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Cochran: And I still have a couple of things to clear with you.

H.M.Jr: Well, you have got fifteen minutes then.

Cochran: All right, before or after the meeting with Alphand.

H.M.Jr: O.K.

July 2, 1941

Status of the tax bill as of today, furnished Secretary
and each member of the 9:30 group by Bough

LIST OF EXHIBITS

1. Estimates of revenue increases from tax changes tentatively adopted by Committee on Ways and Means through July 2, 1941.
2. Tax changes tentatively adopted compared with Treasury proposals and present law.
3. Individual income tax rates tentatively adopted compared with present law.
4. Estate tax rates tentatively adopted compared with present law.

Revised estimates increase or decrease (1) in percent from the figures as tentatively decided by the Joint Committee through July 2, 1941 1/

The	Proposed	Estimated increase or decrease (2) 3/
		(billions of dollars)
Income taxes:		
Corporations:		
Normal tax 11%:	5 percent on surplus net income of \$25,000 or less; 6 percent on excess	- 518.9
Excess profits tax:	Requires joint returns and increases surtax rates 5/	686.6
Total:		1,205.5
Individual:		1,734.0
Total income taxes:		3,439.5
Miscellaneous internal revenue:		12.9
Capital stock tax:	Increase rate from \$1.10 to \$1.25	12.9
Gift tax:	Increase rates 5/	102.6
Total:		111.5
Manufacturers' and retail excise taxes:		126.2
Distilled spirits:	Increase rates \$1.00 per gallon	122.1
Wine:	Double rates; revise base 7/	15.6
Passenger automobiles, parts and accessories:	Double rates; revise base 7/	74.9
Automobile trucks and trailers:	Increase rates from 2 1/2 cents and 4 1/2 cents to 5 cents and 9 cents	16.1
Tires and tubes:	10 percent of retail sales price, no exemption	44.6
Jewelry, including clocks and watches:	10 percent of manufacturers' sales price	46.1
Photographic apparatus, etc.:	Increase rate from 5 1/2 percent to 10 percent; revise base 10/	15.0
Mechanical refrigerators:	10 percent of manufacturers' sales price	14.0
Farming goods:	10 percent of manufacturers' sales price	4.9
Machines:	9 cents per 1,000	3.2
Radio sets and parts:	Increase rate from 5 1/2 percent to 10 percent; revise base 11/	9.4
Trucks, autos and other luggage:	10 percent of manufacturers' sales price	4.5
Photographs and photographic records:	10 percent of manufacturers' sales price	4.5
Guns and chewing gum:	5 percent of manufacturers' sales price	18.2
Musical instruments:	10 percent of manufacturers' sales price	7.6
Playing cards:	Increase rate from 11 cents to 13 cents	1.0
Electrical appliances:	10 percent of manufacturers' sales price	12.6
Business machines:	10 percent of manufacturers' sales price	21.0
Optical equipment other than eye glasses:	10 percent of manufacturers' sales price	1.0
Rubber products:	10 percent of manufacturers' sales price	26.9
Metal signs:	10 percent of manufacturers' sales price	5.6
Commercial mailing machines:	10 percent of manufacturers' sales price	4.1
Pens:	10 percent of retail sales price	20.7
Toilet preparations:	Revise base 12/	15.1
Soft drinks:	10 percent of manufacturers' sales price	22.6
Coffees:	10 percent of manufacturers' sales price	8.0
Total manufacturers' and retail excise taxes:		520.8
Miscellaneous taxes:		38.4
Amusements:	Reduce exemption to 9 cents and eliminate other present tax exemptions; exempt service men in uniform	50.0
Telephones, telegraph, radio and cable facilities:	Revise base 13/	27.6
Leased wires, etc.:	5 percent of total bill	43.6
Telephone bill:	5 percent of amount paid (35 cent exemption)	37.6
Passenger transportation:	2 1/2 per alley, billiard or pool table	3.4
Bowling alleys and billiard tables:	Reduce exemption to \$10 and tax certain privilege fees	2.8
Club dues:	Increase rate from 11 percent to 20 percent	4.7
Leases of safe deposit boxes:	5 percent of total bill	1.5
Cigarettes:	45 per automobile, yacht or airplane	167.0
Automobile, yacht, airplane - use:	Use tax of \$25 per 100	8.9
Coin operated amusement and gaming devices:		147.1
Total excise and miscellaneous taxes:		939.4
Total miscellaneous internal revenue:		1,011.6
Total:		3,402.1

Treasury Department, Division of Research and Statistics.

July 7, 1941.

- 1/ Tentative estimates subject to revision when a draft of the provisions of the bill becomes available.
- 2/ Full year effect. Estimates for corporation and individual income taxes and the gift tax are based on income levels estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.
- 3/ Increase withholding rate to 2 1/2 percent and the tax rate on non-resident alien individuals and on foreign corporations not engaged in trade or business within the United States and not deriving an office or place of business therein to 3 1/2 percent (including defense tax).
- 4/ (a) Revise income tax (including surtax) as a deduction in computing excess profits net income and allow excess profits tax as a deduction for income tax (including surtax); bracket (computed under present law); (b) impose special excess profits tax of 10 percent on the difference between the figure obtained by multiplying the invested capital in the current year by the average rate of return on invested capital in the base period and the sum of the excess profits credit plus the unmet excess profits credit computed on the proposed law basis or (2) the excess profits net income in the taxable year less the specific exemption of \$5,000.
- 5/ Schedule A for estates 75 percent of Schedule A for gifts.
- 6/ Increase rates to: (a) Still wines: Tax per gallon: (b) Operating wines: Tax per 1/2 pint: (c) Artificially carbonated wines: Tax per 3/4 pint: (d) Liquors, cordons, etc.: Tax per 3/4 pint:
- 7/ More than 21 percent alcohol: 25 cents
- 8/ 14 percent to 21 percent alcohol: 15 cents
- 9/ More than 21 percent alcohol: 25 cents
- 10/ 14 percent to 21 percent alcohol: 15 cents
- 11/ More than 21 percent alcohol: 25 cents
- 12/ 14 percent to 21 percent alcohol: 15 cents
- 13/ More than 21 percent alcohol: 25 cents
- 14/ 14 percent to 21 percent alcohol: 15 cents
- 15/ More than 21 percent alcohol: 25 cents
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- 94/ 14 percent to 21 percent alcohol: 15 cents
- 95/ More than 21 percent alcohol: 25 cents
- 96/ 14 percent to 21 percent alcohol: 15 cents
- 97/ More than 21 percent alcohol: 25 cents
- 98/ 14 percent to 21 percent alcohol: 15 cents
- 99/ More than 21 percent alcohol: 25 cents
- 100/ 14 percent to 21 percent alcohol: 15 cents

Tax changes tentatively decided by the Ways and Means Committee
through July 2, 1941

Tax	Before 1940 Acts	Present law	Treasury proposal April 24, 1941	Tentative changes decided by Ways and Means Committee through July 2, 1941
Income tax				
On individuals:				
Joint returns of husbands and wives				
Surtax:	Optional	Optional	Optional	Mandatory
Minimum rate	4%	4% 1/	11% 1/	5% 1/
Maximum rate	75%	75% 1/	75% 1/	75% 1/
Minimum rate applies to portion of surtax net income	\$4,000 - \$5,000	\$4,000 - \$5,000	First \$2,000	First \$2,000
Maximum rate applies to portion of surtax net income	Over \$5,000,000	Over \$5,000,000	Over \$5,000,000	Over \$5,000,000
Withholding rate, nonresident aliens	10%	15% 2/	27% (made in executive session) 2/	27% 2/
On corporations:				
Surtax:				
Minimum rate	-	-	5%	5%
Maximum rate	-	-	6%	6%
Minimum rate applies to portion of surtax net income	-	-	First \$25,000	First \$25,000
Maximum rate applies to portion of surtax net income	-	-	Over \$25,000	Over \$25,000
Withholding rate, foreign corporation not engaged in trade or business in U. S. and not having an office or place of business therein	15%	15% 2/	27% (made in executive session) 2/	27% 2/
Excess profits tax:				
Specific exemption	-	\$5,000	\$5,000	\$5,000
Credit	-	8% of invested capital; or 95% of base period excess profits net income for taxable years 1936-39 plus 8% of net addition to capital or minus 6% of net reduction in capital	Rate of return on invested capital in base period (1935-39) but not less than 5% on first \$500,000 of invested capital and 4% on the balance and not more than 10% of invested capital	8% on first \$5,000,000 of invested capital and 7% on excess; or 95% of base period excess profits net income plus 8% of net addition to capital or minus 6% of net reduction in capital
Excess profits net income	-	Normal-tax net income with certain adjustments after deducting specific exemption, credit and income tax	Normal-tax net income with certain adjustments after deducting specific exemption, credit and income tax (including surtax)	Normal-tax net income with certain adjustments after deducting specific exemption and credit and before deducting income tax (including surtax)
Rate of tax	-	Adjusted excess profits net income	Rate	Adjusted excess profits net income
		1st \$ 20,000	25%	1st \$ 20,000
		Next 30,000	30	Next 30,000
		" 50,000	35	" 50,000
		" 150,000	40	" 150,000
		" 250,000	45	" 250,000
		Over 500,000	50	Over 500,000
			Net income equal to 8% of in- vested capital, less credit. . . 33%	
			15%-30% of in- vested capital. 50%	
			Over 30% of in- vested capital. 65%	
Special excess profits tax on amount of current profits in excess of average earnings credit and not in excess of invested capital credit	-	-	10% on the difference between the figure obtained by multiplying the invested capital in the current year by the average rate of return on invested capital in the base period and the lower of (1) the sum of the excess profits credit plus the unused excess profits credit computed on the proposed law basis or (2) the ex- cess profits net in- come in the taxable year less the spec- ific exemption of \$5,000 (Excess Profits Tax proposals made May 19, 1941)	10% on the difference between the figure obtained by multiplying the invested capital in the current year by the average rate of return on invested capital in the base period and the lower of (1) the sum of the excess profits credit plus the unused excess profits credit computed on the proposed law basis or (2) the ex- cess profits net in- come in the taxable year less the spec- ific exemption of \$5,000 (Excess Profits Tax proposals made May 19, 1941)

1/ Exclusive of defense tax.

2/ Includes defense tax.

Tax changes tentatively decided by the Ways and Means Committee
through July 2, 1941

Continued - 2

Tax	Before 1940 Acts	Present law	Treasury proposal April 24, 1941	Tentative changes decided by Ways and Means Committee through July 2, 1941
Capital stock tax				
Per \$1,000 of adjusted declared value	\$1.00	\$1.10	-	\$1.25
Estate tax				
Specific exemption	\$40,000	\$40,000	\$25,000	\$40,000
Insurance exclusion	40,000	40,000	25,000	40,000
Rate of tax				
Minimum rate	2%	2% $\frac{1}{2}$	4% $\frac{1}{2}$	3% $\frac{1}{2}$
Maximum rate	70%	70% $\frac{1}{2}$	70% $\frac{1}{2}$	70% $\frac{1}{2}$
Minimum rate applies to portion of net estate not exceeding	\$10,000	\$10,000	\$5,000	\$5,000
Maximum rate applies to portion of net estate	\$50,000,000	\$50,000,000	\$50,000,000	\$50,000,000
Gift tax				
Specific exemption	\$40,000	\$40,000	\$25,000	\$40,000
Rate of tax				
Minimum rate	1 $\frac{1}{2}$ %	1 $\frac{1}{2}$ % $\frac{1}{2}$	3% $\frac{1}{2}$	2 $\frac{1}{2}$ % $\frac{1}{2}$
Maximum rate	52 $\frac{1}{2}$ %	52 $\frac{1}{2}$ % $\frac{1}{2}$	52 $\frac{1}{2}$ % $\frac{1}{2}$	52 $\frac{1}{2}$ % $\frac{1}{2}$
Minimum rate applies to portion of net gifts not exceeding	\$10,000	\$10,000	\$5,000	\$5,000
Maximum rate applies to portion of net gifts	\$50,000,000	\$50,000,000	\$50,000,000	\$50,000,000
Manufacturers' and retail excise and miscellaneous taxes				
Liquor taxes: $\frac{1}{2}$				
Distilled spirits, except brandy	\$2.25 per proof or wine gallon if below proof	\$3.00 per proof or wine gallon if below proof	\$4.00 per proof or wine gallon if below proof	\$4.00 per proof or wine gallon if below proof
Brandy	\$2.00 per proof or wine gallon if below proof	\$2.75 per proof or wine gallon if below proof	\$3.75 per proof or wine gallon if below proof	\$3.75 per proof or wine gallon if below proof
Fermented malt liquors (containing $\frac{1}{2}$ of 1% or more of alcohol by volume)	\$5.00 per barrel of not more than 31 gallons	\$6.00 per barrel of not more than 31 gallons	\$7.00 per barrel of not more than 31 gallons	-
Still wines containing the following percentages of absolute alcohol by volume:				
Not over 14%	5¢ per wine gallon	6¢ per wine gallon	7¢ (15¢)* per wine gal.	15¢ per gallon
Over 14 but not over 21%	15¢ per wine gallon $\frac{1}{2}$	15¢ per wine gallon	21¢ (35¢)* per wine gal.	35¢ per gallon
Over 21 but not over 24%	25¢ per wine gallon $\frac{5}{8}$	30¢ per wine gallon	35¢ (65¢)* per wine gal.	65¢ per gallon
Over 24%	Classified as distilled spirits and taxed as such	Classified as distilled spirits and taxed as such	Classified as distilled spirits and taxed as such	Classified as distilled spirits and taxed as such
Artificially carbonated wines	1 $\frac{1}{2}$ ¢ per half-pint $\frac{2}{3}$	1 $\frac{1}{2}$ ¢ per half-pint	1-3/4¢ (3¢)* per half-pt.	3¢ per half-pint.
Champagne or sparkling wines	2¢ per half-pint	3¢ per half-pint	3¢ (7¢)* per half-pint	7¢ per half-pint
Liqueurs, cordials or similar compounds	1 $\frac{1}{2}$ ¢ per half-pint	1 $\frac{1}{2}$ ¢ per half-pint	1-3/4¢ (3¢)* per half-pt.	3¢ per half-pint
			(*) Revised proposal made in executive session	
Tobacco taxes: $\frac{5}{8}$				
Cigarettes:				
Weighting not more than 3 lbs. per M	\$3.00 per M	\$3.25 per M	\$4.00 per M	-
Weighting more than 3 lbs. per M $\frac{5}{8}$	\$7.20 per M	\$7.80 per M	\$9.50 per M	-
Cigars:				
Weighting not more than 3 lbs. per M	75¢ per M	75¢ per M	\$1.50 per M	-
Weighting more than 3 lbs. per M retailing at:				
Not more than 5¢ each	\$2.00 per M	\$2.00 per M	\$4.00 per M	-
More than 5¢ and not more than 6¢	\$3.00 per M	\$3.00 per M	\$6.00 per M	-
More than 6¢ and not more than 15¢	\$5.00 per M	\$5.00 per M	\$10.00 per M	-
More than 15¢ and not more than 20¢	\$10.50 per M	\$10.50 per M	\$21.00 per M	-
More than 20¢ each	\$13.50 per M	\$13.50 per M	\$27.00 per M	-
Leaf tobacco, penalty tax	15¢ per lb.	15¢ per lb.	35¢ per lb.	-
Tobacco and snuff	15¢ per lb.	15¢ per lb.	35¢ per lb.	-

1/ Exclusive of defense tax.

2/ The excise taxes on distilled spirits and wines apply to products imported into the United States as well as to domestic products.
3/ Imposed by Public No. 655, 76th Congress, approved June 26, 1940. Prior to that Act the rates on still wines were 10¢ per wine gallon if over 14% but not over 21% alcohol and 20¢ per wine gallon if over 21% but not over 24% alcohol; on artificially carbonated wines, 1 $\frac{1}{2}$ ¢ per pint.
4/ The excise taxes on tobacco apply to products manufactured or imported into the United States and sold or removed for consumption or sale.
5/ Except that if more than 6 1/2 inches in length, they are taxed at the rate applicable to cigarettes weighting not more than 3 lbs. per M, counting each 2-3/4 inches or fraction thereof as the length of one cigarette.

Tax changes tentatively decided by the Ways and Means Committee
through July 2, 1941

Continued - 3

Tax	Before 1940 Acts	Present law	Treasury proposal April 28, 1941	Tentative changes decided by Ways and Means Committee through July 2, 1941
Manufacturers' and retail excises and miscellaneous taxes: (continued)				
Admissions, general	1¢ for every 10¢ or fraction thereof if over 40¢	1¢ for every 10¢ or fraction thereof if over 20¢	1¢ for every 10¢ or fraction thereof if over 5¢	1¢ for every 10¢ or fraction thereof if over 5¢ ^{1/}
Admissions to roof gardens, cabarets, etc.	1½¢ per each 10¢ or fraction thereof of amount taxable ^{2/}	2¢ per each 10¢ or fraction thereof of amount taxable ^{2/}	6% of total charge	5% of total charge
Automobiles, etc.: Passenger automobiles, bodies and chassis	3% of manufacturers' sales price	3½% of manufacturers' sales price	7% of manufacturers' sales price (Revised proposal, executive session - 15% of manu- facturers' selling price) ^{2/}	7% of manufacturers' sales price ^{3/}
Passenger automobiles, parts and accessories (other than tires and tubes)	2% of manufacturers' sales price	2½% of manufacturers' sales price	5% of manufacturers' sales price (Revised proposal, executive session - 10% of manu- facturers' sales price) ^{2/}	5% of manufacturers' sales price ^{4/}
Automobile trucks and trailers	2% of manufacturers' sales price	2½% of manufacturers' sales price	-	5% of manufacturers' sales price ^{10/}
Rubber tires	2½¢ per lb.	2½¢ per lb.	5¢ per lb.	5¢ per lb.
Inner tubes	4¢ per lb.	4¢ per lb.	9¢ per lb.	9¢ per lb.
Automobiles, yachts, airplanes - use	-	-	-	\$5 per automobile, yacht or airplane
Bank checks	-	-	2¢ per check	-
Bowling alleys and billiard tables	-	-	\$15 per bowling alley, billiard table or pool table ^{11/}	\$15 per bowling alley, billiard table or pool table ^{11/}
Business machines	-	-	-	10% of manufacturers' sales price ^{12/}
Candy and chewing gum	-	-	5% of manufacturers' sales price	5% of manufacturers' sales price
Clocks and watches	-	-	10% of manufacturers' sales price (Revised proposal to include with jewelry and tax on retail sales price)	10% of retail sales price (included with jewelry)
Club dues and initiation fees	10% of amount paid ^{13/}	11% of amount paid ^{13/}	11% of amount paid ^{14/}	11% of amount paid ^{14/}
Coin operated amusement and gaming devices ^{15/} - use tax	-	-	-	\$25 per annum
Commercial washing machines	-	-	-	10% of manufacturers' sales price
Cutlery	-	-	-	10% of manufacturers' sales price
Electrical appliances	-	-	-	10% of manufacturers' sales price
Fees	-	-	10% of retail sales price	10% of retail sales price

- ^{1/} Present law exemptions eliminated; service men in uniform exempt from tax.
- ^{2/} Amount taxable is the amount of admission charge, which is deemed to be 20% of the total paid for refreshments, services and merchandise.
- ^{3/} Where amount paid for admission is 50 cents or less, no tax shall be paid.
- ^{4/} Including buses and automobile trailers; including certain types of trailers, exempt under present law.
- ^{5/} Including buses; and certain types of trailers exempt under present law.
- ^{6/} Except those in private homes.
- ^{7/} Tax is 10% on rental of machinery not manufactured for sale.
- ^{8/} In the case of (1) dues, if the dues of an active resident annual member exceed \$25 per year; (2) initiation fees, if such fees exceed \$10 per year, or if the dues of active resident annual member exceed \$25 per year, not including initiation fees. "Dues" include any assessment irrespective of the purpose for which made.
- ^{9/} The tax on club dues, membership fees and initiation fees applies if the amount paid as dues or membership fees, not including initiation fees, for an active resident annual member exceeds \$10 per year. The definition of "dues" is extended to include any charges for special privileges or facilities or for golf, tennis, polo, swimming or other athletic or sporting privileges or facilities, for any period or periods comprising not less than 7 days.
- ^{10/} Including so-called "pin ball" and other similar gaming or amusement machines and so-called "slot" machines the operation of which involves the element of chance and which deliver or entitle the person operating or "playing" the machine to receive premiums, cash, "slugs" or tokens exchangeable for cash or premiums but excludes bona fide vending machines.

Tax changes tentatively decided by the Ways and Means Committee
through July 2, 1941

Continued - b

Tax	Before 1940 Acts	Present law	Treasury proposal April 24, 1941	Tentative changes decided by Ways and Means Committee through July 2, 1941
Manufacturers' and retail excise and miscellaneous taxes: (continued)				
Gasoline	1¢ per gal.	1¢ per gal.	2½¢ per gal.	-
Jewelry 15/	-	-	10% of retail sales price if selling price is \$3 or more (Revised proposal, executive session - eliminated \$3 exemption and in- cluded clocks and watches)	10% of retail sales price (clocks and watches are included)
Leases of safe deposit boxes	10% of amount collected	11% of amount collected	20% of amount collected	20% of amount collected
Matches (except fancy wooden matches)	-	-	2¢ per M.	2¢ per M.
Mechanical refrigerators, household type including parts and accessories therefor	5% of manufacturers' sales price	5½% of manufacturers' sales price	10% of manufacturers' sales price (Revised proposal, executive session - extended tax to commercial refrig- erators and air con- ditioning equipment)	10% of manufacturers' sales price (includes commercial refrigerators and air conditioning equipment)
Metal signs	-	-	-	10% of manufacturers' sales price 17/
Musical instruments	-	-	10% of manufacturers' sales price	10% of manufacturers' sales price
Optical equipment other than eye glasses	-	-	-	10% of manufacturers' sales price
Passenger transportation	-	-	5% of amount paid 18/	5% of amount paid 18/
Photographs and phonograph records	-	-	10% of manufacturers' sales price	10% of manufacturers' sales price
Photographic apparatus, etc.	-	-	10% of manufacturers' sales price	10% of manufacturers' sales price
Playing cards, per pack of 54 or fraction thereof	10¢ per pack	11¢ per pack	15¢ per pack (Revised proposal, executive session - 13¢ per pack)	13¢ per pack
Radio sets and parts 19/	5% of manufacturers' sales price	5½% of manufacturers' sales price	10% of manufacturers' sales price (Revised proposal, executive session - includes automobile radios)	10% of manufacturers' sales price (includes automobile radios)
Rubber products	-	-	-	10% of manufacturers' sales price 20/
Soft drinks	-	-	1¢ per bottle and equi- valents (Revised pro- posal, executive session - Bottles containing not more than 3½ fluid oz., bottled or imported to retail at: Not more than 10¢; 1¢ per bottle. 11¢ - 22¢; 2¢ per bottle More than 22¢; 3¢ per bottle; Bottle containing more than 3½ fluid oz., 33-1/3% of manufac- turers' sales price; Finished or fountain syrups, 3¢ per gal.; Carbonic acid gas, 20¢ per lb.)	Bottles containing not more than 3½ fluid oz., bottled or imported to retail at: Not more than 10¢; 1/5¢ per bottle. 10¢ - 20¢; 1/3¢ per bottle. More than 20¢; 1/2¢ per bottle; Bottles containing more than 3½ fluid oz. - 6% of manufacturers' sales price; Finished or fountain syrups - 6¢ per gal. Carbonic acid gas - 4¢ per lb.

15/ Whether real or imitation; pearls, precious and semi-precious stones and imitations thereof; articles made of, or ornamented, mounted or fitted with precious metals, or imitations thereof; gold-plated, silver-plated or sterling flatware or hollow ware; eyeglasses, longnettes; marine glasses; field glasses; and binoculars. The tax shall not apply to articles used for religious purposes, surgical instruments, or to frames or mountings for spectacles or eye glasses.

17/ Including installation costs.

18/ Transportation by rail, motor, water or air from one point in the U. S. to another or to any point in Puerto Rico, Cuba, Canada or Mexico. Tax applies also to seats, berths, and staterooms in parlor cars, sleeping cars, aircraft or on vessels in connection with the above-mentioned types of transportation. Tax does not apply when the amount paid for transportation does not exceed 15¢.

19/ Present tax based upon component parts. Under the proposal the tax is based on the complete set and would be imposed upon parts only when they are not sold for use in the manufacture of completed sets.

20/ Excluding tires and tubes, rubber footwear and surgical supplies.

Tax changes tentatively decided by the Ways and Means Committee
through July 2, 1941

Consolidated - 3

Tax	Before 1940 Acts	Present law	Treasury proposal April 24, 1941	Tentative changes decided by Ways and Means Committee through July 2, 1941
Sporting goods	-	-	10% of manufacturers' sales price	10% of manufacturers' sales price
Telegraph, telephone, radio and cable facilities:				
Telegraph messages	5% of amount charged	5% of amount charged		
Cable and radio messages	10¢ per message	10¢ per message	Charge for service 15¢ to 49¢ (25¢ * 49¢)* 50¢ * 99¢ 1.00 * 1.49 1.50 * 1.99 2.00 & over (2.00 to 2.49)* (2.50 & over 5¢ for each additional 50¢ or fraction thereof)* (*Revised proposal made in executive session)	Rate of tax 5¢ 5¢ 10¢ 15¢ 20¢ 25¢ 25¢ 5¢ for each additional 50¢ or fraction thereof.
Telephone conversations	Charge for service 15¢ to 49¢ 50¢ * 99¢ 1.00 * 1.49 1.50 * 1.99 2.00 & over Rate of tax no tax 10¢ 15¢ 20¢	Charge for service 15¢ to 49¢ 50¢ * 99¢ 1.00 * 1.49 1.50 * 1.99 2.00 & over Rate of tax no tax 10¢ 15¢ 20¢	Charge for service 15¢ to 49¢ (25¢ * 49¢)* 50¢ * 99¢ 1.00 * 1.49 1.50 * 1.99 2.00 & over (2.00 to 2.49)* (2.50 & over 5¢ for each additional 50¢ or fraction thereof)* (*Revised proposal made in executive session)	Rate of tax 5¢ 5¢ 10¢ 15¢ 20¢ 25¢ 25¢ 5¢ for each additional 50¢ or fraction thereof.
Leased wires	5% of amount paid	5% of amount paid	5% of amount paid ^{21/}	5% of amount paid ^{21/}
Telephone bills	-	-	5% of amount paid ^{22/}	5% of amount paid ^{22/}
Postal preparations	10% of manufacturers' sales price	11% of manufacturers' sales price	11% of wholesale sales price ^{21/}	11% of wholesale sales Price ^{21/}
Trunks, suitcases and other luggage	-	-	10% of manufacturers' sales price	10% of manufacturers' sales price

U. S. Treasury Department, Division of Tax Research

July 5, 1941

^{21/} Under present law the tax applies only if the fee for the services is paid to a telephone or telegraph company. Under the proposal, the tax would apply to all such services, including news or stock quotation tickers, teletypewriters and burglar alarm systems.

^{22/} Excluding messages subject to tax under graduated rates or as leased wires.

^{23/} Tax to apply to sales at wholesale by manufacturers, importers, producers and dealers for resale at retail. Sales by taxpayers at retail are to be taxed on the wholesale basis.

July 2, 1941

Files

Mr. Cochran

While with the Secretary at 10:45 this morning I raised the question of allowances for Foreign Service Officers who have been assisting the Treasury through special reports from London, Paris and Berlin. I reminded the Secretary that the allowance for London had been discontinued last Spring after Mr. Butterworth had returned to the United States. We agreed that there was no need for granting any new allowance for some special reporter in the London Embassy since Mr. Gee is now shortly proceeding to that post for financial work. Furthermore, we had not felt any necessity for a special reporter there during the presence in Washington of Sir Frederick Phillips, Playfair, Bewley and other British Treasury officials. As for Berlin, I told the Secretary that our reporter there, Mr. Donald Heath, had recently been transferred to South America, and was expected to arrive in Washington early in July. Considering our present relations with Germany, it was not thought worthwhile to appoint anyone else as our reporter in Berlin at present. As for Paris, I told the Secretary that Mr. Matthews had been doing almost no reporting for us recently, since his time had been occupied as Charge d'Affaires and as Political Counselor to Ambassador Leahy. Mr. Trimble, the young officer who had been doing much of the financial work under Matthews in recent months, is now in the United States and it is doubtful whether he will return to France. In these circumstances I recommended that the allowances to both Berlin and Paris be discontinued as of June 30. The Secretary agreed.

I have today given this information to Mr. Norman Thompson, who will have the necessary letters prepared to the Department of State announcing the discontinuance of the allotments to Berlin and Paris.



EMC:lap-7/3/41

July 2, 1941

File

Mr. Dehman

At Mr. Alphand's request I obtained an appointment for him to be received by the Secretary at 11:30 yesterday. The Secretary was, however, obliged to cancel this appointment because of a changed schedule. I received Mr. Alphand when he came and had a lengthy conversation with him. He told in some detail the reasons for his resigning as French Financial Attache in this country. The principal cause was his inability to reconcile his conscience to the policies of the Vichy Government. He said that even though he was the fourth generation of a family of French public officials, he thought it his duty to quit a Government which he could not serve conscientiously. His hope now, he said, was to be of some direct service to his country, which he thought could best be achieved perhaps through employment at London with the British. He would like to be in governmental rather than private finance, feeling that his training has been entirely along the lines of a government official, and I gained the definite impression that he would like to be with the American Government if he does not make a connection in London. In response to this hint I dropped the remark that we could only employ Americans in the Treasury.

When Mr. Alphand and I were in the Secretary's outer office yesterday and received through Lieutenant Stephens the word that the Secretary could not see us, it was agreed that I should let Mr. Alphand know if an appointment could be obtained today. It was understood that either Lieutenant Stephens or myself would phone Alphand and he gave the Warden Park Hotel as his address. I promised to get word to him there whenever an appointment was fixed.

At the Staff meeting this morning I raised the question of an hour for Alphand with the Secretary. He gave me 10:45 this morning. When I came out of the meeting at 9:55 I found that Mr. Alphand had just telephoned inquiring about an appointment with the Secretary. He had told Mrs. McIntyre that he would call back about 10:25. I left word that when Mr. Alphand called at 10:25 that he should be told that the appointment was for 10:45. He should proceed at once to the Treasury. If 10:45 came around and he did not arrive, I would go in with the Secretary and leave word for Lieutenant Stephens to announce Alphand if he might arrive while I was with the Secretary. Thus I would save Alphand's appointment up to 11 o'clock for him.

Mr. Alphand did not call back at 10:25 and did not arrive in the Treasury while I was in with the Secretary. When I was leaving the Secretary I explained the Alphand situation and the Secretary told me that he could not allot further time for an appointment for Mr. Alphand. Upon returning to my office I found that Mr. Alphand had called at 10:50 by telephone and that Miss Ayers had given him my message as above indicated. He said that he could not possibly get here before 11:10 and Miss Ayers replied that she did not think that the Secretary could see him after

1 o'clock. According to Miss Ayers Mr. Alphand said that he would be in town tomorrow but that he preferred to see the Secretary today. He said that he would call again at 11:25. Mr. Alphand did not telephone until 12:30, and I spoke with him at that time. I explained the situation as recounted in the foregoing paragraphs. Mr. Alphand was quite distressed, saying that he had not been able to see the Secretary for the past month. (I do not recall that he has requested any meeting with the Secretary for several weeks, except this present one). I told Mr. Alphand that I had done everything I could to facilitate a meeting, but that I had failed through Alphand's own failure to call me at the appointed hour, or to make a more serious effort to get in touch with me at the proper time. In response to Alphand's request for an appointment for this afternoon or tomorrow, I told him that the Secretary's schedule was quite filled up, and that I could not seek another hour. I volunteered the suggestion that Under Secretary Bell would see Alphand if he cared to call. I had cleared this with Mr. Bell before making the statement, and I transferred Mr. Alphand to Mr. Bell's secretary with the idea that a definite appointment might be arranged. Mr. Alphand was obviously distressed because he had failed to see the Secretary and as I was transferring his call, I heard him remark in French that "It was unbelievable". I presume that he referred to his failure to obtain an interview.

When I returned from lunch I found on my desk a memorandum from Miss Ayers which read as follows:

"Mr. Wiley called Mr. Klaus and said that Mr. Alphand was in a very bad way mentally and spiritually because the Secretary cannot see him. Mr. Klaus talked with Lieutenant Stephens who told Mr. Klaus that you knew about the appointment for this morning. Mr. Klaus said that Mr. Alphand told Mr. Wiley that he was indisposed this morning when he phoned us at 10:50 and that he could not possibly have gotten here before 11:15. Mr. Klaus repeated that Mr. Alphand was very much hurt. Mr. Wiley suggested that there may be some way to arrange an appointment with the Secretary for Mr. Alphand this afternoon."

I called Mr. Klaus and he later returned the telephone call when he had reached his office. I summarized the above statements and told Mr. Klaus that I definitely would not intervene in Alphand's favor with the Secretary. I told him further that Alphand had let me know that he had funds for only three or four more months, and must have a position at the end of that time. I told Klaus that, considering Alphand's attitude, and his probable desire to request the Secretary's assistance with respect to a position, I did not feel we ought to embarrass the Secretary with an interview. I said that there was no chance of our taking Alphand into the Treasury, and that if the chance did exist Mr. Bell could adequately handle the arrangements.

Mr. Alphand visited me at 10:45 am July 3, 1941, but only stayed a few minutes, briefly explaining his reasons for resigning, that he had enjoyed his contacts with Treasury, and that he hoped he could again some day represent a proper Government in France. --DWB

HMC:lap-7/2/41

38 ✓
HHT
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr.

July 2, 1941.

For your information

I attended a meeting at OPM this morning at 10:00 o'clock to which the representatives of the entire automobile industry had been requested to attend. Representatives of companies producing more than 98% of all automobiles, both passenger and truck, were present. OPM was represented by Mr. Knudsen and Mr. Hillman, as well as John Lord O'Brien, Mr. Budd, Mr. Adams, Fred Eaton, Bob McConnell, Dr. Lubin, and a number of others. A number of other governmental agencies were also represented, including the Public Roads Administration, the Federal Reserve Board, the Department of Commerce, and the Treasury Department.

The purpose of the meeting was to arrange for the establishment of an industry committee, composed of representatives of the automobile industry. The function of the committee is to be advisory, and it is hoped that they will be able to sit down with representatives of OPM and of other government agencies and work out a way of changing over a substantial part of the productive capacity and personnel of the automobile industry to defense work and at the same time reduce the production of cars to the extent made necessary by existing shortages of materials and skilled labor. OPM officials have apparently come to a realization that the problem is not so simple as to be solved by merely decreeing a horizontal cut in production of 20% (or any other percentage) in view of the widespread repercussions that undoubtedly would follow in the way of unemployment, migration of labor to defense areas already overcrowded, etc.

It is hoped that by sitting down and talking the thing out it will be possible to get the needed reduction in automobile production and at the same time utilize a substantial part of the displaced labor and idle capacity in

2.

connection with defense work, and thus obtain the desired result with a minimum of hardship. Nothing was said about the extent to which automobile production will have to be curtailed, since a definite determination of that figure depends in part upon the success of this committee. Only passing reference was made to excise taxes, the Chairman of the meeting suggesting that they presented one of the problems to be considered by the committee.

Almost the entire meeting was utilized by OPM experts explaining the significance of the shortages that exist in such items as aluminum, copper, and nickel, which are the most important items insofar as the automobile people are concerned as to which an acute shortage exists. For example, it was pointed out that in the month of June 96% of all primary aluminum produced went into direct defense work and that in July an even higher percentage will go in the same direction. The situation in copper and nickel, while not so acute, is of the same general character and steel is fast coming to be, at least so far as certain types of steel are concerned. As regards steel, it was pointed out to the assembled group that OPM was making every effort to force a change-over in the steel industry from the production of sheets (used largely by the automobile industry) to the production of plates (used largely for ships, tanks, etc.).

The committee will consist of 19 members: 7 from the companies producing passenger cars (including one representative from each of the big three); 4 from the manufacturers of trucks and buses (other than companies which also produce passenger cars); and 8 chosen from the companies producing parts and components. The actual members are being chosen this afternoon.

I thought the highlight of the meeting was a short statement by Mr. Knudsen at the close of the session. His theme, and he was very effective, was that too many people seem to feel that no real emergency exists and that there is no real urgency in getting into all-out production. He assured the group that in his judgment the need is greater

3.

today than it has ever been and what he referred to as "Germany's little excursion into Russia" merely makes matters worse. It seemed to me that he sensed that at least some of his audience shared the view he was decrying, and it was particularly interesting to me because Gene Duffield suggested practically the same thing when he returned from Detroit a week or so ago after spending some time there talking with executives of automobile companies.

Joseph J. O'Donnell Jr

July 2, 1941
10:45 a.m.

HMJr: Hello.

William
Hassett: Hello, Mr. Secretary.

HMJr: How are you?

H: First rate, fine.

HMJr: Hassett, on thinking it over overnight
I withdraw the request to ask the President
to stop and look at that thing.

H: Oh, I see.

HMJr: I don't think it's worth his while.

H: Yes. All right, then I won't make it.

HMJr: Have you - had you mentioned it to him?

H: I just mentioned it informally.

HMJr: Yes.

H: And told him you had it in mind. I tell
you, he hasn't made up his mind just
when he's going back.

HMJr: Well, you might - but what you might tell
him if you see him again - you know, we
start what we call Treasury Hour tonight
over the radio at 9 o'clock.

H: Oh yes.

HMJr: And it's going to be quite a wonderful
program on the entertainment.

H: Yes.

HMJr: And we start it off with the ringing of the
Liberty Bell in Philadelphia, hello?

- 2 -

H: Yes.

HMJr: Which hasn't been rung - and if he happens to be free at 9 o'clock and would listen for a few minutes..

H: Yes.

HMJr: I think he might enjoy it.

H: Yes, all right, I'll call it to his attention.

HMJr: Will you? It starts at 9, it's over Columbia.

H: Yes.

HMJr: And if he just listens to the opening of it, I think he might enjoy it.

H: I'll tell him about it, that it's 9 o'clock.

HMJr: What's that?

H: I'll tell him it's 9 o'clock.

HMJr: Yeah. Tell him it starts with the opening the ringing of the Liberty Bell in Philadelphia, which, I don't know how many years since that has been done.

H: Oh, I see, yes.

HMJr: But you might bring his attention on that.

H: Yes, I'll do that.

HMJr: Is he going to stay up over the Fourth, now?

H: I rather think that he is.

HMJr: That's what.....

H: He hasn't given the definite word yet, but I think

HMJr: Good. How does he - does he feel any better? I didn't think he looked well the other day.

H: He looks grand this morning.

HMJr: He looks grand?

H: Yes.

HMJr: Well, that's fine. Well, give him my very best.

H: I'll do that, Mr. Secretary.

HMJr: Thank you.

H: Goodbye.

COPY

TELEGRAM

Defense Savings Staff
Expenses of Loans

To be sent to those indicated on attached list.

Tonight, July second, at eight o'clock, Washington time we are presenting the first of thirteen Treasury hours in the interest of the Defense Savings program on a nation-wide network of Columbia Broadcasting system. We believe that the voluntary cooperation of radio, stage, and screen talent will make this the finest program that radio can provide. Accordingly, if you are not otherwise engaged, I hope you can tune in on Station WJSV at eight o'clock tonight and each succeeding Wednesday and enjoy it with us.

H. Morgenthau, Jr.,
Secretary of the Treasury.
(initialed) WNT

*send recording
to each*

c:dm

Honorable Henry A. Wallace,
Vice President of the United States.

Honorable Sam Rayburn,
Speaker of the House of Representatives.

Honorable Cordell Hull,
Secretary of State.

Honorable Henry L. Stimson,
Secretary of War.

Honorable Robert H. Jackson,
Attorney General.

Honorable Frank C. Walker,
Postmaster General.

Honorable Frank Knox,
Secretary of the Navy.

Honorable Harold L. Ickes,
Secretary of the Interior.

Honorable Claude R. Wickard,
Secretary of Agriculture.

Honorable Jesse H. Jones,
Secretary of Commerce.

Honorable Frances Perkins,
Secretary of Labor.

Honorable C. Rogers Arundell,
Chairman,
United States Board of Tax Appeals.

Honorable Harry B. Mitchell,
President,
United States Civil Service Commission.

Honorable Jewell W. Swofford,
Commissioner,
United States Employees' Compensation Commission.

Honorable James Lawrence Fly,
Chairman,
Federal Communications Commission.

Honorable Leo T. Crowley,
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Federal Communications Commission.

Honorable Leo T. Crowley,
Chairman,
Federal Deposit Insurance Corporation.

Chairman of the Board of Directors,
Reconstruction Finance Corporation.

Honorable Abner H. Ferguson,
Administrator,
Federal Housing Administration.

Honorable John H. Fahey,
Chairman,
Federal Home Loan Bank Board.

Honorable Warren Lee Pierson,
President,
Export-Import Bank of Washington.

Honorable Leland Olds,
Chairman,
Federal Power Commission.

Honorable Marriner S. Eccles,
Chairman,
Board of Governors of the Federal Reserve System.

Honorable Paul V. McNutt,
Administrator,
Federal Security Agency.

Honorable Arthur J. Altmeyer,
Chairman,
Social Security Board.

Honorable Charles H. March,
Chairman,
Federal Trade Commission.

Honorable John M. Carmody,
Administrator,
Federal Works Agency.

Honorable W. E. Reynolds,
Commissioner of Public Buildings,
Public Buildings Administration.

Honorable Joseph B. Eastman,
Chairman,
Interstate Commerce Commission.

Rear Admiral Emory S. Land,
Chairman,
United States Maritime Commission.

Dr. Vannevar Bush,
Chairman,
National Advisory Committee for Aeronautics.

Dr. E. D. W. Connor,
Archivist of the United States.

Honorable Murray W. Latimer,
Chairman,
Railroad Retirement Board.

Honorable Edward C. Stecher,
Chairman,
Securities and Exchange Commission.

Dr. Charles Greeley Abbot,
Secretary,
Smithsonian Institution.

Honorable Raymond B. Stevens,
Chairman,
United States Tariff Commission.

Brigadier General Frank T. Hines,
Administrator of Veterans' Affairs,
Veterans' Administration.

Honorable Harold D. Smith,
Director, Bureau of the Budget.

Honorable Wayne Coy,
Liaison Officer for Emergency Management.

Honorable Nathan Straus,
Administrator,
United States Housing Authority.

Honorable Lindsay C. Warren,
Comptroller General of the United States.

Dr. Harry A. Hillis,
Chairman,
National Labor Relations Board.

Honorable Augustus B. Siegenack,
The Public Printer,
Government Printing Office.

Honorable Archibald MacLeish,
Librarian of Congress,
Library of Congress.

7-2-41

Defense Savings Staff
Expenses of Loans

July 2, 1941

Mr. Robert E. Sherwood
The Playwright's Company
680 Fifth Avenue
New York, N.Y.

TONIGHT, JULY SECOND, AT EIGHT O'CLOCK, WASHINGTON TIME WE ARE PRESENTING THE FIRST OF THIRTEEN TREASURY HOURS IN THE INTEREST OF THE DEFENSE SAVINGS PROGRAM ON A NATION-WIDE NETWORK OF COLUMBIA BROADCASTING SYSTEM. WE BELIEVE THAT THE VOLUNTARY COOPERATION OF RADIO, STAGE, AND SCREEN TALENT WILL MAKE THIS THE FINEST PROGRAM THAT RADIO CAN PROVIDE. ACCORDINGLY, IF YOU ARE NOT OTHERWISE ENGAGED, I HOPE YOU CAN TUNE IN ON STATION WJSV AT EIGHT O'CLOCK TONIGHT AND EACH SUCCEEDING WEDNESDAY AND ENJOY IT WITH US.

H. MORGENTHAU, JR.,
SECRETARY OF THE TREASURY.

(initialed) WNT

c:dm
cgk

Defense Savings Staff
Expenses of Loans

July 2, 1941

General Edwin M. Watson
The Kennedy-Warren
Washington, D. C.

TONIGHT, JULY SECOND, AT EIGHT O'CLOCK, WASHINGTON TIME WE ARE PRESENTING THE FIRST OF THIRTEEN TREASURY HOURS IN THE INTEREST OF THE DEFENSE SAVINGS PROGRAM ON A NATION-WIDE NETWORK OF COLUMBIA BROADCASTING SYSTEM. WE BELIEVE THAT THE VOLUNTARY COOPERATION OF RADIO, STAGE, AND SCREEN TALENT WILL MAKE THIS THE FINEST PROGRAM THAT RADIO CAN PROVIDE. ACCORDINGLY, IF YOU ARE NOT OTHERWISE ENGAGED, I HOPE YOU CAN TUNE IN ON STATION WJSV AT EIGHT O'CLOCK TONIGHT AND EACH SUCCEEDING WEDNESDAY AND ENJOY IT WITH US.

H. MORGENTHAU, JR.,
SECRETARY OF THE TREASURY.

(Initialed) WNT

o;dm;ogk

Defense Savings Staff
Expenses of Loans

July 2, 1941

HON. STEPHEN EARLY
7704 MORNINGSIDE DRIVE N.W.
WASHINGTON D.C.

TONIGHT, JULY SECOND, AT EIGHT O'CLOCK, WASHINGTON TIME WE ARE PRESENTING THE FIRST OF THIRTEEN TREASURY HOURS IN THE INTEREST OF THE DEFENSE SAVINGS PROGRAM ON A NATION-WIDE NETWORK OF COLUMBIA BROADCASTING SYSTEM. WE BELIEVE THAT THE VOLUNTARY COOPERATION OF RADIO, STAGE, AND SCREEN TALENT WILL MAKE THIS THE FINEST PROGRAM THAT RADIO CAN PROVIDE. ACCORDINGLY, IF YOU ARE NOT OTHERWISE ENGAGED, I HOPE YOU CAN TUNE IN ON STATION WJSV AT EIGHT O'CLOCK TONIGHT AND EACH SUCCEEDING WEDNESDAY AND ENJOY IT WITH US

H MORGENTHAU JR
SECRETARY OF THE TREASURY

Defense Savings Staff
Excenses of Loans

July 2, 1941

HON. LOWELL MELLETT
QUAKER LANE
ALEXANDRIA VA

TONIGHT, JULY SECOND, AT EIGHT O'CLOCK, WASHINGTON TIME WE ARE PRESENTING THE FIRST OF THIRTEEN TREASURY HOURS IN THE INTEREST OF THE DEFENSE SAVINGS PROGRAM ON A NATION-WIDE NETWORK OF COLUMBIA BROADCASTING SYSTEM. WE BELIEVE THAT THE VOLUNTARY COOPERATION OF RADIO, STAGE, AND SCREEN TALENT WILL MAKE THIS THE FINEST PROGRAM THAT RADIO CAN PROVIDE. ACCORDINGLY, IF YOU ARE NOT OTHERWISE ENGAGED, I HOPE YOU CAN TUNE IN ON STATION WJSV AT EIGHT O'CLOCK TONIGHT AND EACH SUCCEEDING WEDNESDAY AND ENJOY IT WITH US

H. MORGENTHAU JR.,
SECRETARY OF THE TREASURY

7-2-41

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REHEARSAL SCRIPT

of

The Treasury Hour

"MILLIONS FOR DEFENSE"

First Broadcast

July 2, 1941

I give you
~~Remember~~ our slogan
"all for one and
one for all!" America
Over country
or America

Prepared by
HERMAN WOUK
6/29/41

arc

CBS

"MILLIONS FOR DEFENSE"U.S. TREASURY

9:00 - 10:00 P.M.

JULY 2, 1941WEDNESDAYREHEARSAL SCRIPT - MONDAY

(STATION BREAK)

TED: The Radio Network time for the next hour during which you will hear the Treasury Hour, "Millions for Defense," has been paid for by the Texas Company, and donated to our government as a Texaco contribution to National Defense.

(SHORT PAUSE)

LARRY: Ladies and gentlemen. You are about to hear the premiere performance of the U.S. Treasury Hour, "Millions for Defense." The prelude to this program will take place in Independence Hall in Philadelphia, where Mayor Robert E. Lamberton of Philadelphia is now standing beside the Liberty Bell -- the original Liberty Bell which was rung when the Declaration of Independence was signed in 1776. We take you now to Philadelphia, and Mayor Lamberton. Mayor Lamberton.

(SWITCH TO PHILADELPHIA)

arc

(FROM PHILADELPHIA)

MAYOR
LAMBERTON:

The Treasury Hour "Millions for Defense" will bring to America a message as important in 1941 as was the message this great bell pealed out to our forefathers in 1776. It has therefore been thought fitting to inaugurate the program with the ringing of this sacred emblem of our Freedom, the Liberty Bell.

There is a Biblical inscription on the bell which might well be taken as the keynote of the Treasury Hour. Let me read the inscription to you.

(READS SLOWLY)

"PROCLAIM LIBERTY THROUGHOUT THE LAND UNTO ALL THE INHABITANTS THEREOF."

Fellow Americans.....

Our Liberty Bell.

THE BELL IS TOLLED THREE TIMES

(PAUSE TO LET REVERBERATIONS DIE AWAY...BELL MUST
BE CUT OFF SHARPLY)

(SWITCH TO NEW YORK)

arc

(IN NEW YORK...SHORT PAUSE)

JOHN: (DRAMATICALLY) Millions for Defense!

(ORCHESTRA: FANFARE ON "BATTLE HYMN" BRASSES ONLY)

LARRY: (STRAIGHTFORWARD....WITHOUT BUILDUP EMPHASIS) The U.S. Treasury presents an hour of entertainment, starring Fred Allen....Judy Garland....Charles Laughton...Grace Moore... Mickey Rooney...and Barry Wood; the Information Please company with Clifton Fadiman, Franklin P. Adams, John Kieran and Oscar Levant; and Al Goodman's orchestra.

(ORCHESTRA: FANFARE ON "BATTLE HYMN" FULL ORCHESTRA)

TED: In 1797, C.C. Pinckney spoke the immortal words, "Millions for Defense, but Not One Cent for Tribute." Those words meant then what they have always meant to Americans since: that in times of crisis America never buys off an enemy, never appeases.....but instead gathers all its strength to defend itself. Today one hundred and forty-four years later, we take again as our slogan:

JOHN: (DRAMATICALLY) Millions For Defense!

(ORCHESTRA: DRAMATIC CRESCENDO ON "YANKEE DOODLE")

BARRY WOOD: (SINGS SOFTLY, AS THOUGH FAR AWAY)

"Any bonds today ---- any bonds today."

(CHOIR) (EACH VOICE TAKES UP THE PHRASE UNTIL THEY ALL BLEND TOGETHER ON "TODAY.")

B.WOOD: (SINGS CHORUS OF "ANY BONDS TODAY" THROUGH)

(CHOIR) (JOINS BARRY WOOD ON LAST REFRAIN OF SONG)

LARRY: Ladies and gentlemen, a word from the secretary of the U. S. Treasury, Mr. Henry Morgenthau, Jr. Mr. Morgenthau.

(INSERT MR. MORGENTHAU'S SPEECH...NOW BEING WRITTEN

arc IN WASHINGTON)

(INSERT FRED ALLEN'S REVISION
OF HIS FIRST COMEDY ROUTINE,
INCLUDING INTRODUCTION OF
GRACE MOORE)

("ONE FINE DAY".....GRACE MOORE AND ORCHESTRA)
(APPLAUSE)

arc

GRACE MOORE TALK ON BONDS

"Millions for Defense" July 2, 1941

(MISS MOORE CONCLUDES "ONE FINE DAY" FROM MADAME BUTTERFLY)

FRED ALLEN: Miss Grace Moore has just sung "One Fine Day" from Madame Butterfly; and a lovely day it was, Miss Moore.

MISS MOORE: Thank you, Mr. Allen.

FRED ALLEN: Thank you, Miss Moore, for interrupting your strenuous rehearsals for the Metropolitan Opera to join us tonight.

MISS MOORE: I was delighted at the chance to take part in this show, Mr. Allen. This National Defense Bonds campaign is one that has a particular appeal for me.

FRED ALLEN: Why, Miss Moore?

MISS MOORE: Because to me it seems like the first real opportunity for women to do their bit for their country. Somehow the defense effort appears to be largely a man's business the men go into the army, the men organize production, the men build the ships and airplanes. And yet we women feel just as strongly that our liberty must be protected, and we want to take part in America's great defense program. Well, this is the way we can do it. We women manage the household finances -- sometimes our husbands admit it, sometimes they don't -- but by and the large we do hold the purse strings. And we can see to it that a part of the family's income goes into Defense Savings Bonds and Stamps every week. Our dollars can fight for Uncle Sam just as effectively as the pilot of a Flying Fortress.

arc

(MORE)

-5A-

MISS MOORE: This is our chance, and we're not going to miss it. We
(CONT'D) women will do our part in defending America -- by buying
National Defense Bonds.

(APPLAUSE)

FRED ALLEN: (OVER APPLAUSE) Thank you very much, Miss Grace Moore.

(CONTINUE INTO SCRIPT)

arc

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ALLEN: Thank you very much, Miss Grace Moore. And now ladies and gentlemen, out in Hollywood at this moment are two of America's favorite young people, the Metro-Goldwyn-Mayer stars Judy Garland and Mickey Rooney, waiting to be piped into our program so they can do their bit for Uncle Sam. Without further ado our engineers will now switch you to Hollywood, where --

LARRY: Say Fred --- Fred.

ALLEN: Sh! Quiet, Larry. I'm introducing Mickey Rooney and Judy Garland.

LARRY: That's what I want to talk to you about. This wire just came in from Hollywood. Marked urgent.

ALLEN: What does it say?

LARRY: I'll open it.

SOUND: PAPER TEARING

LARRY: It's from Mickey Rooney. It says, "UNCLE FRED JUDY GARLAND HASN'T SHOWED UP STOP WE CAN'T GO ON YET STOP KEEP THEM LAUGHING. Signed Mickey.

ALLEN: That's fine. I'm supposed to keep them laughing till Judy Garland decides to manifest her dainty brunette self.

LARRY: You can keep them laughing, Fred.

ALLEN: How? I didn't know there would be an emergency, I didn't bring my funny hat or my breakaway suspenders. I'm helpless.

arc

LARRY: What are we going to do?

ALLEN: I'm calling Rooney right now on the long distance phone.

PHONE TAKEN OFF HOOK

ALLEN: Operator, Get me long distance.

LARRY: Fred. Long distance takes time.

ALLEN: Nonsense. Hello, operator.

PHONE JIGGLING

MIN: (NASAL) (FILTER) Long distance operator. Hello.

ALLEN: I want to put through a call to Hollywood, operator.

I want to speak to Mickey Rooney.

MIN: Annie Rooney?

ALLEN: No, not Annie. Mickey Rooney. Mickey Rooney of Hollywood.

MIN: One moment, pleee-uz.

BUZZES AND CLICKS

TED: (ITALIAN) Hollo.

ALLEN: Hello, Mickey. This is Fred Allen --

TED: Joosta minuta, mist'. Whata number you want?

ALLEN: I want Hollywood!! Mickey Rooney!

TED: Dassa righ. Dissa da Hollywood Macaroni Company. Also spaghetti, noodles, minnestrone --

PHONE JIGGLES IMPATIENTLY

ALLEN: Operator. Operator!

MIN: Number pul-leeuz.

ALLEN: Operator, you got me the Hollywood Macaroni Company.

I want Mickey Rooney, in Hollywood.

MIN: Who?

arc

LARRY: What are we going to do?

ALLEN: I'm calling Rooney right now on the long distance phone.

PHONE TAKEN OFF HOOK

ALLEN: Operator, Get me long distance.

LARRY: Fred. Long distance takes time.

ALLEN: Nonsense. Hello, operator.

PHONE JIGGLING

MIN: (NASAL) (FILTER) Long distance operator. Hello.

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I want to speak to Mickey Rooney.

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ALLEN: No, not Annie. Mickey Rooney. Mickey Rooney of Hollywood.

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PHONE JIGGLES IMPATIENTLY

ALLEN: Operator. Operator!

MIN: Number pul-leeuz.

ALLEN: Operator, you got me the Hollywood Macaroni Company.

I want Mickey Rooney, in Hollywood.

MIN: Who?

arc

ALLEN: Mickey Rooney. Operator, listen -- do you ever go to the movies?

MIN: Sure I do, kid. Where'll I meetcha? Woo woo.

ALLEN: No, no, operator. For the last time get me Mickey Rooney, in Hollywood.

MIN: One moment, ple-uzz.

BUZZES AND CLICKS

JOHN: Hello.

ALLEN: Hello, Mickey.

JOHN: Sure, bud. Where do you want it sent.

ALLEN: Where do I want what sent? Is this Mickey?

JOHN: This is the Murgatroyd Mickey Service. When we Slip 'em a Mickey, They Pass Out Quickee.

PHONE JIGGLING IMPATIENTLY

ALLEN: Operator. Operator.

MIN: Number please.

ALLEN: Look, operator. I didn't ask for a Mickey. I want Mickey Rooney, in Hollywood. I want Rooney----ROONEY!

MIN: One moment, pleezzz.

BUZZES AND CLICKS

TED: (FILTER...STRAIGHT) Bellevue Psychopathic Ward. Hello.

ALLEN: Psychopathic Ward? I want Rooney!

TED: (COY) Won't I do, I'm looney. (DRIBBLES TUNE ON LIPS)

ALLEN: That's done it! Operator. Operator!

PHONE JIGGLED IMPATIENTLY

MIN: Number pul-leuzz.

arc

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ALLEN: Look operator. Down in Mexico City there's a little cigar store on the Main Street. Across the street is a tamale shop with a striped awning. The man who runs the tamale shop is named Pancho Gomez. I want you to call that cigar store in Mexico City, ask them to call over Pancho, and tell Pancho to telephone Mickey Rooney in Hollywood that he should call back Fred Allen in New York. Have you got that?

MIN: Yes sir.

ALLEN: Fine. Goodbye.

PHONE HANGS UP

ALLEN: And now, while we're waiting, ladies and gentlemen, I should like to tell you --

PHONE RINGS. PHONE TAKEN OFF HOOK

ALLEN: Hello. Well, Mickey Rooney, how are you? I had a little trouble getting you. Now, Mickey, what's all this about Judy Garland not being there in the studio?.....What? She still hasn't showed up?...But Mickey, you're supposed to be on now.....Well, I'm sorry, Mickey. I'm signalling our engineers to switch to Hollywood right now. You'll have to take over. (ASIDE) All right boys. Switch over to Mickey Rooney in Hollywood.

THE FOLLOWING SPOT IS PIPED IN FROM HOLLYWOOD

ROONEY:

(FADES IN) No, no, Fred. Don't switch over to me. I can't do anything without Judy.....I don't know where she is. She's been doing so many things lately she's all mixed up. Last week she was in Chicago addressing a freedom rally with Wendell Willkie.... then she played a benefit at San Francisco...then she was doing an entertainment at a training camp....No, of course she hasn't been drafted, Uncle Fred. That's silly. She's too short.....But Fred, what's the point of switching the program over to me? I can't do anything alone. What? You've switched it already? Ten million people are listening to me? Fred! Fred! Don't do this to me! Fred! Don't go! Don't hang up! Fred!

PHONE CLICKS.....RECEIVER HANGS UP

ROONEY:

Gosh. All alone in a broadcasting studio. Not even an audience. Not even some relatives in the front row, laughing, like Bob Hope has. Just me and a microphone and ten million listeners. Ten million? I'm lucky if there are five million left by now. By now it's probably down to three million. Or two million, or one million. (DESPERATELY) Hello mamma! Don't leave me!..... What am I going to do?,,, Let's see -- I could play around with these sound effects here. I'll try this contraption.

WIND...STARTS SLOWLY...RISES TO HOWLING GALE

ROONEY: (DRAMATICALLY) Gad, what a night!.....(STRAIGHT) I'm not getting anywhere here. (A LA POLICE CALL...NASAL) Calling Judy Garland. Calling Judy Garland. Where the dickens are you...where the dickens are youCalling all cars...calling anybody...calling Dr. Kildare.....(STRAIGHT) Dr. Kildare. There's an idea. I'll do Lionel Barrymore till she comes. (IMITATES LIONEL BARRYMORE) Now you listen to me a moment, young Dr. Kildare. This is the greatest moment of your career. You've already taken out two appendixes and one mastoid in this film. One more operation, son, and this will be a four-scar picture. (LAUGHS A LA BARRYMORE) Heh Heh heh heh. (SUDDENLY STRAIGHT) Any resemblance between this imitation and Lionel Barrymore is purely coincidental..... Now let's see ---

PHONE RINGS

ROONEY: Wonder who that is?

RECIEVER PICKED UP

ROONEY: Hello?

GARLAND: Hello, Mickey. This is Judy

ROONEY: Judy! Judy, am I glad to hear from you!

JUDY: (COY) Thank you, Mickey.

ROONEY: Why aren't you here? Where are you calling from?

JUDY: I'm so mixed up I don't know. I think Chicago.

GARLAND: No, wait. Chicago was Monday. This is Saturday.
I must be in Camp Dix.

ROONEY: No, No, Judy. This is Wednesday. Remember what you're
supposed to do on Wednesday?

GARLAND: Which Wednesday? The Wednesday before Saturday or the
Wednesday before Saturday?

ROONEY: Which Saturday are you talking about?

GARLAND: The Saturday after the Saturday you're talking about.

ROONEY: (TRYING TO COMPREHEND) The Saturday after the Saturday
I'm talking -- (SUDDENLY) LOOK. I'M not talking about
any Saturday. I never brought up Saturday.

GARLAND: Mickey Rooney, you've been raving about Saturday for
the last two minutes. Are you sure you're all right?

ROONEY: I'm FINE. Look, let's forget everything we've said.
Let's start over at the beginning.

GARLAND: All right. Hello, Mickey.

ROONEY: Hello, Judy. Now, you're not quite yourself, and
I've got to explain something very important, so
listen carefully.

GARLAND: (DEMUERELY) Yes, Mickey.

ROONEY: Now first of all, I'm at the studio.

GARLAND: The studio? (CONFIDENTIALLY) Are you getting time and
a half for overtime?

ROONEY: Not the MGM Studio. I'm at Columbia..

GARLAND: Columbia! Is that where we're working now?

ROONEY: (EXASPERATED) Judy. We both volunteered to do something patriotic. Something for the republic.

GARLAND: Republic!! Columbia! Why doesn't my agent tell me these things?

ROONEY: (GROANS) Judy. Let's start over from the beginning.

GARLAND: All right, Hello, Mickey.

ROONEY: Hello Judy.

GARLAND: This is fun. Let's start farther back. You call me Miss Garland.

ROONEY: I'd like to go further back, before we were introduced! But this is no time to play games! The Treasury is putting on a radio show to sell Defense Savings Bonds. It's going out over the air now, and you're on.

JUDY: I'm on? How'm I doing?

ROONEY: Swell. (STOPS HIMSELF) Wait a second. You're not on.

GARLAND: But you said I was on.

ROONEY: But when I said you're on, I didn't mean you were on. I meant you're on!

GARLAND: Mickey, you're talking very strangely.

ROONEY: I AM NOT.

GARLAND: Next thing I know, you'll be raving about Saturday again.

ROONEY: (FRANTIC) Leave Saturday out of this!!! FORGET Saturday! This is Wednesday night! You and I are supposed to be doing a broadcast for the Treasury.

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GARLAND: Yes, I know. What's been keeping you? Hurry right over.

ROONEY: Well, all right, Goodbye.

(HANG UP PHONE)

ROONEY: Where's my hat? Mmmm. (FADING) I'm off!

(DOOR SLAM...PAUSE.....DOOR OPENS)

ROONEY: (FADING IN) Hey! (ON MIKE) Where the heck am I running to? I'm here at the studio! Judy's got to come here! Of all the crazy....

(PHONE PICKED UP)

ROONEY: Operator. Get me that party again, can you?

(TO HIMSELF) Poor Judy -- she's --

GARLAND: Hello?

ROONEY: Judy - this is Mickey.

GARLAND: Hello, Mickey. What's on your mind? Saturday?

ROONEY: Judy. Do me a favor. Never mention Saturday again. I'm allergic to Saturday.

GARLAND: All right.

ROONEY: This is Wednesday and you have to come to the Columbia Broadcasting studios right away and sing your song.

GARLAND: What song?

ROONEY: "STRIKE UP THE BAND"----BY GEO. GERSHWIN

GARLAND: Why didn't you say so? I'll be right over.

ROONEY: Did you figure out where you are?

GARLAND: Yes, I'm across the street in a drugstore. I'm having a sundae.

ROONEY: Sunday -- Wednesday -- Saturday -- DON'T let's get into that again! You come over here this second.

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GARLAND: This very second?

ROONEY: Yes.

GARLAND: I can see the traffic light from here. It's red.
Can't I wait till it's green?

ROONEY: Judy, this is no time to quibble!

GARLAND: But you know how these Hollywood drivers are.

ROONEY: Every second is precious, Judy! Don't argue!

GARLAND: But you're being silly! While you were talking it
turned green.

ROONEY: Then what are you waiting for?

GARLAND: Should I come now?

ROONEY: Should she come now! OF COURSE!

GARLAND: I knew you'd see it my way...Oh - oh!

ROONEY: What now?

GARLAND: It turned red again. Serves you right.

ROONEY: Judy, will you or will you not come right over here?

GARLAND: Coming right away. Meantime you make a speech.

ROONEY: What kind of a speech?

GARLAND: One that starts Ladies and Gentlemen.

ROONEY: (SARCASTICALLY) And then gets B I G.

GARLAND: (BRIGHTLY) That's the idea!

ROONEY: Yes, but who should it be about?

GARLAND: I leave the details to you, Goodbye!

(PHONE HANGS UP)

CS

ROONEY: Hello, Mama! Here we are again. You, the microphones and me. Maybe I ought to do Lionel Barrymore again. (BARRYMORE) Now listen to me, young Doctor Kildare. The average ^{girl} appendix is like the average. Wants to be taken out. (BARRYMORE LAUGH) Heh heh heh. (SUDDENLY SAD) Maybe I shouldn't do Barrymore again. I know. I'll do what Judy said. I'll make a speech. POMPOUS POLITICIAN) Ladies and Gentlemen! From the the rockbound coast of Maine to the sunny slopes of Oregon --- from the jagged hills of the Dakotas to the fertile delta of the Mississippi (DOOR OPENS)

GARLAND: (FADING IN) Mickey! I'm here!

ROONEY: (GETTING INTO THE SWING OF THE SPEECH...VOICE HIGHER ON EVERY "FROM") FROM~~THE~~ the booming surf of Florida to the smiling groves of California --

GARLAND: (OVER HIS SPEECH) Mickey! I'm going to start my song.

(MUSIC: STARTS TO VAMP IN MIDDLE OF NEXT SPEECH)

ROONEY: (HIGHER AND WIDER) FROM~~THE~~ the gleaming towers of New York to the Golden Gate of San Francisco -- (HE BEGINS TO GET IN THE SWING RHYTHM OF THE VAMP AND SPEAKS RHYTHMICALLY) From the rockbound coasts -- to the the sunny slopes -- from the jagged hills -- to the Golden Gate -- (IT SOUNDS LIKE A JITTERBUG CHANT FROM HERE ON) Rockbound coast -- jagged hills! Booming surf! Golden Gate!

GARLAND: All right Mickey, all right.

(GARLAND SINGS VERSE AND CHORUS...ROONEY JOINS HER IN SECOND
CHORUS TO FINISH)

(WE SWITCH BACK TO NEW YORK)

(APPLAUSE)

CS

ALLEN: Thank you very much, Mickey Rooney and Judy Garland. I'm very glad you two kids finally got together. And I want to say that your efforts on behalf of Uncle Sam have been greatly appreciated.

LARRY: May I add something to that, Fred?

ALLEN: Certainly, Larry.

LARRY: I want to tell Mickey and Judy that the U.S. Treasury is proud of the enthusiasm which they and the other stars of this program have shown in bringing the message of the United States Defense Bonds and Stamps to the great army of radio listeners. The time for idle talk about defense is past. There is only one answer to the military threats made against this country -- and that is, military strength which can defy all threats. We are embarked on a great effort to achieve that strength. Our government has asked all of us to take part in the effort by buying Defense Bonds and Stamps now.

The people of our country are responding magnificently to this appeal, and one of the finest responses thus far has come from the artists of the entertainment world.

Almost unanimously, the great performers of radio, screen and stage have volunteered their talents for the purpose of bringing the bonds to the public attention.

(MORE)

arc

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LARRY:
(CONT'D)

In recognition of their generous cooperation, the U.S. Treasury has prepared a citation for those artists who, by donating their services to this radio show, have helped to emphasize the vital idea of the Defense Bonds to the Nation. The citation, printed on parchment and bearing the seal of the U.S. Treasury, reads as follows:

arc

TED:

U.S. Treasury Department Citation -- in recognition of distinguished and patriotic services to our country, rendered in behalf of National Defense on a nationwide radio broadcast. Signed, Henry Morgenthau, Jr., Secretary of the Treasury.

LARRY:

This citation will be presented to the stars of tonight's broadcast, and to all the other artists who are volunteering their talents for subsequent broadcasts. By serving their country so well, they are living up to the grand tradition of the entertainment world.

(APPLAUSE)

(ORCHESTRA:

"OF THEE I SING" FADES DOWN)

LARRY:

The Treasury Hour, "Millions for Defense," will continue immediately after a short pause for your station identification.

(STATION BREAK)

(MUSIC UP TO FINISH)

ALLEN:

That was "Of Thee I Sing," played by Al Goodman's orchestra. Now, ladies and gentlemen, through the cooperation of the American Tobacco Company, makers of Lucky Strikes, we present Information Please, featuring Clifton Fadiman, Franklin P. Adams, John Kieran and Oscar Levant. This is the first time in radio history that Dan Golenpaul, owner and producer of Information Please, has unleashed his intellectual lions on any other program but their own.

(more)

et

ALLEN:
(CONT'D)

At this moment the three mental mastodons, attended by their faithful keeper Mr. Fadiman, are gathered around a table here in our studio. Without further ado let me present those I.Q. jackpots, those gray-matter Goliaths -- those Brain Bombers -- Adams, Kieran and Levant. Mr. Fadiman, if you please.

(INSERT "INFORMATION PLEASE" SPOT. PREPARED BY
MR. DAN GOLENPAUL)

ALLEN:

It is now my pleasure to present the first of a series of musical productions that will be a regular feature of the Treasury Hour. Based on the folk music of our land, the series is called, "The Song of America." Tonight our production will feature the lovely voice of Miss Grace Moore. Ladies and gentlemen -- the Song of America.

(ORCHESTRA: SYMPHONIC CRESCENDO OF FIRST FEW BARS OF "OH SUSANNA" -- CUT ABRUPTLY)

JOHN: "I hear America singing; the varied carole I hear."

(ORCHESTRA: NEXT FEW BARS..."FOR I'VE COME FROM ALABAMA WITH MY BANJO ON MY KNEE" ...SIMPLY)

(CHORUS: SLOWLY AND SOLEMNLY, HUMS "AMERICA THE BEAUTIFUL" UNDER FOLLOWING SPEECH)

TED: The Song of America is not a single melody, or a single strain. It is blended of the folk music of many peoples. It rises in the united voices of those who come from all other lands to the land of the free.

(CHORUS: STOPS HUMMING)

JOHN: And yet, there is one strain, the first of many we will hear, that springs from the soil of America itself.

Listen!

(ORCHESTRA: SIXTEEN BARS OF "RING, RING THE BANJO" CUT)

JOHN: "The great Mississippi, the majestic, the magnificent Mississippi, rolling its mile-wide tide along, shining in the sun."

TED: (AFTER SECOND'S PAUSE...SOUTHERN...VERY LOUD OFF)
St-a-a-m-boat a-comin!

(CHORUS: "RING, RING THE BANJO".)

(ORCHESTRA: TRANSITIONAL CHORDS UNDER NEXT SPEECH)

JOHN: Tie your hat to the saddle,
And ride, ride, ride, O rider.
The clean cold stars say
You shall die late and die clean.
The runaway stars say
You shall never die at all, never at all.

(ORCHESTRA AND CHORUS: "HOME ON THE RANGE".)

TED: (NO MUSIC...BRIGHTLY) Bring a concertina after sunset
under the apple trees!

(CONCERTINA: "LITTLE BROWN JUG" VERY GAILY EIGHT BARS SOLO)

(CHORUS WITH CONCERTINA: CLAPPING HANDS: "LITTLE BROWN JUG")

(FIDDLE, BANJO AND RUSTIC INSTRUMENTS JOIN)

JOHN: (SPOKEN) Go down Moses. Way down in Egypt land.
Tell ole Pharoah, let my people go.

GRACE MOORE: "DEEP RIVER"

(ORCHESTRA: TRANSITIONAL CHORDS...THEN VERY BRIGHTLY, A CHORUS OF
"O SUSANNA".)

(CHORUS: HUMS "AMERICA... BEGINNING WITH "AMERICA, AMERICA, GOD
SHED HIS GRACE ON THEE..." SLOWLY AND SOLEMNLY)

JOHN:

Fused in her candid light,
To one strong race all races here unite;
Tongues melt in hers -- hereditary foemen
Forget their sword and slogan, kith and clan.
'Twas glory once to be a Roman:
She makes it glory, now, to be a man!

(ORCHESTRA AND CHORUS: "O SUSANNA" VERY BRIGHT TO FINALE")

(APPLAUSE)

(ORCHESTRA: "BATTLE HYMN OF REPUBLIC" SOLEMNLY AND SOFTLY UNDER
FOLLOWING SPEECH)

LARRY:

Seventy-eight years ago today -- on July 2, 1863 --
America was torn by the war of the brothers, and the
shock of bloody battle rumbled through the beautiful
valley of Gettysburg in Pennsylvania. In commemoration
of that wild and tragic clash of arms, Abraham Lincoln
some months later spoke a few words that have since
become the testament of faith of the democratic world.
He spoke them in a time of anxiety and doubt; in a
time when many brave and clever men had despaired of the
survival of any government based on the free consent of
the governed. Today, in a time of anxiety and doubt as
grave and as deep, we turn to the words of Lincoln for
the renewal of our strength and faith.

(MUSIC STOPS)

The Gettysburg address, read by Charles Laughton:

(SWITCH TO HOLLYWOOD)

ct

LAUGHTON: READS GETTYSBURG ADDRESS.

(SWITCH BACK TO NEW YORK)

(ORCHESTRA: CONCLUDING BARS OF "BATTLE HYMN" -- "HIS TRUTH IS
MARCHING ON" -- TO FINISH)

(APPLAUSE)

LARRY: Ladies and gentlemen, on behalf of the U. S. Treasury
I wish to thank again the stars who have so generously
volunteered their time and talent for this hour. And
now, here is Fred Allen for a final word with you.

ct

CLOSING ANNOUNCEMENT:
"Millions for Defense"

FRED ALLEN: Ladies and gentlemen, on behalf of those who have taken part in this show tonight I want to say that I hope we have entertained you, and I hope we have brought closer to you the vital urgency of buying National Defense Bonds and Stamps now. In these dangerous times all of us are beginning to realize again what a wonderful land and what a precious way of life we have here in America -- and how important it is that we take steps to preserve that way of life. That is why we have felt it a privilege to appear in this cause tonight -- and that is why we ask you to join at once in America's defense effort. Defense Bonds and stamps are waiting for us in Post Offices and banks from coast to coast. Let our answer to the challenge of the dictators be clear and strong. Let us all stand shoulder to shoulder with Uncle Sam. LET US BUY BONDS...NOW.

(ORCHESTRA WITH BARRY WOOD: "ANY BONDS TODAY" ...UNTIL TIME TO FADE)

LARRY:

(OVER FADE) Next week at this time, the second Treasury Hour, "Millions for Defense", starring Bing Crosby, Bob Hope, Dorothy Lamour, Dorothy Maynor and Lowell Thomas. This is Larry Elliott, saying goodnight.

TED:

The Treasury Hour, "Millions for Defense", was written by Herman Wouk and Don Johnson; produced by Howard Dietz and Paul Munroe; and directed by Earl MacGill.

(MUSIC UP TO FINISH)

JOHN:

The network time for the Treasury Hour, "Millions for Defense", to which you have just been listening, has been paid for by the Texas Company, and is a Texaco contribution to National Defense.

This is the COLUMBIA ... BROADCASTING SYSTEM.

(STATION BREAK)

10:00 P.M. B-U-L-O-V-A BULOVA WATCH TIME

WABC ... NEW YORK .. 880 ON YOUR DIAL

ct

Good evening!

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draft 7-2-41
#1

Tonight, and for thirteen Wednesday nights throughout the Summer, the Treasury Department will present this hour of American entertainment to promote the sale of Defense Savings Bonds and Stamps. Our one wish is to make these the finest programs that radio can provide. We have tried to make tonight's Treasury hour, and those that will follow it, as rich and as varied as America itself.

I am speaking to you tonight from my desk in the Treasury Building in Washington. To all of you who are listening, whether you live in the cotton country of the South or within sight of the great mountains of the Northwest; whether you are listening from New England or California or the cornfields along the Mississippi, I have only one little message -- that I hope you enjoy this hour as much as we have enjoyed preparing it.

We are grateful beyond words to all those who have made this entertainment possible -- to the Texas Company, which has contributed the time, and the artists who have given so freely of their talent, and to all the others who have told us that they are willing to join with us in these programs later in the Summer. It just proves again what I know to be true -- that all the people of this great country are willing and eager to help in the cause of American defense, the greatest cause in all the world.

But I don't want to stand between you and the show for one minute longer. The stop-watches are ticking, the show is ready to go on. I just want to say "thank you all -- and have a wonderful time."

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Last draft
from which
reading copy
was made

7-2-41
Good evening!

84

Tonight, and for thirteen Wednesday nights throughout the summer, the Treasury Department will present this hour of American entertainment to promote the sale of Defense Savings Bonds and Stamps. Our one wish is to make these the finest programs that radio can provide. We have tried to make tonight's Treasury hour, and those that will follow it, as rich and as varied as America itself.

We are grateful to all those who have made this program possible -- to the Texas Company, which has contributed the time, and to the artists who have given so freely of their talent for this evening and the twelve ~~evenings~~ evenings that follow.

I am speaking to you tonight from my desk in the Treasury in Washington. To all of you who are listening, whether you live in the cotton country of the South or within sight of the great mountains of the Northwest; whether you are listening from New England or California or the cornfields along the Mississippi, I have only one message -- that I hope you enjoy this hour as much as we have enjoyed preparing it.

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July 2, 1941

Reading copy of HM, Jr's radio talk in the first
Treasury program sponsored by Texaco.

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-2-

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1941

TO

Secretary Morgenthau

FROM

E. H. Foley, Jr.

The President said:

"We shall be all for one and one for all."

in an address delivered on Columbus Day, 1940, which was broadcast from his train at Dayton, Ohio, to the entire Western Hemisphere.

I am attaching a copy of the address, which consisted in the main of a plea for hemispheric unity in defense against Nazi aggression. The quotation appears on page 4 of the mimeographed speech.

E. H. F.

ADDRESS OF THE PRESIDENT DELIVERED
FROM THE PRESIDENT'S TRAIN AT
DAYTON, OHIO, OCTOBER 12, 1940.

1600

My friends of the Americas:

It is no mere coincidence that this radio broadcast to the entire Western Hemisphere — North America, Central America and South America — should take place on the anniversary of Christopher Columbus' discovery of the New World. No day could be more appropriate than this day on which we celebrate the exploits of the bold discoverer.

Today, all of us Americans of North and Central and South America, join with our fellow citizens of Italian descent to do honor to the name of Columbus.

Many and numerous have been the groups of Italians who have come in welcome waves of immigration to this hemisphere. They have been an essential element in the civilization and make-up of all of the twenty-one Republics. During these centuries Italian names have been high in the list of statesmen in the United States and in the other Republics — and in addition, those who have helped to create the scientific, commercial, professional and artistic life of the New World.

The Americans have excelled in the adventure of many races living together in harmony. In the wake of the discoverers came the first settlers, the first refugees from Europe. They came to plough new fields, build new homes, establish a new society in a new world. Later, they fought for liberty. Men and women of courage, of enterprise, of vision, they knew what they were fighting for; they gained it — and thereby "gave hope to all the world for all future time".

They formed, here in the Western Hemisphere, a new human reservoir, and into it has poured the blood, the culture, the traditions of all the races and peoples of the earth. To the Americas they came — the "masses yearning to be free" — "the multitudes brought hither out of many kindreds and tongues", cherishing common aspirations, not for economic betterment alone, but for the personal freedoms and liberties which had been denied to them in the Old World.

They came not to conquer one another but to live with one another. They proudly carried with them their inheritance of culture, but they cheerfully left behind the burden of prejudice and hatred.

In this New World were transplanted the great cultures of Spain and Portugal. In our own day the fact is that a great part of the Spanish and Portuguese culture of the entire world now comes from the Americas.

It is natural that all American citizens from the many nations of the Old World should kindly remember the lands where their ancestors lived, and the great attributes of the old civilization in those lands. But in every single one of the American Republics, the first and final allegiance and loyalty of these citizens, almost without exception, is to the Republic in which they live and move and have their being.

For when our forefathers came to these shores, they came with a determination to stay and to become citizens of the new World. As it established its independence, they wanted

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to become citizens of America -- not an Anglo-Saxon America, nor an Italian, nor a German, nor a Spanish, nor a Portuguese -- but just citizens of an independent nation of America.

Here, we do not have any dual citizenship. Here, the descendants of the very same races who had always been forced to fear or hate each other in lands across the ocean, have learned to live in peace and in friendship.

No one group or race in the New World has any desire to subjugate the others. No one nation in this hemisphere has any desire to dominate the others. In the Eastern Hemisphere no nation is considered a second class nation. And that is something worth remembering.

We know that attempts have been made -- we know that they will continue to be made -- to divide these groups within a nation, and to divide these nations among themselves.

There are those in the Old World who persist in believing that here in this new hemisphere the Americas can be torn by the hatreds and fears which have drenched the battle grounds of Europe for so many centuries. Americans as individuals, American Republics as nations, remain on guard against those who seek to break up our unity by preaching ancient race hatreds, by working on old fears, or by holding out glittering promises which they know to be false.

"Divide and conquer" has been the battle-cry of the totalitarian powers in their war against the Democracies. It has succeeded on the continent of Europe for the moment. On our continents it will fail.

We are determined to use our energies and our resources to counteract and repel the foreign plots and propaganda -- the whole technique of underground warfare originating in Europe and now clearly directed against all the Republics on this side of the ocean.

That propaganda repeats and repeats that democracy is a decadent form of government. They tell us that our old democratic ideal, our old traditions of civil liberties, are things of the past.

We reject this thought. We say that we are the future. We say that the direction in which they would lead us is backward, not forward -- backward to the bondage of the Pharaohs, backward to the slavery of the Middle Ages.

The command of the democratic faith has been ever onward and upward. Never have free men been satisfied with the mere maintenance of any status quo, however comfortable or secure it may have seemed at the moment.

We have always held to the hope, the belief, the conviction that there is a better life, a better world, beyond the horizon.

That fire of freedom was in the eyes of Washington, and Bolivar, and San Martin, and Artigas, and Juarez, and Bernardo O'Higgins, and all the brave, rugged, ragged men who followed them in the wars of independence.

That fire burns now in the eyes of those who are fighting for freedom in lands across the sea.

On this side of the ocean there is no desire, there will be no effort, on the part of any one race, or people, or nation, to control any other. The only encirclement sought is the encircling band of good old fashioned neighborly friendship. So bound together, we are able to withstand any attack from the east or from the west. Together we are able to ward off any infiltration of alien political and economic ideas which would destroy our freedom and democracy.

When we speak of defending this Western Hemisphere, we are speaking not only of the territory of North, Central and South America and the immediately adjacent islands. We include the right to the peaceful use of the Atlantic and Pacific Oceans. That has been our traditional policy.

It is a fact, for example, that as far back as 1798 the United States found that its peaceful trade and commerce with other parts of the Americas were threatened by armed privateers sent to the West Indies by nations then at war in Europe. Because of this threat to peace in this Hemisphere of ours, the United States Ships "Constellation," "Constitution," "United States," and many others were fitted out; and they drove the armed vessels of Europe out of the waters to the south of us, and made commerce between the Americas once more peaceable and possible.

We of the Americas still consider that this defense of these oceans of the Western Hemisphere against acts of aggression is the first factor in the defense and protection of our own territorial integrity. We reaffirm that policy, lest there be any doubt of our intention to maintain it.

There are some in every single one of the twenty-one American Republics who suggest that the course the Americas are following is slowly drawing one or all of us into war with some nation, or nations, beyond the seas.

The clear facts have been stated over and over again. This country wants no war with any nation. This Hemisphere wants no war with any nation. The American Republics are determined to work in unity for peace just as we work in unity to defend ourselves from attack.

For many long years every ounce of energy I have had has been devoted to keeping this nation and the other Republics at peace with the rest of the world. That is what continues uppermost in my mind today -- the objective for which I hope and work and pray.

We arm to defend ourselves. The strongest reason for that is that it is the strongest guarantee for peace.

The United States of America is mustering its men and resources, arming not only to defend itself, but, in cooperation with the other American Republics, to help defend the whole hemisphere.

We are building a total defense on land and sea and in the air, sufficient to repel total attack from any part of the world. Forewarned by the deliberate attacks of the dictators upon free peoples, the United States, for the first time in its history, has undertaken the mustering of its men in peace time. Unprecedented dangers have caused the United States to undertake the building of a navy and an air force sufficient to defend all the coasts of the Americas from any combination of hostile powers.

We have asked for, and we have received, the fullest cooperation and assistance of industry and labor. All of us are speeding the preparation of adequate defense.

And we are keeping the nations of this hemisphere fully advised of our defense preparations. We have welcomed the military missions from neighboring republics; and in turn

✓ our own military experts have been welcomed by them. We intend to encourage this frank interchange of information and plans.

We shall be all for one and one for all.

This idea of a defense strong enough and wide enough to cover this half of the world had its beginnings when the Government of the United States announced its policy with respect to South America. It was the policy of the good neighbor, the neighbor who knew how to mind his own business, but was always willing to lend a friendly hand to a friendly nation which sought it, the neighbor who was willing to discuss in all friendship the problems which will always arise between neighbors.

From the day on which that policy was announced, the American Republics have consulted with each other; they have peacefully settled their old problems and disputes; they have grown closer and closer to each other; until at last in 1938 at Lima, their unity and friendship were sealed.

There was then adopted a declaration that the New World proposed to maintain collectively the freedom upon which its strength had been built. It was the culmination of the good neighbor policy, the proof of what was said by that famous Argentinian of Italian birth, Alberdi — "The Americas are a great political system: the parts draw life from the whole; and the whole draws life from its parts".

Through the acquisition of eight naval bases in territories of the British Empire lying within the sphere of the New World, from Newfoundland to Guiana, we have increased the immediate effectiveness of the great navy which we now have and of the greater navy we have under construction. These bases were acquired by the United States; but not for the protection of the United States alone. They were acquired for the protection of the whole Western Hemisphere. The unity of the American Republics was proven to the world, when these naval bases were promptly opened by the United States to the other Republics for cooperative use. In that act was typified the good neighbor conception of hemispheric defense through cooperation by and for all of us.

American radio stations will play their part in the new unity which has been built so solidly between the American nations during the past eight years. They must be effective instruments for the honest exchange and communication of ideas. They must never be used as stations in other lands are used, to send out on the same day one false story to one country, and a different false story to another.

The core of our defense is the faith we have in the institutions we defend. The Americas will not be scared or threatened into the ways the dictators want us to follow.

No combination of dictator countries of Europe and Asia will halt us in the path we see ahead for ourselves and for democracy.

No combination of dictator countries of Europe and Asia will stop the help we are giving to almost the last free people fighting to hold their own bay.

Our course is clear. Our decision is made. We will continue to pile up our defense and our armaments. We will continue to help those who resist aggression, and who now hold the aggressors far from our shores. Let no American in any part of the Americas question the possibility of danger from overseas. Why should we

- 1 -

accept assurances that we are immune? History records that not long ago those same assurances were given to the people of Holland and Belgium and Norway.

It can no longer be disputed that forces of evil which are bent on conquest of the world will destroy whomever and whenever they can destroy. We have learned the lessons of recent years. We know now that if we seek to appease them by withholding aid from those who stand in their way, we only hasten the day of their attack upon us.

The people of the United States, the people of all the Americas, reject the doctrine of appeasement. They recognize it for what it is — a major weapon of the aggressor nations.

I speak bluntly. I speak the love the American people have for freedom and liberty and decency and humanity.

That is why we arm. Because, I repeat, this nation wants to keep war away from those two continents. Because we all of us are determined to do everything possible to maintain peace on this Hemisphere. Because great strength of arms is the practical way of fulfilling our hopes for peace and for staying out of this war or any other war. Because we are determined to muster all our strength so that we may remain free.

The men and women of Britain have shown how free people defend what they know to be right. Their heroic defense will be recorded for all time. It will be perpetual proof that democracy, when put to the test, can show the stuff of which it is made.

I well recall during my recent visit to three great capital cities in South America, the vast throngs which came to express by their cheers their friendship for the United States. I especially remember that above all the cheers I heard one constant cry again and again — one shout above all others: "Viva la Democracia"! — "Long live democracy":

Those three stirring words cry out the abiding conviction of people in all the democracies that freedom shall rule in the land.

As I salute the peoples of all the nations in the western world, I echo that greeting from our good neighbors of the Americas: "Viva la Democracia" — "Long live democracy":

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1941

TO Mr. Sloan
FROM Mr. Duffus

Re promotion of "Any Bonds Today":

1. RCA Victor records sent to all of our eight hundred radio station outlets.

2. Irving Berlin, Inc., offices both in New York and Chicago, supplied with quantities of the song for distribution to orchestras and singers. Irving Berlin having special band and orchestra arrangements of song done, which we will print for further distribution.

3. Fifty copies of the song sent to each State Administrator to be given to local orchestras and singers. State Administrators also advising us of number of band arrangements needed to supply every college and high school band with the song before their fall athletic contests start.

4. A full color cover is being made which we will use on all souvenir copies of the song which are mailed out.

5. Special arrangements of the song are being written for the Marine, Army and Navy bands for them to play during daily concerts at the Treasury House.

6. The chorusters of New York's "Hellzapoppin" show are doing a special arrangement of the song and will insert it in their routine.

7. New York's City Music Director, Mr. Novak, has been given copies of the song and is doing a number of special arrangements on it which will be used in shows, and on the radio, and for municipal musicals.

8. Loew's Capitol Theatre in Washington will use the song in a special show late in July or in August.

9. The Army Ordinance Division is handling the distribution of the song, "Arms for the Love of America" to all music boxes in the country. "Any Bonds Today", which is on the same record, will, therefore, get this full distribution.

10. We have received a list of all special outlets for this song from Irving Berlin's office and are mailing them copies. These include such people as all of the great orchestras and such radio and picture stars as Judy Garland, Mickey Rooney, Bob Hope, Bing Crosby, Kate Smith, etc.

July 2, 1941

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TO: The Secretary
 Mr. Adams
 Mr. Callahan
 Mr. Dietz
 Mr. Graves
 Mr. Gerety
 Mr. Houghteling
 Mr. Kuhn
 Mr. Mahan
 Prof. Odegard
 Mr. Olney
 Mr. Paige
 Mr. Powell
 Mr. Sloan
 Mr. Taplinger

FROM: Mr. Duffus

Vice President Wallace was the principal speaker, with Under Secretary Daniel W. Bell accepting "Treasury House" for the Treasury Department.

The Marine, Army, and Navy bands took part in the ceremonies. We will have three band concerts today and concerts are scheduled for the entire month.

The event was covered by every news service, News of the Day newsreel, and broadcast by NBC.

The first day's sale of stamps totaled \$750 and today we are averaging more than \$100 per hour. People wishing to buy bonds are sold the correct amount of stamps to equal the bond desired; the purchaser is then taken to the Treasury in an army "jeep" car where he can exchange the stamps for a bond.

Umbrellas and chairs are being placed on the lawn so that visitors may rest and relax while listening to the concerts and news broadcasts.

TO:

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✓

Miss Chamney

This is the
Bulletin Mr.
Sloan called
about. Should
replace the un-
corrected copy
which was handed
to the Secy this
am. Thanks
SDMahan

DEFENSE SAVINGS STAFF

NOTE

The attached material is sent to you
as a matter of possible interest and
information.

INSTITUTE OF DISTRIBUTION, INC.
(Founded and Maintained by National Distributors)
25 West 43rd Street • New York City

TO MR. _____

July 2, 1941

FOR ACTION BY _____

Through your Institute, you have received a formal, official request from your Federal Government to aid the national defense program.

Specifically, you have been asked by the Treasury Department of the United States to aid in the financing of the nation's defense program by extending the aid with respect to Federal Defense Stamps that is described in this Memorandum.

ACTION

This Memorandum comes to you, following consultation with ranking Treasury Department officials, in conformity with the instructions of your Institute's Board of Directors.

DESIRED

It comes to you for review and action according to your own company policy and pleasure, moreover, following a meeting held in Detroit on June 26 of Federal Treasury Department representatives, of Michigan Defense Stamp officials, of chain store company executives, of national and state chain store association officials and of industry public relations technicians.

Your Institute urges favorable action as detailed under Item V, Page 3, of this Memorandum.

- I. FOREWORD: It is assumed that you are already familiar with the Treasury's infant Federal Defense Bond and Stamp project whose principal purposes are threefold, namely ... 1) to meet our government's need for defense funds, 2) to stimulate national unity and 3) to provide a savings backlog for American citizens for the business recession that may follow the current business boom.

Our government's Defense Bond and Stamp project is a mammoth effort to give all of us a way to take direct part in building the defenses of our nation. This is the American way to provide the billions needed so urgently for national defense. It is an opportunity for America's retailers, for example, to help Americans to protect their homes and their families, today. It is an opportunity for American retailers to help make the future of their customers secure.

- II. WHAT UNCLE SAM NOW NEEDS: For the success of its Defense Bond and Stamp project, our government now mainly needs three things, 1) sales outlets for Defense Stamps, 2) educational and promotional assistance so that America's millions may be stimulated to purchase a share in America through the purchase of Defense Bonds and Stamps, 3) cooperation with Uncle Sam through the establishment by companies of payroll allotment authorization plans through which employees may be given a concrete opportunity to purchase governmental Defense Stamps and Bonds.

For the time being, we shall restrict our interest only to 1) and 2) above. A later bulletin will bear more fully on 3). Watch for it!

III. HOW UNCLE SAM PROPOSES TO ACHIEVE HIS NEEDS: This program being so important to the national defense, Uncle Sam intends to develop it slowly, carefully, in consultation with experts in respective fields.

So that it may, in time, develop into a nationwide, efficient, popular, convenient movement both from the viewpoint of the seller and of the buyer, he plans to continue the sale and promotion of Defense Bonds and Stamps coast-to-coast, as started, for example, but, meantime, intends to crystallize and perfect his organization plans in one test, trial state out of whose successes and failures he can build a model organization for the entire country.

For this test, Uncle Sam, through his Federal Treasury Department, has selected Michigan. To lead and harness the test in Michigan, he has selected hard-hitting Frank Isbey, President of the Detroit Fruit Auction. Michigan's Organization Chart, as presently constituted, accompanies this Memorandum to you.

The success of the Defense Savings program will be measured by the number of men, women and children who serve their country by saving, thereby spreading the cost of defense as widely as possible among the American people. Naturally, a good deal will be learned from the organization and experience of the Liberty Loan drives of 1917-1919. There are important prevailing differences, however, between those efforts and the present project. Today's campaign, for example, involves no quotas nor time limits, and cannot be conducted by such methods. The present job ahead is to encourage systematic saving through the repeated purchase of bonds and stamps by Americans out of current income, rather than through the sale of a specified amount, within a given time.

IV. WHAT UNCLE SAM NOW ASKS OF YOU: Your government recognizes your importance as purchasing agents for the consumer. Your government is aware of the millions who pass your windows, who trade in your stores, the value of your advertising, of your display space, the thoroughness of your patriotism and the earnestness of your help when given to a worthy American cause in conformity with your own operating policies and practices. Hence, your government, through your Institute, has appealed for your help, as follows:

- a) By instructing your Michigan stores to buy a quantity of Defense Stamps and by placing these Defense Stamps on public sale in your Michigan stores according to the way and on the basis that best conforms to the operating policies and practices of your company.
- b) By promoting the sale of Defense Stamps in your Michigan stores through Defense Stamp posters, advertising and through other practical, possible promotional media. Posters and advertising data will gladly be made available to your stores, without charge by the Michigan Chain Stores Bureau, on request. (Address: 107 Hollister Bldg., Lansing, Michigan)

Whether or not you, as a company, are a member of the Michigan Chain Stores Bureau, feel free to ask your Michigan managers to requisition, by phone, wire or letter, suitable Defense Stamp advertising data for store use. Circulars and literature concerning the Stamp Plan may be obtained by your Michigan managers from their local post offices. If not, they may communicate with the Michigan Chain Stores Bureau for those data.

- c) By supporting the sale of Defense Stamps in those of your stores which are located in states other than Michigan through the use of appropriate Defense Bond and Stamp messages in newspaper advertising, through the display of posters in windows and store interiors, etc. but not yet through the actual sale of Defense Stamps in such stores until the Michigan test has been successfully concluded.

Attached is a sheet picturing mats and cuts available to you or to your stores, without charge. If desired for the above use, write, wire or call - or have your district offices or store units write, wire or call - the Defense Savings Staff, Treasury Department, 1001 Washington Bldg., Washington D. C. Aside from cuts and mats, you and/or your stores may also obtain quantities of posters for use in states other than Michigan from the same source, in quantity, or from the local post offices of such states.

Already our Cunningham Drug Stores, Inc. has answered Uncle Sam's call. Three Sears stores in Michigan have done likewise (see attached Cunningham and Sears ads). Penney at Lansing, too, is now extending aid. Kresge, Grant, Woolworth are making preparations to lend a hand. May Uncle Sam also depend on you?

V. ACTION NOW DESIRED FROM YOU

A) If You Operate In Michigan

- 1) Please read this Memorandum carefully. Review its enclosures with equal care. Study the letter dated June 28 that you should have received on this subject from the Michigan Chain Stores Bureau, if you are a member of that body. If you need any other information, call or write us. In any case, please consider and decide, at your earliest convenience, as to whether or not you will help your country as requested. Then...
- 2) Execute and mail the attached card back announcing your decision to us. If the answer on your card is "Yes," the information will be relayed to the Treasury Department, so that it may know and thank you for your public-spirited assistance. Then....
- 3) After studying your own company set-up in Michigan and deciding which if not all of your stores will be instructed to sell Defense Stamps, please communicate with such stores instructing them a) to purchase stamps from their local post offices getting free quantities of albums from the same source, at the same time, b) to establish efficient mechanics for the sale of such stamps in their stores, c) to write, call or wire the Michigan Chain Stores Bureau, 107 Hollister Bldg., Lansing, Michigan and, without charge, obtain display posters, emblems, easel-backs and other available supporting advertising data. Urge such stores to backstop their Defense Stamp activities with ads, radio messages and every other practical, possible promotional push.

In issuing your instructions, please make it clear to your managers that the sale of these stamps does not constitute a store donation or contribution to anyone. Like their competitors, they are merely doing their patriotic duty to sell Americans a share in America. They are merely stimulating investments in the United States - the best investment in the world, today.

- 4) If not all of your Michigan stores are instructed to sell Defense Stamps, the remainder, if consistent with your plans, should be instructed at least to help to stimulate Defense Stamp sales in other stores by displaying suitable posters in their own windows or inner-stores and by popularizing the emblem in their ads, etc. Posters, etc. may be obtained by them from the Michigan Chain Stores Bureau, without charge, on request, whether or not your company is a member of that body. Advertising mats or cuts may also be obtained, without charge, on request, from the Treasury Department, 1001 Washington Bldg., Washington, D. C.

B) If You Do Not Operate In Michigan

- 1) Please study this bulletin. If you should decide to help Uncle Sam to popularize Defense Stamps even though you are not an active part of the Michigan test, please execute and mail back the attached Return Card. Then ...
- 2) While not yet instructing your stores to sell Defense Stamps in other states pending the outcome of the Michigan test, please instruct them to obtain posters, ad mats and cuts, etc. and use them to the utmost extent consistent with company and store policy. You or your stores may obtain suitable data in this connection by writing the Defense Savings Staff, Treasury Department, 1001 Washington Bldg., Washington, D. C. or seeking them from local post offices.

VI. IMPORTANT FINALE: As stated, your Institute has been instructed by its Board of Directors to extend the utmost help in developing this program so that while helpful to Uncle Sam it will at the same time be helpful to member companies, too.

In all contacts with the Treasury Department, at all meetings and conferences on the subject, in all discussions, your Institute has attempted to facilitate an opportunity for cooperation in the Defense Stamp program by member companies, devoid of red tape, and strictly according to their own operating policies and practices. It has attempted to facilitate an opportunity for patriotic assistance to the Defense Stamp program by member companies without affecting their No. 1 patriotic job during this period of unlimited emergency, namely, that of continuing the successful operation of their retail stores and the continuance, as a result, of the values, services and conveniences that they extend to 140 million American consumers.

Your Institute office will extend every possible cooperation to the autonomous Michigan Chain Stores Bureau in the development of the Michigan test. Without in any way duplicating the work with him of the Michigan Bureau, your Institute, on request will render whatever aid it can to Mr. Frank Isbey, Executive Chairman of the trial Michigan program.

Furthermore, a relationship of mutual respect and mutual assistance has developed between National Defense Stamp officials in Washington and your Institute. This should enable us to provide concrete assistance to you in all matters pertaining to the Defense Stamp program on which you may require help or factual information, nationally, with or without company identification. In fact all material issued by the Treasury Department with respect to the Defense Bond and Stamp project will be sent to your Institute, as issued, in conformity with the agreement effected between Washington and this body. We should therefore be ready and well-fortified, at all times, to aid you, on call.

If there is anything herein that is not clear to you, or if further, fuller details should be desired, your inquiry will have our immediate attention. Meanwhile, may we hear from you through the attached card, at your earliest convenience, as to whether your company intends to answer Uncle Sam's call, as your Institute fervently hopes?

... John P. Nichols

ENCLOSURES

- | | |
|---|-------------------------------------|
| 1) Log Of The Defense Project In The Institute of Distribution Group. | 4) Leaflets Describing The Plan. |
| 2) The Michigan Organization Plan. | 5) Cunningham Answers The Call. |
| 3) Cunningham Answers Some Questions | 6) Sears, Roebuck Answers The Call. |
| 7) Mats And Cuts Available To You. | |

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IMPORTANT

Regretfully, three of the designated enclosures are not attached hereto, as indicated, due to circumstances beyond control. The missing items are a) 2 leaflets describing the Federal Defense Bond and Stamp Program, and b) the item showing available ad mats and cuts.

Ordered from Washington and posted from there on June 28, they have evidently strayed in the mail. A rush ordered duplicate quantity has also failed to arrive here as of mailing time. Being urgent that this mail leave on schedule, it is being forwarded without them. They will be sent along to you immediately on arrival here.

We are confident that suitable governmental data describing the Defense Stamp and Bond Program may, meantime, be obtained from any local post office.

INSTITUTE OF DISTRIBUTION, INC.

LOG OF THE DEFENSE STAMP PROJECT IN THE INSTITUTE OF DISTRIBUTION, INC. GROUP

Prior to June: Companies operating in the State of Washington were invited by local Treasury officials to participate in the Defense Stamp Project. Cunningham Drug Stores volunteered aid to the Treasury Department and commenced selling Defense Stamps in its 145 stores in Michigan and Ohio. Crown Drug Company did similarly in Missouri. It is reported that the Lane Drug Company did likewise. Each supported Defense Stamp sales, moreover, with advertising, radio, etc.

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June 4: At the request of executives of some Washington-operating companies (members of the Washington Chain Stores Association for which body Braun & Co. serves as public relations counsel) Mr. Ralph Brown of Braun & Co., with Mr. George W. Young, of Counsel, discussed the Treasury Department's request for chain store aid, on strictly a fact-finding basis, with Treasury Department officials in Washington, D. C.

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June 5: At meeting of Board of Directors of Institute of Distribution, Inc., the Board received Mr. Brown and heard his report with respect to the Government's desire to facilitate the sale of Defense Stamps through booths manned by volunteer citizens to be set up in space allocated in stores by patriotic retailers, chain and independent. It was reported by Mr. Brown that the Government desired preliminarily to test the effectiveness of this project in one area, namely, Michigan.

Following discussion, the Board instructed the Institute's Managing Director to probe this matter thoroughly with the Federal authorities and instructed, furthermore, that, when available, these details be appropriately disseminated among member companies, thereby enabling them to determine for themselves as to whether or not they will, in turn, instruct their local store units to participate in the proposed Michigan test project.

- o -

June 13: Conforming to Board instructions, Mr. John P. Nichols, with Mr. George W. Young of Counsel, conferred in Washington, D. C., with Treasury officials Mahan and Peters who are actively developing the Defense Stamp Program, nationally, under the direction of Mr. Harold Graves, Executive Assistant to the Secretary of the Treasury.

Conforming also to the directions of the Institute's Board, the Managing Director offered the fullest cooperation of the Institute office to the Treasury Department with respect to this project. Emphasizing that it could neither bind nor commit any member company, the Institute nevertheless assured the Treasury that the government's request for Defense Stamp aid would promptly, appropriately be relayed to its member companies.

Among others, the following suggestions were offered by Mr. Nichols:

- a) That the cooperation of all retailers operating in Michigan be sought, chain or independent. The splendid working relationship that now exists between Michigan chains and Michigan independents as a result of the recently-concluded "Michigan Days for Michigan Prosperity," should serve helpfully, he said, in the successful harnessing of the Defense Stamp test project both in Michigan chain stores and in Michigan individually-owned stores.
- b) That before plans as to the size and appearance of booths, placards, posters and similar data are completed, company

specialists in Michigan might well be consulted for advice, suggestions and for other help that they are qualified to render. Similarly, it was suggested that the help of certain Michigan-headquartered company executives, of the Michigan Chain Stores Bureau and of other respected Michigan persons and groups might well be sought and capitalized in the testing of the Treasury's Defense Stamp Program in Michigan.

Each of the foregoing suggestions was accepted by the Treasury Department with appreciation. The plan later perfected at Detroit and offered to Institute members separately, herewith, for consideration and action was preliminarily discussed at this Washington conference. It was clear that the government earnestly desired to cooperate with chain stores and to give the industry every opportunity to express its viewpoint, its needs and its suggestions, thereby enabling the Treasury to perfect a mutually-acceptable, workable test program.

Later that day, Mr. Mahan reached Mr. Nichols before he had left Washington and informed him that he had just conversed with Mr. Frank Isbey, head of the Defense Stamp Program in Michigan. Mr. Isbey did not favor having booths in stores manned by volunteers as suggested by the Washington officials. Otherwise, he was delighted over the possibility of chain store cooperation. Mr. Nichols suggested a conference in Detroit between Washington and Michigan Treasury officials together with ranking Michigan chain store company executives, with Michigan Chain Stores Bureau representatives and with certain other interested chain store association and public relations executives.

June 25: Such a meeting was held at the S. S. Kresge Company, Detroit, on this day. Present were:

- a) Federal Treasury Department (Washington): Messrs. S. D. Mahan, E. W. Sloan, O. O. Roth
- b) Michigan Defense Stamp Program: Mr. Frank Isbey (Executive Chairman)
- c) Michigan Chain Stores Bureau:
Messrs. Nate S. Shapiro (Cunningham Drug Stores)
C. B. Tuttle (S. S. Kresge Co.)
J. F. Moore (Sears, Roebuck & Co.)
O. O. McVarish (Great A & P Tea Co.)
Frank Logan (Kroger Grocery & Baking Co.)
W. F. Doyle (Manager, Michigan Chain Stores Bureau)
- d) Other Company Executives:
Messrs. R. R. Williams (S. S. Kresge Co.)
S. A. Todd (S. S. Kresge Co.)
J. G. Moore (Sears, Roebuck & Co.)
Lewis Cole (Staiden Stores, Inc.)
Paul Monney (Kroger Grocery & Baking Co.)
Ralph Gray (F. W. Woolworth)
- e) National Chain Store Associations:
Messrs. John P. Nichols (Institute of Distribution, Inc.)
John A. Logan (National Assn. of Food Chains)
- f) Others:
Messrs. Ralph Brown (Braun & Co.)
George W. Young (Counsel)

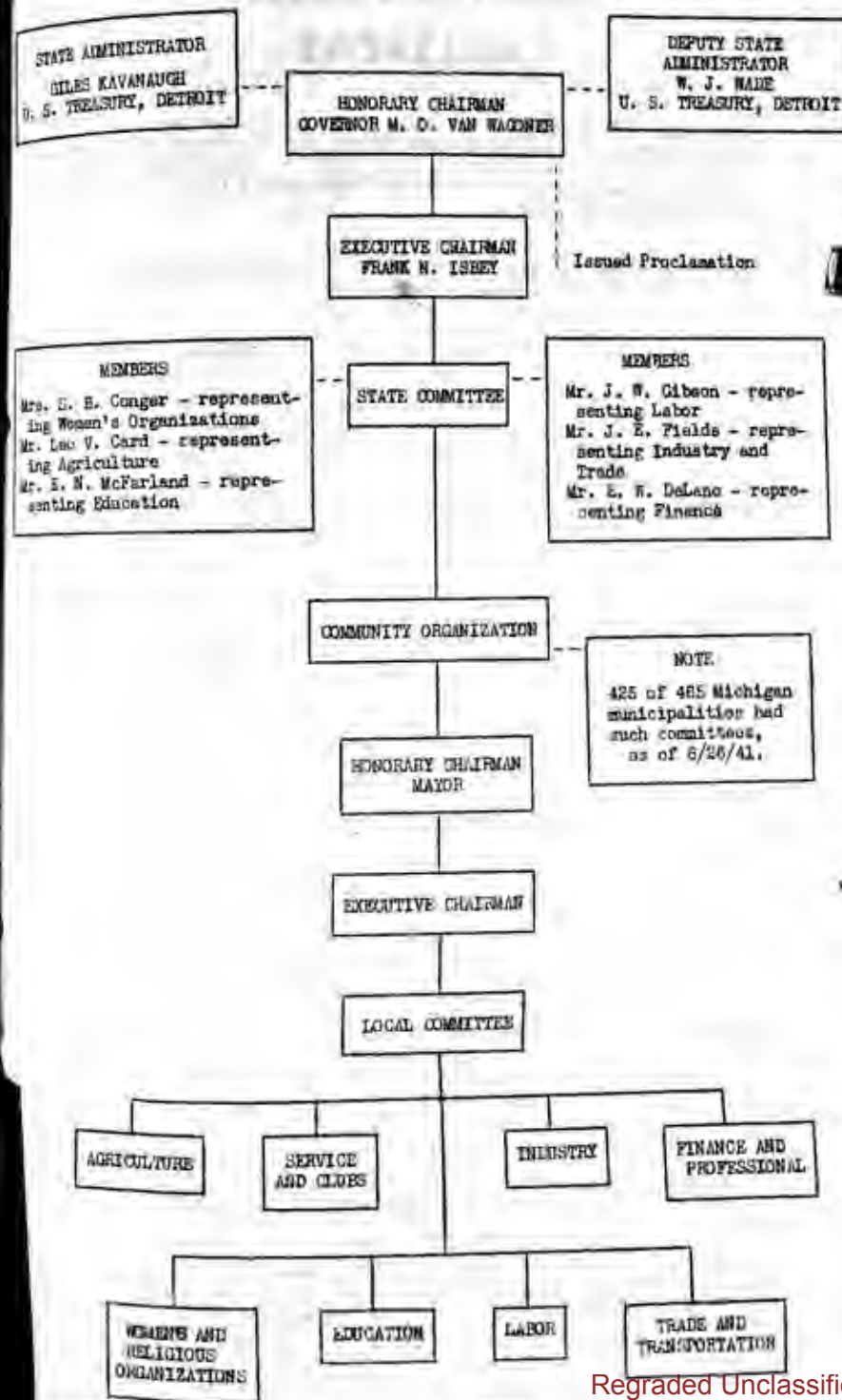
The plan - without booths or volunteers, that is described in the Institute's separate memorandum to its company executives - evolved from this meeting. The plan was approved by the Executive Committee of the Michigan Chain Stores Bureau, the same day.

- 2 -

June 28: A Michigan Chain Store Bureau letter went forward to its members, both grocery and non-grocery, urging cooperation. One paragraph said: "During the fall season, our office will devote considerable of its time to public meetings, chain store manager get-togethers, and other ideas to keep the ball rolling. The Treasury Department will provide us with guest speakers who will visit different parts of the State with members of our office."

6/30/41

ORGANIZATION CHART MICHIGAN DEFENSE STAMP TEST



Regraded Unclassified

CUNNINGHAM ANSWERS SOME QUESTIONS

Here is how Nate S. Shapiro, President of Cunningham Drug Stores, Inc., Vice President of Institute of Distribution, Inc., and Executive Committee Chairman of the National Association of Chain Drug Stores answered the Institute's questions as to the Defense Stamp Program now in operation in Cunningham's 143 units:

Question #1: Are the Defense Stamp booths in your stores provided and installed without charge by the Defense Stamp authorities, Federal, state or local?

Answer: No! We have paid the complete installation, ourselves.

- o -

Question #2: Are the booths manned by volunteer workers? If so, who has designated them?

Answer: No! There are no volunteer workers. Our sale of Defense Stamps is in charge of the management of the store.

- o -

Question #3: Has it been necessary for each of your stores to advance a sum to cover the preliminary cost of the stamps?

Answer: Yes! We advanced the original costs of the stamps to the stores.

- o -

Question #4: Has there been any other financial outlay by the stores with respect to the Defense Stamp Project?

Answer: No!

- o -

Question #5: Have your stores, in your judgment, sold a sufficient number of Defense Stamps to satisfy the expectations of the local authorities and of yourself?

Answer: Yes! Not only have we satisfied the expectations of the local authorities but it has tremendously increased the traffic in the stores and, of course, has been a fine thing for business.

- o -

Question #6: Aside from the gratitude of governmental officials, has the project brought your stores a pleasing response from customers, themselves?

Answer: Very much so! Many of our customers have not only remarked about the spirit of our service but have written letters of appreciation to our main office.



to Support National Defense

CUNNINGHAM'S VOLUNTEER

*to Sell United States
Savings Stamps*



**BUY 10c, 25c, 50c, \$1.00 STAMPS FOR . . .
NATIONAL SAFETY AND PERSONAL SECURITY!**

Again Cunningham's came to the front in co-operation with the United States Government. Starting immediately, we offer the facilities of every Cunningham's Drug Store to National Defense . . . so that you may conveniently buy Defense Stamps right in your neighborhood. No need to travel out of your way—there is a Cunningham Drug Store right around the corner from you. Start saving Defense Stamps today!

**YOUR . . . THEY WILL BE PUT TO WORK TO HELP
WHILE YOU HELP YOURSELF . . .**

Defense stamps you are loaning the Government money to go to Defense work. In return for your assistance the Government pays you with interest as follows:

TS De
15.75
10.00
5.00
2.50
1.00
50c
25c
10c

CUNNINGHAM ANSWERS THE CALL

In the present emergency, Uncle Sam has called upon the nation's foremost American retailers—chain and independent—the nation's largest and most progressive retailers. This "call" by Cunningham Drug Stores is a call to arms to join in the defense effort.

Headed by Nate S. Shapiro, who is also Vice-President of local and national organizations, Cunningham's has been chosen as the National Association of Chain Drug Stores, former Chairman of the National Community Chest and a Fine Communities of America, to be the main point of sale for the sale of Uncle Sam's Defense Stamps in each of the 143 stores this is operating in Michigan and Ohio.

Aside from newspapers and Defense Stamps are receiving good attention in the 143 stores program that are conducted by Cunningham's.

INSTITUTE OF DISTRIBUTION, INC.
(National Association of Chain Drug Stores)
100 West 42nd Street, New York 36, N. Y.



Cunningham's

DRUG STORES



He Stands for SAFETY and FREEDOM

Every time you see the Minute Man
—emblem of American fighting for
defense—think of it is to
live in a world that still is

★
DE
SA
BON
STA

SEARS ROEBUCK ANSWERS THE CALL

TO meet our government's need for defense funds—to stimulate national unity—to provide a savings backlog for Americans—Uncle Sam is now offering Defense Savings Bonds and Stamps to the nation.

American retailers—chain and independent—the modest and the great—have been called to lend a hand to America's defense effort by pushing the sale of Defense Bonds and Stamps.

To help protect American homes and families—to help make their future secure—the nation's retailers are answering the call. This "ad" by public-spirited Sears Roebuck & Co. is a chain store example in point.


INSTITUTE OF DISTRIBUTION, INC.
(National Association Selling Non-Grocery Chain Stores)
25 West 43rd Street • New York, N. Y.

This Message

SEARS,

ROEBUCK AND CO.

WEST SIDE
Grand River at Oakman

On 3 Detroit Department Stores
HIGHLAND PARK
Woodward, Opposite Ford Plant

EAST SIDE
Gratiot at Van Dyke

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Comparison of Sales of Series E in May and June, 1941
with Sales of Series D in May and June, 1940

On Basis of Issue Price

(Amounts in thousands of dollars)

Month	Sales		Increase - 1941 over 1940	
	1941	1940	Amount	Percent
May	\$114,895	\$ 55,243	\$ 59,652	108.0%
June	<u>98,725</u>	<u>47,597</u>	<u>51,128</u>	<u>107.4</u>
Total - May and June	<u>\$213,620</u>	<u>\$102,840</u>	<u>\$110,780</u>	<u>107.7%</u>

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

July 2, 1941.

Source: Figures for 1940 are taken from the Annual Report of the Secretary of the Treasury, page 47. Figures for 1941 are based on (1) weekly reports by Federal Reserve Banks in respect to their own sales and sales by their agents; and (2) reports of the Treasurer of the United States showing deposits by postmasters on account of proceeds of sales of Series E bonds through post offices.

July 2, 1941
10:50 a.m.

Harry
Hopkins:

Hello, Henry.

HMJr:

How was it up in Long Island?

H:

Terrible.

HMJr:

Terrible?

H:

Perfectly terrible. Hotter than the shades of hell.

HMJr:

The President told Elinor that you were down there enjoying the sea breezes.

H:

Well, I was down there all right. I went to the race tracks, as a matter of fact.

HMJr:

I hear you won \$150.00

H:

I won more than that, brother. I can afford to take you to dinner now.

HMJr:

Well, don't forget to report it now.

H:

All right. Henry?

HMJr:

Yeah.

H:

I've found out all I wanted to find out about from - so I don't need to bother you now.

HMJr:

All right.

H:

How are you?

HMJr:

All right. You want to have lunch with me tomorrow?

H:

I'm tied up for lunch tomorrow, Henry, awfully sorry. Are you going to the country?

- 2 -

HMJr: Yeah.

H: When you going?

HMJr: Oh, around - between 3 and 4 tomorrow. You want to go?

H: Well, I got to stay here, Henry. I've just got to be here.

HMJr: I didn't know...

H: Two or three things - it's so damn hot I don't want to be away.

HMJr: I didn't know whether you wanted to fly up there.

H: Yeah. I don't think I'll go to Hyde Park.

HMJr: I see.

H: I don't think the boss will come down here until next week.

HMJr: I don't think so either.

H: I don't know why he should particularly.

HMJr: No.

H: It's hotter than hell up there though, I imagine.

HMJr: What else do you know?

H: Oh, not much.

HMJr: I see.

H: Not much. The Secretary of the Navy got himself in a little trouble, I see.

HMJr: Well....

H: I don't think it's very serious.

HMJr: No, no.

- 3 -

H: Yeah.

HMJr: Well, a

H: I'll call you before you go tomorrow, Henry.

HMJr: What's that?

H: I'll call you. I may run over to see you a minute.

HMJr: Well, if you're going to do that you better say now, Harry, because I get tied up and.....

H: What do you mean, selling bonds?

HMJr: Well, one thing and another.

H: Well, I've got to take a look at my own schedule and then I'll call Mrs. Klotz back and see how I can fit it in with yours, brother.

HMJr: Fair enough.

H: All right.

HMJr: Goodbye, sister.

H: Goodbye, Henry.

HMJr: All right (Laughs)

July 2, 1941
11:00 a.m.

RE TAX ANTICIPATION NOTES

Present: Mr. Haas
Mr. Bell
Mr. Stewart

Bell: Shall I give you the year end financial picture?

H.M.Jr: No. (Laughter)

Bell: I thought you might be interested, as long as we closed our books last night.

H.M.Jr: How much is the deficit?

Bell: The deficit is five billion one hundred and three million.

H.M.Jr: Five billion how much?

Bell: One hundred and three. The estimated deficit in the Budget of January is six billion one hundred eighty-nine.

H.M.Jr: Well, how much was it in January, '40?

Bell: Oh, that was way down to - I can't remember.

H.M.Jr: That was --

Bell: That was way down, and then they had a substantial increase for defense.

- 2 -

H.M.Jr: And then in January of '41 they forecast how much, six?

Bell: Six billion one eighty-nine, and it was five billion one hundred three. There were two reasons for that. We estimated in January --

(Unrecorded telephone conversation with Mr. Thompson.)

H.M.Jr: All right.

Bell: There are two reasons for that deficit being less. One was that we estimated in January that we would get seven billion dollars in receipts. We got seven billion six. The other was that we estimated we would spend thirteen billion two and we spent twelve billion eight, so that is a billion dollars difference. Six hundred million up in taxes and four hundred million dollars down in expenditures.

H.M.Jr: How much up?

Bell: Six hundred million over our January estimate. The national defense, we spent six billion forty-eight million, and the estimate was six billion four hundred sixty-four million. Twenty-one million dollars of that was Lease-Lend.

H.M.Jr: How much?

Bell: Twenty-one million, actual expenditures. The total debt, gross debt, was forty-eight billion nine hundred and sixty-one million as compared with forty-two billion nine hundred sixty-seven million last June 30. It was up just about five billion. Five

- 3 -

billion, nine hundred ninety-four; almost six billion.

H.M.Jr: On top of that I should sparkle, should I?

Bell: Yes.

H.M.Jr: All right, let's have a summary.

Bell: These telegrams are not so long, and they are rather interesting. Would you like to hear them?

H.M.Jr: That was the purpose of this meeting. I like to hear your melodious voice.

Did you see the pictures of Henry Wallace and these hostesses? You know, I was kidding you about them.

Bell: No, I didn't see them.

H.M.Jr: You never take me seriously.

Bell: No, I never take you seriously.

Stewart: Didn't you get your picture taken?

Bell: No, I ought to be mad about it. I should have gotten my picture taken with those hostesses. It was hot down there.

Stewart: Haven't you got it air conditioned?

Bell: It was cooler in the house, the glass house, than it was in the stand.

No, I didn't see this picture at all. I just missed out on that.

H.M.Jr: That proves I wasn't kidding. He can explain to Mrs. Wallace.

- 4 -

Bell: He made a good talk down there yesterday. He is a better speaker than I thought.

H.M.Jr: Yes, he has improved.

Bell: He was the poorest speaker I ever saw, but he did a good job down there yesterday.

H.M.Jr: All right, Dan.

Bell: Boston said, "Have contacted bankers, insurance companies and dealers, who are unanimous in opinion proposed issues must have wide publicity to insure success.

"Series A-1943 generally well regarded; some feel return of 1.92 percent trifle low and limit of \$1,200 per taxpayer per year should be raised.

"Series B-1943 general opinion return 0.36 percent too low to be attractive other than to large corporations having excellent cash position.

"You may rely on our cooperation to do everything possible."

This is New York. "Replying to your letter June 27 requesting us to obtain cross-section opinion in this district concerning two tax series Treasury notes. We have canvassed such a cross-section, including New York City and out-of-town commercial banks, savings banks, insurance companies, corporations, and individuals. Enthusiasm for these notes, and then primarily for Series "B", of course, has been expressed only by the large corporations. The desirability of issuing such notes was questioned by others because (1) of their limited usefulness, (2) they will complicate an already complex setup in Treasury

- 5 -

finance, (3) they may substantially increase the demand liabilities of the Treasury, and (4) the mechanism of issue is regarded as unnecessarily expensive for both Treasury and banks. All those consulted regarded the Series "B" notes more as tax anticipation by the Treasury than as a facility needed by the taxpayer.

"On the assumption that the Treasury wishes to proceed with the program in substantially its present form, the people canvassed expressed the opinion that there would be no important reactions unfavorable to their respective fields, and all expressed willingness to cooperate in every way.

"It was thought that the "A" notes would appeal only to a relatively small number of taxpayers having both the background which would lead to budgeting tax liability and a tax liability large enough to make this method seem worthwhile. The size of this group would be materially increased, possibly even at a reduced rate of interest, it was suggested, if the limit of purchases were raised to \$2,500 or \$5,000, or even \$10,000."

In other words, you could raise the limit and reduce the rate and get much more money.

"It was believed that the small taxpayer if he makes any provision for his tax liability is more likely to utilize savings banks or other savings facilities already in use, and that differences in interest rates will not control his action. There are already a number of wage deduction programs and tax club arrangements in effect which are providing local facilities. In the group of taxpayers paying taxes of between \$1,200 and perhaps \$5,000 per annum there are a considerable

- 6 -

number who would probably take advantage of the "A" note who would not buy the "B".

"The general comment on the "B" note is that the wealthy individual and the corporation are accustomed to looking after themselves and that there is no need to provide this note as a tax anticipation facility. It was the opinion of those canvassed, however, that many of the larger corporations would take full advantage of the facility at least to the extent of providing for one year's taxes.

"The rates on both series are regarded as 'right', that is, attractive from the standpoint of market rates and yet not too liberal.

"The provision for payment by credit to war loan deposit account is regarded as essential to avoid undue disturbance to the money market.

"Restricted sale of the notes meets with approval but with the added suggestion, particularly in the case of the "B" notes, that the restrictions should be carefully defined.

"The general opinion was expressed that the sale of these notes may result in some hardening of short term rates and this eventuality was viewed with favor." Naturally.

"An opposite immediate effect on longer term rates is anticipated because of the prospect of a smaller amount of long term financing in the immediate future which the sale of these notes indicates, but eventually it would be expected that the modest hardening of short rates might extend to the longer maturities.

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"It was generally agreed that if the Treasury in its publicity does not press unduly for the sale of these notes, they should not interfere importantly with the sale of Defense Savings Bonds.

"It was assumed that 'taxpayer' includes trustees, etc., and that notes purchased by a decedent could be used by executor in payment of income taxes." That is right.

"It was suggested that their use for payment of inheritance taxes be permitted."

That is Sproul.

This is Philadelphia. "Pursuant to your letter of June 27, relating to the proposed Treasury Notes - Tax Series - we have reviewed the situation on a confidential basis with chief executives of thirteen banks, two mutual savings banks, two insurance companies, six business concerns, two dealers, and with our own staff. Philadelphia and certain leading cities of this district have been covered in order to obtain a fair cross-section of views and comments. On the basis of this inquiry, we are glad to give you the following summary:

"In general, the reaction to those characteristics which are common to Series "A" and "B" is favorable, that is maturity, redemption, use for income tax at par and accrued interest, crediting the proceeds from sales to war loan deposit accounts, nontransferability, and the use of these notes in payment of income taxes only. Only in one or two cases was it felt that the inscribing of the purchaser's name and address on the notes might be cumbersome, and this objection is not thought to be serious in view of the protective aspect.

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"With respect to Series "A" notes, our composite view is that the proposed rate of interest is satisfactory and that the prospect --"

H.M.Jr:

A city little fellow?

Bell:

Yes. "Satisfactory, and that the prospect for selling these notes to individuals in the middle income brackets, say from \$6,000 to \$9,000 -" that is in salaries - "is reasonably good, provided adequate publicity is given. We see a substantial educational value in promoting the sale of these notes. Banks assure cooperation.

"On the negative side, three out of the six business men felt that the volume of sales would not be large and one thought that the inducement offered through the interest rate was too small. Another one felt that the limit of \$1,200 is too low and this point seems to be well taken. One savings banker held that if the sale is successful, as it well might be, there might be some competition with those savings banks that pay less than two percent, but did not feel that it would be serious. The balance of the views favor this series whatever the volume of sales, principally because of convenience and educational value. In view of the magnitude of forthcoming taxes, our judgment is that Series "A" tax anticipation notes be offered and the sale promoted actively.

"Comments on tax Series "B" notes are somewhat mixed. The general reaction is that those corporations which have cash balances will buy the notes under the terms proposed in your circular. Individuals in high income groups as well as estates, on the other hand, may not be interested inasmuch as the income from these notes is taxable, so that the inducement through interest rates is much too small.

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"In one instance it was felt that even one-quarter of one percent return on a tax-free basis would be more attractive than the proposed rate. A slight majority of views on the part of business men and bankers was to the effect that the proposed rate of return is too low and that something closer to one-half of one percent would make these notes much more attractive."

H.M.Jr: Is that the end of that?

Bell: No, we have got some more.

H.M.Jr: Go ahead.

Bell: New York and Philadelphia are the long ones.

"We are in sympathy with this view of the majority and suggest that consideration be given to raising the return from 0.36 to 0.48, so that instead of three cents a month for \$100 denomination notes the return would be four cents."

We had that in one of our schedules.

"We join in the views of some of the banks that even though the rate on these notes is generous and may be out of line with the open market rates, there is no reason to believe that the effect upon market rates would be disturbing, nor would there be any large dislocation in deposits. Since tax series notes are applicable to the payment of taxes only, are not negotiable, and are redeemable only at the purchase price if not applied to tax payments, the investment and collateral features are not present. As in the case of Treasury notes sold in the open market."

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That is a pretty good point.

"Companies that usually budget will buy the notes and a slight improvement in the rate of return will make the notes attractive to estates and individuals of large income. We favor the issue of Series "B" notes offering a somewhat higher rate of return than proposed in your circular.

"The consensus is that it would be desirable to offer the two proposed series of tax notes but that the sale of these notes must be pushed vigorously. The constant flow of funds to the Treasury would tend to minimize the problems of open market financing. It would be beneficial to the taxpayer in that it would offer a convenient means of accumulating tax funds out of current taxable income. The majority view of those interviewed is that these tax notes would offer little or no competition with the Defense Savings Securities. Nor is it likely that the open market rate structure will be adversely affected in view of the large volume of excess reserves."

This is the new president. He went in office yesterday.

This is from Cleveland. "Views express approval of plan as one that has been well conceived and will be well received mostly by larger taxpayers. The latter because of prospect of income from funds which would not otherwise be employed. One party thought plan premature, that is, it would have more appeal if public had more information on taxes. Another thought there should be no limitation as to amounts. Treasurer very large industrial concern says with inventory conditions as they are at present, price situation too uncertain at this date to tie up substantial amount funds for sixty days.

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"Low rate does not balance against bank rate for borrowing should sudden need for large purchases materials develop. Personally I believe the plan with proposed rates is sound and will result in quite a volume of purchases. I am not favorable to the idea of payment by credit. If such provisions were eliminated cannot see much disturbance to excess reserves; and even if there is a reasonable reduction in reserves, wouldn't that reduction be along sound lines?"

That is Fleming.

H.M.Jr: Yes. They are intelligent.

Bell: They are very good, I think.

H.M.Jr: I think it is an excellent system which we have developed, don't you?

Stewart: I do, very much.

H.M.Jr: It gives these people an interest.

Stewart: Gives them knowledge ahead of time and lets them participate in it.

H.M.Jr: And a responsibility.

Bell: This is from Leach at Richmond.

"Since receiving your letter of the 27th, have contacted bankers in several sections of fifth district. Most of them consider the plan well devised and generally satisfactory, but a few failed to see any need for the program. The interest rate on Series "A" is considered satisfactory. Some think Series "B" will sell regardless of rate, but others expressed the opinion that

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the rate should be at least 0.48 percent. Several expressed the hope that the notes would be made acceptable in payment of estate taxes. The appeal of the whole plan would be increased substantially if the Treasury could arrange to accept a standing application for a stated amount of notes to be paid for and delivered each month, as is now being done in case of savings bonds. Some notes would probably be purchased to be held over state tax dates even though a waiting period is required for the redemption of Series "B" notes."

Well, that we hope to get around by reserving the right --

H.M.Jr: This isn't open to estates, is it?

Bell: I put in my memorandum that it could be.

Stewart: Maybe.

Bell: I wanted the reaction.

Stewart: Provision may be made.

Bell: Yes. It is something that could be done. After a man dies, his estate could be liquidated over a period of fifteen months, and as they get in the cash they have nothing that is liquid where they can put that money, so it might be a good thing to allow the estate to buy them over that fifteen month period and turn them in at the end in payment of the estate.

H.M.Jr: I don't think I would do it at first blush, though.

Bell: It is mentioned several times in these telegrams, that everybody thinks this is --

H.M.Jr: I will explain why. And incidentally, I hope you give those things to the Federal Reserve before they come over here, because I don't want to go through this all over again.

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Bell: O.K., I will rush them right over.

H.M.Jr: I want to go through it all once more and ask them to read them before they come over here.

Bell: This is from Atlanta. Not much on this.

H.M.Jr: Well, if there isn't much--

Bell: "It appears both series would be favorably accepted by tax payers. Banks generally approve limited series. They feel large or unlimited series would bring about substantial withdrawals of corporate deposits.

"Some banks believe rate too high and should be more in line with Treasury bill rates or not more than one quarter.

"We have no criticisms or suggestions to offer in connection with the proposed issues."

You see, there the fellow wants it down to a bill rate. In the other places you have it not high enough.

Haas: Is that Atlanta?

Bell: Yes.

H.M.Jr: You ought to have copies of these, George.

Bell: Yes.

This is from Sihler, Chicago.

"Further reference tax series Treasury notes we have conveyed information contained in your revised memorandum to substantially same group of bankers and others with whom we discussed the matter several weeks ago and find generally favorable reaction thereto but with the obvious

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comment that the lower rates now proposed will prove less attractive and will probably curtail demand for the notes. Also continued comments favoring increasing Series A maximum above present \$1,200 limit. Feeling quite general that considerable publicity and education will be necessary to obtain wide distribution among small taxpayers. Suggest war loan credit be confined to Series E notes. We also still feel that bearer obligations would greatly simplify operation with very little risk of black market. One large bank suggests that Series A notes be inscribed by issuing banks similar to Series E Savings Bonds with provision for reimbursement but our view on this is that it would greatly complicate operations."

They showed the memorandum to the banks, although we said it was strictly confidential.

H.M.Jr: Is there anything else, particularly?

Sell: No. I think I can read Chester Davis' from St. Louis, and the others are about the same.

H.M.Jr: All right.

Sell: "We discussed latest plan for tax anticipation notes with bankers and others in St. Louis, Louisville, Memphis, and Little Rock. General reaction to notes is favorable. Most persons interviewed believe that notes provide a convenient and attractive facility to taxpayers and sales will be satisfactory from the Treasury standpoint. Some question was raised as to the adequacy of the interest rate on Series A. Although a substantial amount of these notes will be purchased by taxpayers whose tax liabilities are greater than \$1,200 per annum, a higher rate, say around 2 1/2 percent, would increase appeal to the smaller taxpayers for whose needs the notes are primarily designed. It is generally felt that

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Series B will be widely used by large corporations which have substantial cash but the smaller corporations whose cash has been reduced because of increased receivables and inventories incident to expanded operations would not be attracted by any reasonable rate which the Treasury might offer. We believe that banks generally will be glad to cooperate in the sale of the new notes. Opinion the latest presentation incorporates the best features of the various proposals I have seen and I believe that the two series of notes will have a favorable response from the public. In this bank we are especially pleased that notes will be sold at par and accrued interest and that collectors will credit interest as well as principal when they are presented by taxpayers."

That is Chester Davis.

H.M.Jr: Well, now, let me - just a second. I want to get a fresh view.

Stewart: Well, I think it is a well conceived plan. I think it has been very carefully prepared for, the conferences with the Reserve people and Internal Revenue people. If it has jelled in your mind so it is pretty definite, I haven't anything to suggest. If it hasn't definitely jelled--

H.M.Jr: No.

Stewart: Then I would say that A is perfectly clear to me. I think A is a perfectly sound procedure and simple to operate and so on. I take it that any taxpayer can go up to twelve hundred.

H.M.Jr: That is right.

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Stewart: All taxpayers and beyond that you drop from one ninety two to point thirty-six and so on.

Bell: That is right.

Stewart: I have some question about the relationship between A and B. They are non-transferable. The B things require a thirty-day notice. They are only good - unless you turn it back and get the cash for tax purposes. I am doubtful as to whether you need to put your limit as low as twelve hundred. It depends on what you want to accomplish. I would say that the drop, so you get about one-fifth of the interest rate as you go higher, you get a rising income tax and a declining rate of interest. I don't myself see the necessity, though I see it has been discussed in the meetings, of going down as low as twelve hundred.

H.M.Jr: Neither do I.

Stewart: I think you will get much more money, and I think the B thing is a doubtful thing for raising money. I think there is a lot in what is said by Rouse in those minutes, that the larger corporations already hold a good many Treasury bills, and my inclination would be to take A, raise the limits somewhat, give B a little further consideration, and see whether or not I didn't want sometime to put Treasury bills in, on a larger basis, and let corporations use those.

Bell: Well, you would have to put out quite a volume of bills to raise that rate sufficiently, I think, to bring in corporations.

Now, you take the Standard Oil Company of New Jersey, Jay Crane says, "I will put this year's taxes in these securities, and I probably will put half of next year's

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taxes. I won't bid on Treasury bills below a tenth." He said, "Now, I am just not interested in them below that. It costs me money to handle them."

Stewart: Another way of doing it would be to make your B available to corporations and not to individuals.

H.M.Jr: Well, then you leave out a large class of taxpayers who pay above whatever limit you fix for class A.

Stewart: What is the argument for twelve hundred?

Bell: No argument. That is quite arbitrary. We thought that a man who had an income of between, say, seven and ten thousand dollars could be considered as a small taxpayer and that his taxes under this new bill would run some place in the neighborhood of a thousand to twelve hundred, and I take it that that is the man that is going to be hit pretty hard in this new tax program, and the one you want to induce to save. The fellow who has been paying, heretofore, two or three thousand, four or five thousand dollars in taxes, has had to provide for substantial tax payments.

Stewart: He is letting his cash lie idle. It seems to me a perfectly simple thing for the Treasury to say, "If you want to anticipate it, why not?" I see no harm to the Treasury or to him because he gets an instrument that isn't good for any other purpose other than to pay his taxes.

H.M.Jr: Personally, I would make it two hundred a month.

Bell: Would you?

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H.M.Jr: Yes.

Bell: That is perfectly all right with me.

Stewart: That is the level at which you will get a real increase in magnitude.

Bell: We were really thinking of one hundred dollars a month. We could say two hundred.

H.M.Jr: I would say two hundred.

Bell: That doesn't hurt my feelings.

Stewart: I think that will make a big difference in the total amount of return, income.

H.M.Jr: What do you say, George?

Haas: I think it is all right.

H.M.Jr: Tell the Federal that we are leaning toward two hundred.

Bell: All right.

H.M.Jr: Now, on the other thing, I would kind of like to go ahead with it, on the B. I will tell you why. I am doing this whole thing, not so much for the money, but the psychological thing. They are writing a tax bill. And then Eccles has been after us very hard. He wants to tap these things - these corporations. He is not interested in this. I don't know whether he is right or wrong. But he has been very cooperative along these lines. I don't see that we can lose very much, and it is so seldom that I can ever do anything which pleases him.

Stewart: Yes. I don't object. The only thing I would hesitate about, if it ran into several billion -

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let's assume that the corporation's income is large. It really runs into billions. You have then got another non-transferable instrument issued by the Treasury, available only to be turned in to the Reserve bank for cash or turned in here for taxes, and I am generally in doubt as to how many of these forms of instruments that are non-transferable you want to build up.

H.M.Jr: Well, we can always shut it off.

Stewart: Yes, that is right.

Bell: Of course that is the type of money you want in this situation.

Stewart: I am not sure. You may reach a situation where you would be happy to have people invest in instruments which they could turn over rather than - you see, we are now fixed with the idea of inflationary risk and of something that would be dumped on the Treasury in thirty days' notice and so on. As you look at the present situation, that is good, but looking at the magnitude of finance and the unforeseeable thing, you gradually get in a set and tied up position all around. You can't unwind easily. On the other hand, I don't object to this. You can shut off any time. You can increase your Treasury bills as an experiment sometime and see how it works. You can say, "This has worked well in the A, and we will diminish it in the B. There is no commitment."

H.M.Jr: Well, the way I feel is this. I think from the standpoint of public reaction, I would like the thing - on this whole question, as far as the Treasury's sole responsibility is concerned, I think we have done everything that we can with the taxes and the Defense Savings Bonds to meet this inflation thing.

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I don't see how we can do anything else. It is purely within our responsibility. We can write memos about there being a steel shortage and somebody was wrong and we were right. I mean, we were right about cocoa and so on. But that isn't my responsibility.

Stewart: I agree.

H.M.Jr: I mean, it is a personal satisfaction to do it, but this is our responsibility, and I just don't want to feel that the Federal Reserve Board is saying, "Well, now, we went over to Treasury. We said we wanted them to tap these big corporations and we wanted to do it one way and they had another, and we had a compromise and then they turned it down." I don't think it is worth it, because if you turn them down so often - on the other hand, if this thing - the reason I asked you to come down was, your original idea, as I remember, was that we should increase the - fix it so people could sell when they wanted to, rather than selling them long-term Governments. Now, this isn't that. I mean, I haven't forgotten it. That is why I asked you down. But if you say to me, "Henry Morgenthau, this is dangerous," I would say, "Well, I will postpone it."

Stewart: I don't say that.

H.M.Jr: Now, I don't know. The rate has dropped due to the Federal Reserve. We may not get anything. I like increasing the thing to two hundred a month.

Bell: It is all right.

H.M.Jr: I think a hundred a month is too small.

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Bell: Well, we had suggestions in our meeting with the Federal, two of them, I think, suggesting a thousand, but I think more of them would have been pleased if we had gone to two thousand.

Stewart: Yes, you have got a range of a thousand to two thousand.

H.M.Jr: Well, two hundred a month is twenty-four hundred.

Bell: That suits me fine.

Stewart: I think that is--

H.M.Jr: On balance, you think that is all right?

Stewart: I do. I think it is very well done.

H.M.Jr: Of course the thing that nobody has said, which bothers me, which I don't like, and I want to just go on record, I am sorry we are doing it because I think - I am afraid we are going to get a lot of money, a lot of short-term money, and I hope, talking to you about getting out a billion or a billion and a half of long-term Governments now, letting our bills run off, you see, for two or three months and take this opportunity for putting out another billion and a half of long. Well, I can't do it. I mean - I had in mind to say, "Well, now, Dan, we will let our bills run off for a couple of months, sell a billion and a half of long term." The two and a half could go out almost to sixty now, couldn't it?

Bell: Yes.

H.M.Jr: And take advantage of this, but I have got

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to waive that, and I am sorry, you see?

Stewart: Yes.

H.M.Jr: But I think from the standpoint of letting the country know that the Treasury is on top of the - now, to have a man like Henry Wallace go out and talk twice within a week about inflation with Defense Savings Bonds as the answer, and let the public know the Treasury is on its job is worth a lot. Isn't that right? Public confidence in the Treasury.

Now, I can't tell what Leon Henderson is doing and this and that and everybody else, but at least I like the thing, and we are up to the minute, and I think that this is part of that thing of letting them--

Stewart: This is a facility you offer. You don't put any great publicity drive behind this.

Bell: I am not in favor--

H.M.Jr: No.

Bell: of a great publicity drive.

H.M.Jr: What do you suppose - you know, we did a Gallup poll on the Defense Savings Bonds and Stamps. What would your guess be as to the answer of the number of people in the United States that knew about Defense Savings Bonds and Stamps - and I want to tell you that it was very high.

Stewart: I would have thought it very low.

H.M.Jr: What would you guess? I am telling you it is very high. This was taken after - it was

- 23 -

taken after six or seven weeks after we started.

Stewart: The question was put in the form, "Do you know about Defense Savings Bonds?"

H.M.Jr: That is it. And stamps.

Stewart: Well, the highest I can imagine would be sixty-five, say.

H.M.Jr: Ninety-one percent.

Stewart: Is that so?

H.M.Jr: Isn't that amazing?

Stewart: It is amazing.

H.M.Jr: Ninety-one percent of the people said they knew about it and the bulk of them, I forget the percentage, said - over seventy percent or something like that had heard it over the radio.

Haas: Yes.

H.M.Jr: They tell me that in the whole history of publicity and advertising, it has never been done before. It has never been done before.

I think we are all right.

Stewart: We were talking about results of the publicity drive.

H.M.Jr: Let's let it go and we will tackle it again at three o'clock, and I want you here at my press conference tomorrow, Dan, to explain it. I think you have done a beautiful job. I compliment you.

- 24 -

Bell: I think we might want to say something about it, dress up this memorandum that I sent out to the Federal Reserve Banks, and release that, cutting out some of the details.

H.M.Jr: Will you have it fixed? We will let you handle it at ten-thirty tomorrow. Will you?

Bell: All right.

H.M.Jr: And I am seeing you (Stewart) at one.

July 2, 1941
11:07 a.m.

133

HMJr: Hello.

Operator: I have Mr. Thompson.

HMJr: Put him on.

Operator: Go ahead.

Norman Thompson: Hello.

HMJr: Norman.

T: Yes sir.

HMJr: Will you - between you and Gene Sloan - arrange a telegram go out between now and one o'clock -

T: Yes sir.

HMJr: - to the Vice President, members of the Cabinet, and the heads of all independent agencies in Washington, over my name -

T: Yes sir.

HMJr: - saying that we start this Treasury hour at eight o'clock tonight promptly.

T: Oh yes.

HMJr: And if they're not otherwise occupied I suggest that they listen.

T: Fine.

HMJr: See, don't bother to show me but get the telegram out to everybody between - before lunch. You see?

T: I'll get it right out.

HMJr: Putting everybody on it.

T: Yes. All right, sir.

July 2, 1941
11:38 a.m.

134

Operator: Go ahead.

HMJr: Hello.

Oscar Cox: Mr. Secretary, this is Oscar Cox.

HMJr: I know, in person.

G: Right.

HMJr: This is Henry Morgenthau.

G: (Laughs) So I know. Look, they've got a rush job on this southern flight delivery of aircraft to Africa.

HMJr: Yeah.

G: - make a lot of miscellaneous purchases and Mr. Hopkins asked me who I thought could best do it and I said the Treasury. And he asked me if I would speak to you to see if Mack would designate somebody to put pretty much full time to get the job cleaned up.

HMJr: Now just tell me what it is and I'll clear it.

G: Well, it involves everything from bedding to prefabricated houses to odds and ends that go into aircraft and -

HMJr: Have you been in touch with Mack?

G: No, I haven't.

HMJr: I'll call him.

G: All right.

HMJr: And give me three minutes' headway and I'll tell him he'll hear from you.

G: Fine.

HMJr: You want a rush job?

G: Yes sir.

HMJr: On stuff - what is it - for these men who are going to go to Africa - these mechanics?

- 2 -

C: Yes, it's all for the whole flight delivery.
All the instruments.

HMJr: Instruments too?

C: Well, instruments and all the incidental
purchasing.

HMJr: I'll tell him.

C: Right.

HMJr: Give me three minutes' headway.

C: That's grand. That's fine of you.

HMJr: All right.

C: Thank you very much.

HMJr: Delighted to do it.

C: Goodbye.

July 2, 1941
11:42 a.m.

HMJr: Is this Mack?

Clifton
Mack:

Yes sir.

HMJr:

Oscar Cox just called up on behalf of Harry Hopkins. He put it this way: he said that they wanted a special job done in buying material for the Takoradi expedition to Africa. Planes, instruments, bedding and what all.

M:

Yes.

HMJr:

And they kid us by saying that we can do the best job in Washington so they're going to turn the whole thing over to us.

M:

I see.

HMJr:

Which is quite a compliment to you. And they'd like you to designate some one person that they can work with and handle it. Have you got a good man?

M:

Yes I have.

HMJr:

Who is it?

M:

Freeman.

HMJr:

Freeman?

M:

He's Chief of the Purchase Division and I think if this is a special job we'd better have him do it.

HMJr:

Special rush job.

M:

Yes sir.

HMJr:

How do you spell it?

M:

F-r-e-e-m-a-n.

HMJr:

Has he been there a long time?

M:

Yes, he's been here five or six years and he's now Chief of the Contract and Purchase Plan.

HMJr:

Well, Oscar Cox is going to call you as soon

- 2 -

as I hang up and sort of watch it yourself,
will you?

M: Yes sir I shall.

HMJr: And give him extra good service.

M: I'll do that.

HMJr: Thank you.

M: Yes sir.

5281

FROM THE DESK OF
OSCAR COX

138

Secretary Morgenthau:

For your information.

We appreciate your
help very much.

OCE

July 1941

A handwritten signature, possibly "J. Edgar Hoover", written in dark ink. The signature is stylized with a large, sweeping loop at the end.

MEMORANDUM

July 2, 1941

TO: Mr. Harry L. Hopkins
FROM: Oscar Cox
SUBJECT: Discontinuous Purchasing For Southern Route Project.

1. Secretary Morgenthau said he would be delighted to take on and push this rush assignment. He immediately instructed Procurement to handle the job.
2. Clifton Mack, Director of Procurement, and William H. E. Freeman of the Procurement Division have been tagged to carry out the assignment pronto.
3. I have put Nixby in touch with Mack and Freeman so that they can proceed immediately to do the buying. The revolving fund available to the Procurement Division can be used for this purchasing so that no delay will result.
4. I arranged with Sir Henry Self to have Boddie and Gribbett tagged to handle the job on the British end. They will put in the requisitions, etc. But the purchasing will not be held up on account of the requisitions or otherwise.

OSC:abb

Cox

Farm
THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

140

TELEPHONE: REPUBLIC 7860



Box 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

The Honorable
Henry Morgenthau, Jr.
The Treasury,
Washington, D.C.

July 2nd, 1941

Dear Mr Secretary,

I should like to confirm what I said to you at luncheon the other day, namely that the arrangements which are now being worked out at the Treasury should, it seems to me, satisfy the best hopes of the Chancellor of the Exchequer as I explained these to you in earlier correspondence.

Everything depends, of course, on what you called the McCoy (I hope I have got that right!) going through;- that is to say, certain tanks and aeroplane engines contracted for by us being taken over by your War Department and certain shipping contracts replaced by deferred contracts for a later date. (Though I understood from Mr Cox that the shipping proposition would have to be postponed for the time being until the Maritime Commission had further appropriations).

If we get the relief provisionally forecast under these headings as well as the various miscellaneous sources of relief which have been already arranged, this, in conjunction with the good work you are doing for us at the Committee, should more than fulfil our best hopes and should leave us endowed with adequate reserve balances during the fairly long interim period before they will begin to be replenished out of our own currently accruing resources.

I am hesitating to telegraph definitely to the Chancellor

of the Exchequer so long as the big items under discussion by Mr Cox are a little bit in the air. But, as soon as these seem reasonably definite, I shall hasten to advise him how very generously his wishes have been met. We have already sent him some general indications of the ways in which you are helping Phillips and myself to a satisfactory conclusion.

I feel that the work of the new committee will be cumulatively useful in easing our dollar position. Apart from important general decisions such as the lease-lending of civilian supplies to the Dominions, I am sure that many miscellaneous items, small and not so small, hard to specify in advance, will be caught up and dealt with by the new method, which would otherwise have gradually accumulated against us through the piling up of various unforeseen commitments with but little to offset against them. Thank you very much for initiating so helpful a procedure.

Yours sincerely,

JM Keynes

July 2, 1941
12:45 p.m.

Frank
Knox: Hello, Henry.

HMJr: How are you?

K: I'm fine, how are you?

HMJr: I'm alive.

K: That's good. Pretty hot, isn't it?

HMJr: Yeah. You want to eat with me tomorrow?

K: Yeah, I'd be delighted to, Henry.

HMJr: Are you rushing off afterwards?

K: Well, I - I'm going out about 4 o'clock, I hope.

HMJr: Well, that's - so do I. How about....

K: Now that - about what time, Henry?

HMJr: Is 1 o'clock all right?

K: Yeah. All right, I'll be there.

HMJr: And

K: Thanks.

HMJr: What's that?

K: Thanks.

HMJr: Thank you.

K: I'm surprised that you would have had - even recognize me, I'm a - I'm an outcast now, I'm about to be fired. (Laughs)

HMJr: Well, take me along with you.

K: (Laughs) All right, Henry.

HMJr: Okay.

K: Okay.

July 2, 1941
2:17 p.m.

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HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Dean Landis: Hello.

HMJr: Henry Morgenthau.

L: Yes.

HMJr: Jim?

L: Yes.

HMJr: Well, I've been a complete failure.

L: What's that?

HMJr: I have been a complete failure.

L: Oh, really?

HMJr: Yesterday this Monsignor Ready had Senator Walsh for lunch and after that I went up and called on him myself and nothing that I could do - and I did everything within my power but with what he would make it a personal fight to keep you from being confirmed. He said that nothing that I could do, no pressure that I could bring to bear or anything that I could say would make him change his mind and he said, you can name anybody else in the United States and I'll say yes, but I will not give way on this. I asked him whether he'd step aside, he said, no, I'll take it before the Senate and I'm going to fight it to the finish.

L: Well, well. (Laughs) He's pretty bitter, isn't he?

HMJr: He's very bitter. I asked whether it would help any - I said I didn't know whether you'd called - he said, "Nothing will help".

L: Was that all due to that Parkman episode?

HMJr: No, he - he - it - well, that's part of it, but he seems to feel that you opposed him in his campaign for re-election.

L: Uh huh.

HMJr: I don't know if somebody - I - it didn't make sense to me - something about they asked you to speak, I think, and you said if you had to speak, you'd speak for the Republican Governor.

L: I - no, I made no speech.

HMJr: No, he said that if you were forced to, you would speak in behalf of the Republicans. I don't know. He....

L: Well, I made no speech. I told nobody about how I was voting in the last election, either for Governor or Senator.

HMJr: Well, Ed was with me and he said that I pulled every stop in the organ; sympathy, everything. I never was up against a situation like it and mind you, I followed Monsignor Ready by an hour.

L: Yeah. Well, I suppose that's that, then.

HMJr: Well, I don't - I don't think it's - you know how I feel about your coming down here, but if you and I are to stage a two or three months fight.....

L: Hello?

HMJr: Go through a two or three months fight.

L: Yes.

- 3 -

HMJr: And with the chances that three out of four, that we are licked.

L: Yes.

HMJr: And it isn't as though as if I went to the President, because if I got the President, it would make it worse.

L: Yeah.

HMJr: Because, you know how Walsh feels about the President.

L: Yeah.

HMJr: I'm just heartbroken, I haven't been able to do a thing since I've been up there.

L: Uh huh.

HMJr: But I never saw such bitterness.

L: Well, that surprises me quite a bit.

HMJr: Yeah. He said to me, I like you, I've done things for you for eight years, he said, ask me anything else in the world and it's granted. He said ask me anything that you want and I'll grant it, but he said I will not give way on this.

L: Well, that - that surprises me. I'm - I never knew he was that bitter because the only reason that I could assign for it is that perfectly harmless action of mine in

HMJr: No, no, that doesn't seem to bother him so much, it's something that during the campaign - he feels that you were out to lick him for Senator. That's what he feels.

L: Uh huh, yeah.

HMJr:

And then this Parkman thing, as he puts it, is sort of rubbing the salt in the wound.

L:

Yeah.

HMJr:

But I never worked harder or less effectively in my life. And when we walked in, you know, he not knowing what I wanted, he said I just want to tell you that you just got the most beautiful tributes from the Catholic Church, I never heard them talk so beautifully about anybody, so I was wreathed in smiles and I said everything is fixed, now I'm going to get what I want. Then I asked him and that's what happened.

L:

Well, you have your hands full. (Laughs)

HMJr:

Well, I - I just - when I go into a fight, I'd like to at least have a fifty fifty chance to winning.

L:

Yeah.

HMJr:

You know what Glass did on that Judge down in Virginia.

L:

Yeah.

HMJr:

That the President wanted. You know about that?

L:

No, I didn't know about it.

HMJr:

Well, there was a man the President appointed and he was a - he was Judge, but he hadn't been confirmed and he never did get confirmed and he had to resign and then years from now those things - people don't know what happened.

L:

Yeah.

HMJr:

And to go through two or three months and then he'll bring out all this stuff and all the rest of that - well, is it worth it? So that's the situation.

HMJr: And then this Parkman thing, as he puts it, is sort of rubbing the salt in the wound.

L: Yeah.

HMJr: But I never worked harder or less effectively in my life. And when we walked in, you know, he not knowing what I wanted, he said I just want to tell you that you just got the most beautiful tributes from the Catholic Church, I never heard them talk so beautifully about anybody, so I was wreathed in smiles and I said everything is fixed, now I'm going to get what I want. Then I asked him and that's what happened.

L: Well, you have your hands full. (Laughs)

HMJr: Well, I - I just - when I go into a fight, I'd like to at least have a fifty fifty chance to winning.

L: Yeah.

HMJr: You know what Glass did on that Judge down in Virginia.

L: Yeah.

HMJr: That the President wanted. You know about that?

L: No, I didn't know about it.

HMJr: Well, there was a man the President appointed and he was a - he was Judge, but he hadn't been confirmed and he never did get confirmed and he had to resign and then years from now those things - people don't know what happened.

L: Yeah.

HMJr: And to go through two or three months and then he'll bring out all this stuff and all the rest of that - well, is it worth it? So that's the situation.

- 5 -

L: Then.....

HMJr: Pardon me.

L: Then your plan would be to drop the matter.....

HMJr: Yes.

L: I should think...

HMJr: I - I thin, Jim - I'm heartbroken, but I don't think - I don't think it's.....

L: Well, I don't see anything else for you to do.

HMJr: No. Fortunately, there's been no publicity, nobody knows anything about it, but I'm both embarrassed, chagrined and heartbroken.

L: Uh huh. Well, so am I, I'm sorry but that's that. I hadn't - when I spoke to you at the start I had never thought of it as a serious matter.

HMJr: Yeah. Well, it's a....

L: And....

HMJr: It is as far as Walsh is concerned.

L: Yeah.

HMJr: He's absolutely adamant.

L: I didn't hear your last remark.

HMJr: He's adamant, I mean. I said, well Senator won't you do this for me? You say you like me. I said, won't you just step aside and take no part one way or the other.

L: Yeah.

HMJr: He said, Oh, no, he said, I'm going on the floor of the Senate and I'm going to make my fight. He said this is something

- 6 -

that's a personal issue and I cannot let it pass, so it's a bad day for me.

L: Yeah. Well, you'll have to hunt around for somebody else.

HMJr: I'm afraid so, Jim.

L: That will give you a problem.

HMJr: Well, I want to tell you this, I'll never forget your generosity in being willing to come down and to give up what you had and I'll always be in your debt. I want you to know that. If there's ever anything that I can do for you, don't hesitate to call on me, because I feel very very grateful that you were willing to come.

L: Well, that's very nice of you to say.

HMJr: Well, I mean - I don't say that lightly. I mean if there's ever anything I can do for you or your family, don't hesitate to call on me.

L: All right, thank you, thank you.

HMJr: Well, I hope to see you soon.

L: Yeah. I hope to be down, oh - within a fairly short time. I - may I drop in to see you.

HMJr: Well, I'd like - if you let me know a day in advance so we can have lunch or supper together, please.

L: All right.

HMJr: All right, Jim.

L: Goodbye.

HMJr: Goodbye.

July 2, 1941
4:05 p.m.

D. W.
Bell:

Sorry to bother you, but I understood Dean was there - I thought you might like to have this rumor.

HMJr:

What's that?

B:

Bill Johnson says that there's a persistent rumor through the shipping circle in New York, they can't get the origin, but it's so persistent, he thought you ought to know about it, that the - it's rumored that all the Japanese ships have been ordered to be home by the 30th of July and that all of the principal officers of these two world-wide Japanese commercial organizations have an order to get out of here by the 15th.

HMJr:

Of July?

B:

Yeah.

HMJr:

I'll tell Dean.

B:

Now, that's just a rumor, but I thought maybe you ought - you'd want to tell Dean about it.

HMJr:

Okay.

B:

Fine.

July 2, 1941

I called Captain Kirk of O.N.I. about six o'clock Wednesday night and told him about the rumors in New York that the Japanese were closing up their offices of steamship companies, and that they had ordered their steamers to return to Japan by July 31st.

I asked him if he had heard anything like that, and he said that he had heard about their steamers being called back from the West Coast two days ago. He said he had not been able to confirm it. I asked him if we did any snooping in New York whether it would double up on anything his men were doing and he said, "No. Go ahead." I asked him also to give this information to Secretary Knox because I had tried to reach Secretary Knox and couldn't.

I gave exactly the same information to Dean Acheson at four o'clock when I got it from Mr. Bell who received it from Customs.

Shamhart, who is in charge of Customs Board of Patrol, was here about 6:30, and I gave him instructions to watch the various Japanese shipping companies to see whether there is any chance of their moving out. I said that probably he could do it through the charwomen, and I asked him if he could pay for this information. He said yes, that he had money for that purpose.

At a quarter to seven, Johnson, Commissioner of Customs, came here and I told him the same thing. The information came from Johnson to Bell, and I told him that he and Shamhart should get together and do the job tonight, and come to my office at 9:25 tomorrow morning and give me a report.

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July 2, 1941
3:00 P.M.

RE TAX ANTICIPATION NOTES

Present: Mr. Stewart
Mr. Bell
Mr. Haas
Mr. Currie
Mr. White
Mr. Kuhn
Mr. Ransom
Mr. McKee
Mr. Eccles
Dr. Goldenweiser
Mr. Piser

H.M.Jr: Did you gentlemen have a chance to take a look at these telegrams that came in?

Ransom: Yes, I have read them.

Eccles: I have read all but two or three here. I read seven or eight of them.

H.M.Jr: We thought they were very good.

Eccles: Yes. I think that they are.

Ransom: Quite helpful.

H.M.Jr: Well, it kind of gives them a responsibility and the feeling they are on the inside, and I thought on the whole they were very intelligent. Has Lauchlin Currie seen them?

Currie: No.

Bell: Yes. Oh, haven't you? They went to you before lunch.

H.M.Jr: Well, you get something in the White House

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or out of the White House - you know.

Eccles: You get it in and find it afterward.

Bell: Maybe after it comes out you find out --

H.M.Jr: You know how it is.

Ransom: I have digested them for him.

Eccles: These got over about one o'clock, just as I was going to lunch.

H.M.Jr: Well, how would you like to proceed, Mr. Chairman?

Eccles: Well, if everybody has read these wires, it seems to me we might just ask the people around the room if they have got any difference of opinions with reference to the proposal in lieu of the wires and the opportunity they have had to think over what was done at our last meeting.

Bell: I have got some points that I think ought to be settled if we are going to start to work on it tonight, and they are points that were really brought out in these telegrams.

H.M.Jr: Fine. Supposing you go ahead and conduct the meeting.

Bell: You have noticed in the wires that some of them suggest that the rates be changed on Series A. I think we had one or two that said the rate ought to be two and a half. We had it originally two forty and brought it back down to one ninety two, thinking it was nearer the postal savings rate and also many savings accounts rates. We might ask

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if there is any question in anybody's mind about the one ninety-two rate?

Ransom: Not in mine.

Eccles: I wouldn't increase it.

Bell: And you wouldn't decrease it, either?

Eccles: No.

Bell: Leave it right where it is?

Eccles: Yes.

Bell: That looks like a pretty good rate to me.

H.M.Jr: Goldenweiser?

Goldenweiser: I am satisfied with the rate you have, Mr. Secretary.

H.M.Jr: I see.

Bell: On Series B, you recall that we had that originally at six tenths and there was quite strenuous objection from New York, saying it ought to come down probably a quarter, and maybe three eighths, so we put it on just a little less than three eighths. In these telegrams, many of them think that it ought to be raised to the forty-eight hundredths, which would be four cents a month on a hundred dollars. Williams put in quite a strong plea for that, of Philadelphia.

Eccles: It was a very good wire.

Bell: Yes. I would like to get some expressions of opinion on that rate.

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- Eccles: At the conference that we had the day the Secretary was away, it seemed to me that the general impression there was that we should - it should be a half. Three eighths was too low. Personally, I still feel that the four cents which would give forty-eight hundredths - you could make it a half because it leaves the odd cents in the thing, so it would have to be forty-eight hundredths, which is nearly a half. It is preferable to three eighths. First, you want to get all that can possibly be gotten in and for that reason a little better rate, I think, would be a very substantial inducement, especially in the case of individuals or corporations.
- H.M.Jr: I thought it was you that wanted it three eighths.
- Bell: No. It was New York.
- Eccles: New York is the only one.
- Bell: And when I drew it up after our conference, I drew it up on a forty-eight and a thirty-six basis and then after talking to New York, I sent out with my memorandum the thirty-six basis.
- Eccles: But now the three eighths - there is no question but what the three eighths might be - it would certainly be high enough in lieu of the market. But this isn't a market security. It lacks a collateral aspect. It can only be used for taxes. It is designed to attract - to get people to save, corporations to save out of - I mean, to invest out of current earnings and to turn over to the Government as much of their taxes in advance of the liability for payment as possible,

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so that a little better rate is still a good rate for the Treasury. The average use of the funds would likely be for a year. It won't - it is true that they could get that rate if they only - if the funds were only outstanding for a shorter period, but inasmuch as you can buy these notes for - taxes for a two-year period, the average amount would likely be, I would think, a year. The money would be invested likely for a year, on the average.

Bell: I think something less than a year. They can only buy them for two years in the first month.

Eccles: That is right. So that personally, I would favor the forty-eight hundredths in order to get the maximum amount of funds attracted to this field, reduce the need of Treasury open-market financing.

Bell: I think you might get a lot of money at forty-eight.

Eccles: Sure, that is fine.

Bell: What do you think, Ronald?

Ransom: I wouldn't be afraid of it, Dan, in the light of these telegrams; it would seem to me, if I had the decision to make, I would prefer the forty-eight.

Bell: How do you feel?

Ransom: After all, you want to get a substantial amount, and these people convince me that you would get considerably more at that rate than you would at the other.

Bell: What do you think, Lauchlin, about the rate?

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- Currie: I really have no opinion between the three eighths and four eighths.
- H.M.Jr: Oh, you have got to have an opinion.
- Bell: Well, the three eighths is really above one-year money on a market basis. Of course, this is not on --
- Ransom: This is not that type of security.
- Bell: These are restrictive obligations, not transferable, can't use them as collateral, can only use them for Federal taxes, and if they are not used and they turn them back, they get the cash without interest.
- Eccles: They have no rights values, which is a big factor.
- Ransom: A good many of these banks seem to feel that you wouldn't cause any trouble with your open market by putting it at four eighths.
- Bell: You might throw some more Treasury bills outstanding into the hands of the banks that are now in the hands of the corporations. You might do that. What do you think, John?
- McKee: I think in looking forward to whether or not there may be a need for another issue to tap these funds, that we have been talking about, on a two-year basis, other than for tax purposes, that your half of one per cent would give you a pretty good guide, a better guide than maybe your three eighths of one per cent, to see what volume there is there available to you for the future. Now, you don't have to stick to one half of one per cent. Your next issue next year could

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be something else if you thought you were being - advantage was being taken of you. Now, a new idea, and using the Secretary's expression, a little sugar on the candy, starting off at this time I think I have heard you say something like that, wouldn't hurt at this time.

H.M.Jr: I am glad the sugar is on the candy.

McKee: I would prefer to see it one half of one per cent because I believe you will then test that two-year market, and just a little beyond what you would otherwise for taxation.

Bell: You think we might come down if we find that rate is out of line as easily as we could go up if we started at three eighths?

What do you think, Walter?

Stewart: Your purpose is to get all the money -- if it is to get as much as you can get, you will get a considerable amount of money with four eighths, no question about it. I have regarded Series B as more experimental in form than Series A, and you can experiment on either one of the two bases. On the whole, I would just as soon experiment at thirty-six as I would at forty-eight. I had regarded the one ninety-two as a full rate and at the time you get the point thirty-six, you have got an average which is not a full rate. If you average it, point forty-eight is the one ninety-two. I think it is a full rate even for a non-transferable.

Bell: I think our primary purpose here is to facilitate payment of taxes and not to raise money.

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Eccles: Well, isn't it both, Dan?

Bell: Well, the other is incidental. If we raise a lot we will be happy.

H.M.Jr: We are very moral. We just have ideals, you see, that we shoot for.

Eccles: I thought you were anxious to reduce the market financing and get the maximum amount you could here.

H.M.Jr: We just --

Eccles: I see.

H.M.Jr: We are idealists, you see.

Bell: Dr. Goldenweiser, what do you think?

Goldenweiser: I am inclined to favor forty-eight. I feel that it isn't a market issue. Those very precise small rates are adapted to those issues where everybody knows his way around and has very close competitive bidding.

When you are paying people four cents on twenty-five dollars a month, that is little enough, I think. I think you have got to think in terms of aggregates a little, rather than in terms of a very precisely determined rate, so I think that probably --

Bell: You take it it is still cheap financing on either basis?

Goldenweiser: I think so.

Bell: Piser, how are you?

Piser: I was originally in favor of forty-eight. I

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have had a little change of heart since talking with you last, largely on the grounds that I don't like to recommend a rate higher than the New York people do. (Laughter) They consider thirty-six as ample and it seems to me it would be for this type of issue.

- Eccles: I would like to look at - back of that a little bit, though.
- Ransom: I should think the reasons might be analyzed.
- Eccles: I would like to look back at the motive.
- H.M.Jr: Aren't you fellows suspicious?
- Eccles: Sometimes I admit that I get a little bit suspicious.
- Piser: Ordinarily they suggest a rate higher than we do.
- Eccles: But it is on a long-term security. It is on a long-term security that -- for the insurance companies and the savings banks, and that type of investor is where the high rate comes.
- Bell: What do you think, George?
- Haas: I think if you look at the market, then the point thirty-six is high, but then you stop to consider that the market is made by the large corporations and banks, and if you are trying to put out an instrument which will facilitate in paying taxes, you want to use a large number of people, and I think if the rate is forty-eight a larger number of corporations, including smaller ones that come in which might not come in under the other, and I think it is not so much a question of a

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rate as a question of how much money you want to come in through this channel in the first instance.

Secondly, the higher rate will include the larger number of corporations. This way you will get the larger corporations. I think, in view of the wires that come in from some of the banks, I would be inclined to - in view of those wires to lean over - I think to counteract the New York influence, if you put it that way, and lean over and put it four eighths.

Bell: Don't you think we will get the large corporations at three eighths?

Haas: You can get them for less than point thirty-six, but you won't get the large participation.

Bell: I think that is right. Harry?

White: I think you will consider the - the difference between the two is so slight that I think the fact that you want to get more money should be the criterion.

Bell: You?

H.M.Jr: I don't - well, you come first. (Laughter)

Bell: I was just going to say that I think the consensus here is for forty-eight. The thing that worries me about it a little is whether or not it will harden the short rates.

H.M.Jr: It will.

Bell: To any extent. If we put bill rates up to

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an eighth I don't think it would worry me. If it suddenly jumped into a quarter it would worry me.

Eccles: I don't think it will, Dan, because if you were giving this rate and it is going to - and you could invest any funds, that would be another thing, but the only thing you can use these securities for is for taxes, and they are non-negotiable, these securities, which is a very different thing than if it was a market security.

McKee: Well, I see what Dan means, though, Marriner. A lot of the money that was reserved for taxes has gone in the past in ninety day bills which will go into these things in lieu of the ninety day bills.

Bell: That is right.

McKee: That is what you have in mind.

Eccles: It might affect it slightly, but the number of corporations that take bills are just a handful of great big ones. New York is talking about the money market and the three eighths is based upon what they think it ought to be in relation to the money market. Now, the rest of the banks who feel that it is a higher rate are thinking of the rest of the country and what the market situation is, and so we know that New York would be - would take these five ninety-four - forty-eight hundredths, but - and you would meet the requirements of the rest of the country, whereas, if you meet merely the rate of New York and you failed to meet the requirements of the rest of the country, it seems to me that you are not doing what is - not considering this thing

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from the national point of view, but largely from the money market point of view, which is New York.

- Bell: Well, even at a half, it seems to me it is economy to the extent you cut down your long-term borrowing by as much as a year, and you are saving anywhere from one and a half to two per cent for a year.
- H.M.Jr: Well, Dan, I am willing to go along with them on a higher rate, with one understanding, so there can be no misunderstanding. If we get an awful lot of money, I would like to have it understood now that I may shut it off, or if the thing becomes distorted in any way.
- Eccles: You could drop the rate.
- H.M.Jr: Yes. I don't want to feel I am under any obligation with you gentlemen. If this is distorted or we get flooded or something, we could cancel this and change the rate or stop it entirely. If that is - with that understanding, I am willing to try it out at forty-eight, Dan, you see. But just so we know that - we might ask you to meet and say, well, we feel we ought to stop it.
- Bell: Under any circumstances, there will be a new series on January 1, so you would have a chance to reconsider it within five months.
- McKee: There is a possibility you might be faced with the same thing at three eighths, Mr. Secretary.
- H.M.Jr: I am impressed with the telegrams, that they all say this is only attractive to the big boys. It is a toss. I am willing to go along.

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- Eccles: I think it was the majority opinion the other day before we got these wires. New York is about the only one at the time --
- H.M.Jr: And then the other reason, the thing I said this morning, you people in the Federal Reserve had this idea and I would like to give it a fair trial. We might not give it a fair trial at the lower rate. I mean, to attract the two-year money. This certainly would give it a fair trial. The other might not.
- Bell: Next on this list is the date. We thought, you know, that we would start these on July 15. Well, you have got coming in here a holiday and a week-end, and we will have to work the Bureau of Engraving and Printing and the Government Printing Office all through the holidays in order to get this, and then we would just get in under the line in order to get securities into the hands of the banks. I think it would be better if we dated them August 1, and you could announce it and we could get everything into the hands of the banks. We could get all of this material out.
- H.M.Jr: You can split the difference and make it the 20th.
- Bell: Well, we ought to date them, I think, the first of the month anyhow.
- McKee: Couldn't they be sold, principal and accrued interest, Dan?
- Bell: You mean, date them July 1?
- McKee: You could.

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Bell: And sell them afterwards?

McKee: Yes.

Bell: Well, I don't know. It would look a little funny, I suppose, to announce it as of July 1 or July 15 and then not get them into the hands of the banks until about the 20th.

White: Somebody might accuse them of getting money for nothing.

H.M.Jr: Well, if they go to the banks they have got no literature or anything.

Bell: I would like to have all of this in the hands of the collectors, too.

Eccles: I think August 1 is better because you have got a lot of work to do on this and a lot of publicity. It is new and it isn't going to - it is going to take a lot of effort to educate even the business people and the substantial tax payers, much less the little tax payers, and if you would like it to go off with - it seems to me you would like it to go off with a degree of success right off the jump. If you start too early you won't be as likely to get favorable results, I don't think.

H.M.Jr: That is all right.

Bell: Next is the limit on Series A. We had in our memorandum twelve hundred dollars in one year. There are many suggestions for that limit to be raised and we discussed it some this morning. As I told you, we were thinking about twenty-four hundred. We would like to get some discussion on that, as to

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whether you think that is too high or where it should be. We have to admit that the twelve hundred was quite arbitrary.

Eccles: Well, isn't this true? Twelve hundred means that they can buy twenty-four hundred.

Bell: That is right.

Eccles: And they can hold that twenty-four hundred and then buy twelve hundred a year thereafter?

Bell: That is right.

Eccles: It seems to me that in lieu of increasing this rate to a half and the fact that twenty-four hundred is going to cover all but the comparatively large tax payers, that the great bulk of the people, when you get right down to it, there is a very small percentage of them, or corporations either, that are going to pay - the corporations would, I guess, but very few people are going to pay more than twelve hundred a year taxes.

White: I think there is an important political reason why it ought not to be increased, because in the mind of the public there are two rates, and as it is, they will assume that one is for the moderate income and one for the large. It takes quite a stretch of imagination to include people above - what will this hit, eight or nine thousand dollars?

Bell: Seven to ten thousand.

White: As being the small income.

Eccles: You are giving them a subsidy.

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White: And it will seem to imply that the Government and the Treasury look upon people with ten or fifteen thousand dollar incomes as being small, and I think that would be bad.

H.M.Jr: We have got to take care of the congressmen.

White: Well, eight will take care of them - ten - well --

Haas: Reduce their salaries. (Laughter)

White: Yes, George has it.

Ransom: That is a way to get at it.

McKee: I don't like to speak for somebody absent, but wasn't Mr. Viner interested in the limitation more than any of us in that meeting in Dan's office because of deposit --

White: I didn't think he was in favor of a higher limit.

McKee: That was my understanding.

White: I thought he was in favor of keeping it lower.

McKee: He is the one, I think, that insisted on keeping it twelve hundred or lower because of the interference with savings deposits.

H.M.Jr: Nobody wants it above twelve hundred?

McKee: Well, Mr. Secretary, I am not so much interested in going above twelve hundred as I am in the method of returning them for redemption. Now, do you want to --

Bell: I have got that on there later, I think, John. Shall we leave it at twelve?

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Goldenweiser: Just what did you mean, Mr. Chairman, when you said the twelve hundred meant you could buy twenty-four hundred?

Eccles: You see, you can buy twenty-four hundred now, using twelve hundred for your next year's taxes, and then you can replace that twelve hundred with another twelve hundred. You see, this is a two-year proposition. Therefore, you can buy your tax anticipation notes covering taxes for two years.

McKee: If you can find the money, Doctor.

Goldenweiser: Yes, I see what you mean.

Bell: That is right, if you can find the money.

Eccles: It means people with cash now can buy twenty-four hundred dollars of these securities and turn them in, twelve hundred next year and twelve hundred the following year.

White: Isn't your publicity going to be in terms of the small tax payer and the large tax payer? Isn't that the difference in the justification of the two?

H.M.Jr: What do you think, Ferdie?

Kuhn: I think the two are completely different and you will have to make that distinction in your publicity.

H.M.Jr: Would it be harder to sell it if it was twenty-four hundred?

Bell: You would sell more of them for twenty-four hundred.

H.M.Jr: I mean publicity.

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- Kuhn: Isn't it like the savings bonds, Dan, you would get more money in if you raised the limit, but you would be defeating your object?
- Eccles: That is right. You have just cut from ten thousand to five on your savings bonds.
- Bell: That is right. It is something on that same --
- Haas: You don't defeat your object but you make it difficult to explain it, like Harry says, in terms of the issue for the little man.
- White: It is particularly true that every large buyer, in addition to buying the Series B, would also buy the Series A automatically, as a matter of course. He would buy the maximum amount of Series A.
- H.M.Jr: Can you make it so the fellow couldn't buy more than twelve hundred in a calendar year?
- Ransom: There is no objection to his buying more than that. He doesn't get any interest on it. If somebody wants to lend the Treasury money without interest --
- Eccles: No, he gets twenty-four hundred, Ronald.
- McKee: Yes, but if he buys in excess of it, he can't turn it in for more than twenty-four hundred dollars at a time.
- Eccles: You mean so that he can only buy in any one year twelve hundred dollars.
- H.M.Jr: That is right.
- White: Which is half what it is now.
- Eccles: That is right. In other words, you can't buy these for two years' taxes. You can only

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buy them for one year's taxes. We discussed that and there was a mechanical feature making it pretty difficult.

- Bell: We have quite a mechanical job of controlling this five thousand dollars on savings bonds, and we find an awful lot of people that buy excess amounts, and we have to write letters and letters to straighten them out, and we just didn't want to get in on that on this.
- H.M.Jr: Aren't we interested in helping the unemployed any more?
- Bell: Well, if we had space.
- Ransom: Dan, there is one thing brought out in these letters, that in some of these states where they try to avoid the local intangible tax, they may invest in quantities of these bonds over some tax period and just turn them in for no interest at all. I don't see there is anything you can do about that
- H.M.Jr: Dan, I don't think anybody - if you are going to stick to this, I don't think anybody will care what the mechanics are. I don't think they should be permitted to buy more than twelve hundred in a year. If he could buy twenty-four hundred, he could buy forty-eight hundred if he wanted to.
- Eccles: That is right. That was the objection to the twenty-four.
- H.M.Jr: Why couldn't he?
- McKee: He could buy ten thousand as far as that is concerned and forfeit his interest.
- H.M.Jr: Yes, but if he wanted to do it he could.

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Bell: But we don't care if he wants to buy them. He can't get any interest, and it doesn't cost us anything.

H.M.Jr: How difficult is it - I mean, all of the United States Savings Bonds, all of those we have a limit that a man can't buy more than so much per year.

Bell: That is right.

H.M.Jr: We work that all out.

Bell: It is a terrible job to control it and we don't get the excess holdings until months afterward, until we audit them. What we tried to do here is devise a very simple security, simple to control in the Collector's office. We had all that mechanical difficulty to think about.

Eccles: You don't want to register it, you see.

Bell: We don't want to register it because that just piles up a lot of work here.

H.M.Jr: Baby bonds are registered?

Bell: Yes. That is where we catch it, in the audit and registration. Twelve hundred?

H.M.Jr: No, I wanted more.

McKee: I think the Secretary has got a thought there, that you might get away from registration or even identification on these things. If anybody couldn't buy over twelve hundred in any calendar year, they couldn't turn in more than twelve hundred in any calendar year. Why bother with registration?

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- White: Have the check at that end rather than the other.
- Eccles: You get a market in them. Somebody will buy them and sell them.
- Ransom: That is the trouble.
- Bell: You get a market in them, and even if they are not across the market, you will find banks that will buy them in quantities, hold them until just the tax payment date, and then sell them at just a few cents discount, and they have got the high earnings on them. The fellow who has the high earnings hasn't paid the taxes. How about splitting the difference somewhere? Would eighteen hundred make any difference? That is a hundred and fifty dollars a month.
- Eccles: It seems to me that when they can buy double the amount of twelve hundred dollars, it means twenty-four hundred dollars that people with money can invest in at one ninety-two rate for a short period is enough, and if you double it - put it to eighteen, then that means thirty-six hundred, or if you put it to forty-eight - I think the point that Harry makes is very, very important, that this is a subsidy rate and you find a differential of one ninety-two and forty-eight hundredths. There is an awful difference in rate. Your only justification is that it is an inducement to the little tax payer and the minute that you get above this, you certainly can't begin to talk about the little tax payer.
- H.M.Jr: This is Federal Reserve Day, so we will make it twelve hundred.
- Bell: The tax payer is the only one in the country

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that isn't getting a subsidy, Mr. Secretary.

Eccles: Well, I am for him getting one. You can justify it.

Bell: Twelve hundred is all right with me. The denominations doesn't mean anything because I thought if you raised this to twenty-four hundred we would want to put in a thousand dollar denomination.

H.M.Jr: No, I don't want a thousand dollar denomination.

White: Aren't you going to have small denominations?

Bell: Twenty-five, fifty, and a hundred dollar, so the denomination is not a problem.

H.M.Jr: What denomination would you have in this series?

Bell: Twenty-five, fifty and a hundred.

Eccles: Same as you do in the other series?

Bell: No, the other series begins at a hundred.

Eccles: That is what I meant. I meant that the Series A begins at a hundred.

Bell: No, it begins with twenty-five. Twenty-five, fifty and a hundred denominations.

Eccles: And the other one begins at a hundred?

Bell: That is right. That is for the reason that if anybody has, say, an eighteen hundred dollar tax, they can buy Series A up to twelve hundred and then they have to have the other hundred dollars in order to make the change. You can't buy a thousand dollars.

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- Eccles: You can have in the other series more than a hundred.
- H.M.Jr: They will have thousand dollar series.
- Bell: Oh, yes, the hundred thousand dollar limit will have hundred dollar denominations. C is three hundred dollars in any one quarter or tax in full with twelve hundred dollars or less. We had quite a conference with the Collectors of Internal Revenue and this control of their limitations is really a problem and they said they just couldn't control it if the tax payer was going to be allowed to pay in this twelve hundred dollars any time during the year and a quarter. They said they could control it if you would limit them to three hundred dollars a quarter or a payment of his tax in full. Then he could turn it in any time because the books are closed, you see.
- Talking to John McKee yesterday, he thought that would be quite a deterrent from the sale of these securities and I am willing for at least a trial, to throw off the control altogether until after the tax is paid and then let the Collector's office do some spot checking, and we will check these about like we checked 1040 A returns. If we find any abuse of it, we can put on some restrictions later on.
- H.M.Jr: You are not going to do it the way you have C?
- Bell: No, just say in the regulations that no one can turn in more than twelve hundred dollars in any one year and then spot check it.
- Eccles: And whatever quarter you turn them in, you don't care.

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- Bell: No. There may be some abuse of it, but I don't believe it will be enough to hurt anybody.
- H.M.Jr: I don't like it, Dan.
- McKee: May I explain what I didn't like about the other, Mr. Secretary? If my tax is twelve hundred dollars and I have eight hundred dollars in certificates, I can only use two of those in March and two in June, and I have got to find - although I have got my money accumulated in certificates, I can't use it. I have got to find other cash means. Now, I am thinking - let's take the farmer, for instance. He gets all his income at one time. Say he was a fellow that invested - large enough to buy these things in anticipation of his taxes. He would buy in the fall. Now, it is going to be hard for him to use only part of his certificates after he has set that money aside for those taxes. He couldn't use that until December the following year.
- White: Why should he? The purpose of these is to permit him to save currently and if he has the money and puts it in the form of a security which is designed for the specific purpose of meeting the tax - why should --
- McKee: He hasn't been able to save enough for his entire taxes and he has got to take some out of his cash means as he goes along. Do you see what I mean?
- H.M.Jr: John, either I don't understand or you don't understand. I am a farmer. I sell my apples this fall and I buy twelve hundred dollars worth of these securities in October. Do you mean to say --

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McKee: Say you buy eight hundred. You can't afford to buy twelve hundred.

H.M.Jr: All right, eight hundred. Now, do you mean to say that on March 15 next year I can't begin to use those certificates?

McKee: You could only use part of them and you would have to make the other proportion of your four hundred dollars out of cash, other means.

H.M.Jr: Well, I would have to meet the four hundred somehow or other.

Eccles: If you had eight hundred --

Ransom: Suppose he figured that --

H.M.Jr: I would have to meet it somewhere.

McKee: You could take it in and get your dollars out of it and forego your interest on it.

H.M.Jr: I would have to use it somehow.

McKee: Then you are going to be penalized the interest of the purpose for which you bought the certificate.

H.M.Jr: The reason I am arguing for the way Dan set it up, it just kind of sounds clean and nice. You buy twelve hundred and you can use three hundred in any one quarter or --

Eccles: Or if you only bought eight hundred you could use three hundred the first quarter, three hundred the second quarter, and two hundred the third quarter.

Ransom: But this plan does another thing, Mr. Secretary. It forces the purchaser --

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H.M.Jr: I got your (McKee's) point.

Ransom: To carry it along longer than he may want to carry it, and forces the person to pay the Treasury more interest than he wants to pay.

H.M.Jr: As I say, this is Federal Reserve Day.

Bell: This is the only way we can put an absolute control over it in a simple way and one that will work quickly.

H.M.Jr: Which way do you want it, Dan, you and the Federal Reserve? We have a Father's Day and a Mother's Day. Why shouldn't we have a Federal Reserve Day? (Laughter)

McKee: It is awfully hard for me to understand, if I have got tax or the equivalent, that I can't use all that I have got before I have to use my money. Does that make sense?

H.M.Jr: Yes, it makes sense.

Bell: Well, I thought maybe for the trial period this next year that we could say in our regulations that no person can turn in more than twelve hundred dollars in any tax year and then the policing of that would be rather lax because we would only make spot checks and do it at a time when the work in the Collector's office is rather slack, rather than at the periods when they are the busiest during tax payment time.

H.M.Jr: I am going to have to stop at four o'clock.

Eccles: Dan, I say take this chance if you do that, if the fellow could pay twelve hundred in a quarter you would ultimately catch him,

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wouldn't you, if he paid more than that?

Bell: Yes. Then we would check him next year.

Eccles: Whereas, three hundred a quarter is automatically checked.

Bell: Is it all right with you to take the limit off?

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

Bell: The next one is, can banks act as agents? We thought when we were first considering it that we ought to keep this - the issuance of this in the Federal Reserve banks and allow the banks to take applications from their customers and transmit them to the Federal Reserve banks just like we do with our regular Treasury issues, at least for the time being. If we don't do that, we have the question of collateral and everything else, and some of the banks have already raised the question as to how they are going to be reimbursed for all their expenses and so forth, and we here would favor, and I am sure many of the Federal Reserve banks favor, keeping the issuance of these securities in the Federal Reserve banks for at least the first period. One bank raised the question this morning over the telephone as to whether or not they would be able to buy these securities in blanks, say, coming in in August and buying a million dollars' worth of Series A, and then maybe in September they would sell them out to their customers and they would get the month's interest, you see, or you could confine it to Series B and they would be willing to do that. That would give them a return and pay their expenses that they are put to, and you would have to put some limit on it. Maybe you could limit them to their taxes, the amount of their taxes.

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- Eccles: That is, in case you leave it up to the banks to sell these securities other than the Federal Reserve Banks.
- Bell: That is right. I am in favor for this period of keeping them in the Federal Reserve Banks as an issue, and the branches, and let the commercial banks and others take applications from their customers just like they do our regular Treasury open market issues. They put in a subscription.
- McKee: Post offices are out, are they?
- Bell: I should think so. They are doing the savings bond and it is a complication, I think.
- Eccles: Of course this will limit to the extent that you limit it to the Federal Reserve Banks and branches, it is going to limit for a time, maybe indefinitely, the amount that you are going to sell, the accessibility, the availability, of these securities being a factor. However, until you know how much is likely to be sold through the Federal Reserve Banks, there may be some justification in confining it to that.
- H.M.Jr: You can always open it up.
- Eccles: You can try it and if you feel you are getting a very good distribution, you may want to leave it there.
- H.M.Jr: If we ask the banks to do it, in the first instance they think they are doing us a favor. They say "We are handling the E bonds," and all the rest of that thing, but if they come around and beg us afterward, maybe we will reluctantly give in.

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McKee: Well, experience will tell you that.

H.M.Jr: I think it is all right.

Bell: O.K. Now, can the notes be accepted in payment of estate taxes? Someone suggested that. I think you said this morning you were not in favor of it.

H.M.Jr: I would like to wait.

Bell: We were thinking here just of allowing the estate to buy the securities.

Ransom: Supposing an individual buys them. Can his estate use them for his income taxes the estate would then pay, but not for estate taxes?

Bell: Yes. If a man dies he will owe some income taxes and if he has accumulated these, the estate can turn them in for income taxes.

McKee: Why raise the question? If he can slip by without his wife bringing it up, somebody else will bring it up and say we haven't considered it for the present.

Ransom: The Federal Reserve Bank raised this question. I wouldn't do that.

H.M.Jr: Then we won't bring it up at this time.

Bell: I think the Secretary prefers to have it as a second step.

H.M.Jr: Well, this is hard enough to explain now.

Eccles: Isn't this what - while you are advertising, preparing your advertising, the fewer changes

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you make after you start, the better off you are, because - and if you were going - if you had any prospect of using it for estate taxes, it would seem to me that it would be well to include it at this time because you are doing - if you are doing the educational work and preparing your literature and your publicity, it is going to be largely a case of educating the Federal Reserve Banks as well as the member banks and the corporations and treasurers. That is where the educational work will be done.

White: Just remember this is Federal Reserve Board Day, Marriner.

Eccles: I am not arguing for or against it, merely saying that if you have an idea that it is likely to be shortly --

McKee: Just don't sell us down the river because it is our day. (Laughter)

Eccles: I imagine there will be some difficulty involved in the mechanics of handling it for estate taxes, isn't that right? You don't know when you are going to pay estate taxes.

Bell: No, it is only for the estate - in the liquidation - they have got fifteen months to liquidate. It is only the estate that can buy them and not the individual for the estate.

McKee: But you started out this on a tax anticipation. What kind of tax? Income tax?

Bell: That is right.

McKee: Why don't you stick to it?

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- Bell: That is the simplest thing. That is all I have got.
- H.M.Jr: What we are proposing to do is to announce it tomorrow morning at our regular press conference at 10:30. Dan will explain it and we will get the thing launched and then we want help through the Federal Reserve to get the thing out and circularize it, but I think this is one of the nicest cooperative jobs we have ever done together. The Federal Reserve has been very helpful.
- McKee: I hope it produces results that will be satisfactory to you.
- H.M.Jr: I am easy to satisfy these days. (Laughter)
- Eccles: Well, I am glad you are giving it thirty days, because you have got a chance to do a good job now. You have done a good job up to date and you will have a good chance to finish it.

AGENDA FOR MEETING WITH FEDERAL RESERVE BOARDON TAX ANTICIPATION NOTES

I. Rates

II. Date

III. Limit on Series A

- a. \$1200 in any one tax year
- b. Denominations
- c. \$300 in any one quarter or tax in full with \$1200 or less

IV. Can banks act as agents

- a. By keeping stock like Series E Savings Bonds
- b. By buying blank securities under strict limitation to sell to customers, bank receiving interest up to day of sale.

V. Can notes be accepted in payment of estate taxes (Purchases to be made by estates)

July 2, 1941
9:05 p.m.

HMJr: Hello.

Operator: Go ahead, please.

HMJr: Hello, hello.

Operator: Go ahead, please.

HMJr: Hello.

Operator: Hello, New York. Hello, Mr. Deitz.

Howard
Deitz: Yes.

Operator: And Mr. Callahan.

D: Hello.

Operator: There they are.

HMJr: Hello, hello.

D: Hello, Mr. Morgenthau?

HMJr: Yes. Hello, Mr. Deitz?

D: Yes.

HMJr: We - it was swell. I'm tremendously obliged to you. I think it was a grand program.

D:

HMJr: We all thought....

D: I'm back here - back stage in a great crowd and it's virtually impossible to hear a word.

HMJr: Well, all I want to say is thank you and it's a great success.

D: Well, that's fine. It came over well, did it?

- 2 -

HMJr: Very well.

D: Well, good. Now, I'll be down in Washington tomorrow morning.

HMJr: Yes. I'm tremendously obliged and I'll talk to Callahan a minute.

D: You want to talk to Callahan and I'll be there tomorrow morning at 11.

HMJr: That's right.

D: Hold the wire. Thank you very much.

Callahan: Hello.

HMJr: Hello, Callahan?

G: Yes, Mr. Secretary.

HMJr: You did a swell job, I'm delighted.

G: Well, I'm very happy to hear that.

HMJr: You couldn't have been better.

G: Well, that's grand.

HMJr: My congratulations. Was the audience enthusiastic?

G: I can't hear very well.

HMJr: Never mind, I'll see you tomorrow.

G: I still can't hear.

HMJr: Well, goodbye.

G: Okay, sir. Thank you.

Treasury Department
Division of Monetary Research

Date July 2, 1941.....19

To: Secretary Morgenthau

Frank P. Graham is fifty-five years of age. He was educated at the University of North Carolina and continued graduate studies at Columbia, Chicago, and London. He became an instructor in History at the University of North Carolina in 1915 and President of the University in 1930. He served in the U. S. Marines during the last war.

Mr. Graham has been a leader of liberalism in the Democratic Party in North Carolina for a generation. President Roosevelt has frequently called on him for public service in this administration. He was Vice Chairman of the National Consumers' Advisory Board under the NRA, Chairman of the National Emergency Council, and a member of the National Mediation Board. He is a member of the Committee of Advisers on the Hyde Park Roosevelt Library.

MR. WHITE
Branch 2058 - 2141

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1941

TO Secretary Morgenthau
FROM Mr. Kamarek
Subject: Airplane Deliveries

Summary

A total of 96 planes shipped is reported in the last statement received. 64 were sent to the Middle East (50 Tomahawks and 14 Marylands).

There has been no movement of heavy bombers to England reported now for the last two weeks.

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Division of Monetary
ResearchAirplane Shipments to the British
(From February 1 to June 29 by air
January 11 to June 7 by sea)

Table A. - Shipments by Area

	Latest Week	Total Reported To Date
<u>To the United Kingdom</u>		
Light and medium bombers	31	471
Heavy bombers	0	41
Naval patrol bombers	1	65
Pursuit	<u>0</u>	<u>9</u>
Total to United Kingdom	32	586
<u>To the Middle East</u>		
Light and medium bombers	14	150
Pursuit	<u>50</u>	<u>371</u>
Total to Middle East	64	521
<u>To the Far East</u>		
Light and medium bombers	0	6
Naval patrol bombers	0	9
Pursuit	0	139
Trainers	<u>0</u>	<u>55</u>
Total to Far East	0	209
<u>Totals</u>		
Light and medium bombers	45	627
Heavy bombers	0	41
Naval patrol bombers	1	74
Pursuit	50	519
Trainers	<u>0</u>	<u>55</u>
Grand Total	96	1,316

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Division of Monetary
Research

Table B. - Shipments by Types

	Latest Week	Total Reported To Date
Boeing B-17	0	21
Brewster Buffalo	0	139
Consolidated Catalina	1	74
Liberator	0	20
Curtiss Tomahawk	50	371
Douglas Boston I	0	1
Boston II	0	72
Boston III	18	69
Glenn Martin Maryland	14	150
Grumman Martlett II	0	9
Lockheed Hudson I	0	1
Hudson III	0	57
Hudson IV	0	18
Hudson V	11	235
Electra	0	3
North American Harvard II	0	55
United Chesapeake	<u>2</u>	<u>21</u>
Grand Total - All Types	96	1,316

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Division of Monetary
Research

Table C. - Plane Deliveries to the British by Weeks

Week Ended	Light and Medium Bombers	Heavy Bombers	Naval Patrol Bombers	Pursuit	Trainers	Total
Feb. 8 *	22	-	3	-	-	25
Feb. 15 *	42	-	-	100	-	142
Feb. 22 *	35	-	-	27	-	62
Mar. 1 *	7	-	5	25	-	37
Mar. 8 *	16	-	3	10	-	29
Mar. 15 *	26	1	4	-	-	31
Mar. 22 *	17	-	2	22	-	41
Mar. 29 *	25	-	3	18	-	46
Apr. 5 *	21	-	7	73	-	101
Apr. 12 *	21	2	2	27	-	52
Apr. 19 *	20	3	4	5	-	32
Apr. 26 *	23	2	3	-	28	56
May 3 *	61	1	2	15	27	106
May 10 *	36	1	8	10	-	55
May 17 *	61	13	7	19	-	100
May 25 *	30	10	-	25	-	65
June 1 *	28	5	5	21	-	59
June 8 *	37	2	7	-	-	46
June 15 *	26	1	4	20	-	51
June 22 *	28	-	4	52	-	84
June 29 *	45	-	1	50	-	96
	627	41	74	519	55	1,316

* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending June 29 would report the shipment of planes by water for the week ending June 7.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 2, 1941.

Press Service
No. 26-25

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 1 percent notes of Series W of the Reconstruction Finance Corporation.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows

Federal Reserve District	Total Subscriptions Received from Holders of Series N Notes Ten- dered for Purchase (Allotted in Full)	Total Other Subscriptions Received	Total Other Subscriptions Allotted	Total Subscriptions Allotted
Boston	\$ 8,444,000	\$ 394,556,000	\$ 27,339,000	\$ 36,283,000
New York	148,437,000	2,315,704,000	162,805,000	311,042,000
Philadelphia	4,224,000	297,375,000	21,010,000	25,234,000
Cleveland	8,270,000	342,518,000	24,295,000	32,565,000
Richmond	1,453,000	156,694,000	11,376,000	12,829,000
Atlanta	1,372,000	241,502,000	21,024,000	22,396,000
Chicago	24,330,000	686,377,000	48,794,000	73,124,000
St. Louis	1,405,000	110,921,000	8,584,000	9,989,000
Minneapolis	1,053,000	97,043,000	6,973,000	8,026,000
Kansas City	4,741,000	73,002,000	5,289,000	10,040,000
Dallas	1,199,000	83,971,000	6,249,000	7,448,000
San Francisco	2,386,000	256,027,000	17,999,000	20,385,000
Treasury	2,647,000	9,250,000	648,000	3,295,000
TOTAL	\$209,961,000	\$5,064,950,000	\$362,695,000	\$572,656,000

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE July 2, 1941

TO Secretary Morgenthau
FROM Mr. Klaus

I was informed by telephone today on behalf of FBI that, contrary to the letter of June 23, 1941, copy of which I sent to you on June 26, 1941, FBI will continue to monitor the accounts of unfrozen countries and will therefore not disband its present organization for monitoring accounts. These countries will include Japan and Latin America.

811

FEDERAL RESERVE BANK
OF BOSTONOffice of the
President

July 2, 1941

Mr. John V. Fohle
Assistant to Secretary of the Treasury
Washington, D. C.

Dear Mr. Fohle:

I am sending herewith a letter I received from Mr. Robert D. Brewer, President of the Merchants National Bank of Boston, which will be self-explanatory.

It does seem a bit rough that the officers and men on these British ships that are in Boston for repairs for sometime should be penalized so severely for a little spending money they may want; in fact, I have been informed that some of the British paper currency is sold as low as \$1.65.

I don't know that there is anything in the suggestion made by Mr. Brewer but I am passing the information on to you with the hope that something can be done.

Yours respectfully,

(S) R. A. Young

President.

J
Encchicopy
7-11-41

Alfred L. Ripley, Chairman

Robert S. Brown, President

THE MERCHANTS NATIONAL BANK
of Boston
25 State Street
Boston, Massachusetts

Office of the President

July 1, 1941

Mr. Roy A. Young, President,
Federal Reserve Bank,
Boston, Massachusetts.

Dear Roy:-

There must be rising two thousand sailors and officers from the British Navy and Merchant Marine in Boston at the present time, and some of them will be here for at least two months more. These men are being paid, I believe, in Sterling, and they are cashing their Sterling at various Boston banks at rates -- I am told -- varying from \$2.25 a Pound to \$2.60 a Pound. This is pretty poor pay for boys getting \$20 a month, and turned loose in a country where prices are high.

Probably my suggestion is a wild one, but could there possibly be an arrangement made whereby the whole payroll -- before it is distributed to the boys and to the officers -- could be converted into Dollars at a figure more nearly approaching the value of blocked Sterling? There may be, and probably is, some regulation forbidding this, but I should suppose it might be modified if the matter were brought to the attention of the Treasury Department or whoever makes the rulings with regard to exchange.

Sincerely yours,

(s) RSB

RHS:HVN

ch:copy
7-11-41

OFFICE OF THE ATTORNEY GENERAL

Washington, D. C.

July 2, 1941 ✓

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

My dear Mr. Secretary:

On June 26, 1941 I received from the Chairman of the Maritime Commission a letter dated June 24, 1941 recommending that the German and Italian boats which had been sabotaged should be forfeited pursuant to the Espionage Act of June 15, 1917.

In view of the fact that when this question was up previously the Department of State had certain queries about proceeding by forfeiture, Mr. Shea, the Assistant Attorney General in charge of admiralty matters, called Mr. Sumner Welles. Mr. Welles stated to Mr. Shea that so far as issues of foreign policy were concerned the State Department had no objection at this time to the forfeiture of the sabotaged vessels so long as compensation was paid for vessels in respect of which no sabotage had taken place.

Mr. Shea asked Mr. Welles whether he was right in his understanding that the President had concerned himself with this matter at the earlier time when it was determined to seek the requisitioning legislation. Mr. Welles confirmed that to be the case. Mr. Shea then asked whether Mr. Welles had had any conversations with the President about the matter at this time. Mr. Welles said that he had not but understood from Admiral Land that the President had indicated that he now approved proceeding with forfeiture of the sabotaged vessels.

Following this conversation Mr. Shea took the matter up with me and I sent the President the following telegram on June 26, 1941. The President was at that time at Hyde Park.

"The Maritime Commission has recommended forfeiture instead of requisitioning title to twenty-four German and Italian boats which were sabotaged. The State Department has no objection.

You considered the question at the time it was decided to act for the regulating statute. I would like to know that you are satisfied with the policy involved in proceeding with forfeiture now.⁵

The following day the President had one of his Secretaries call to inform me that he approved going forward with the forfeiture proceedings.

On June 28, 1941 Mr. Egan, on my behalf, addressed a letter to you to the effect that based on certain data referred to in his letter, this Department was of the view that probably some entire for the seizure and forfeiture of certain named vessels set forth in a list attached to that letter.

Under the terms of applicable statutes, before judicial proceedings for forfeiture can be commenced, it is required that there be an executive seizure of the vessels. The Collectors of Customs are the persons authorized to effect such seizure.

It is my view that under the applicable statutes the authority for determining that executive seizure should be made rests in your Department. Of course, we were willing to preview the evidence for you, and we have advised you that in our opinion probably cause for seizure and forfeiture does exist in respect of the named vessels.

I am ready to proceed at once with the forfeiture proceedings as soon as the executive seizures are effected and the required transmittal of information from the Collectors of Customs to the United States Attorney is made.

I am writing you this letter so that your files may be complete. Also, in view of the fact of the President's reply to my telegram, I am anxious to proceed at once to discharge such responsibilities as rest on this Department.

For your further information there is enclosed herewith a copy of my letter of today's date addressed to the Secretary of State. Similarly, I am transmitting to the Secretary of State a copy of this letter.

Sincerely yours,

(Signed) Robert H. Jackson
Attorney General

P
Y

July 2, 1941

The Honorable
The Secretary of State

My dear Mr. Secretary:

On June 26, 1941, we received from the Chairman of the Maritime Commission a letter recommending that the Italian and German boats upon which sabotage had occurred should be forfeited pursuant to the Espionage Act of June 15, 1917.

In view of the fact that when this question was up previously the Department of State had certain queries about proceeding by forfeiture, Mr. Shea, the Assistant Attorney General in charge of admiralty matters, called Mr. Sumner Welles. Mr. Welles stated to Mr. Shea that so far as issues of foreign policy were concerned the State Department had no objection at this time to the forfeiture of the sabotaged vessels so long as compensation was paid for vessels in respect of which no sabotage had taken place.

Mr. Shea asked Mr. Welles whether he was right in his understanding that the President had concerned himself with this matter at the earlier time when it was determined to seek the requisitioning legislation. Mr. Welles confirmed that to be the case. Mr. Shea then asked whether Mr. Welles had had any conversations with the President about the matter at this time. Mr. Welles said that he had not but understood from Admiral Land that the President had indicated that he now approved proceeding with forfeiture of the sabotaged vessels.

Following this conversation Mr. Shea took the matter up with me and I sent the President the following telegram on June 26, 1941. The President was at that time at Hyde Park.

"THE MARITIME COMMISSION HAS RECOMMENDED FORFEITURE INSTEAD OF REQUISITIONING TITLE TO TWENTY-FOUR GERMAN AND ITALIAN BOATS WHICH WERE SABOTAGED. THE STATE

DEPARTMENT HAS NO OBJECTION. YOU CONSIDERED THE QUESTION AT THE TIME IT WAS DECIDED TO ASK FOR THE REQUISITIONING STATUTE. I WOULD LIKE TO KNOW THAT YOU ARE SATISFIED WITH THE POLICY INVOLVED IN PROCEEDING WITH FORFEITURE NOW."

The following day the President had one of his Secretaries call to inform me that he approved going forward with the forfeiture proceedings.

Under the applicable statutes forfeiture proceedings are commenced by an executive seizure which is carried out by the Collectors of Customs. The Collectors of Customs are authorized by statute to make a seizure where evidence of sabotage comes to their attention. They then refer the matter to this Department for judicial proceedings. Those proceedings are commenced by the filing of a libel. We stand ready to initiate the judicial proceedings as soon as the necessary executive seizures are accomplished and the required information transmitted by the Collectors of Customs to the United States Attorneys.

I understand that in view of the fact that foreign policy issues were considered involved at an earlier date the Treasury Department, before causing the executive seizure to be made, desires a letter from the Secretary of State to the effect that insofar as foreign policy issues are involved the Secretary of State has no objection to proceeding with forfeiture of the sabotaged vessels.

I am setting forth the foregoing matters so that your files may be complete. Also, in view of the President's response to my telegram I am anxious to proceed with the forfeiture program insofar as this Department is responsible.

You will note that in my telegram to the President I represented that the Department of State had no objection. I assume that the President's willingness to proceed took that statement into consideration. If further thought about the matter in your Department has developed any objection, I should feel of course that the problem ought again to be reviewed with the President before proceeding with the forfeiture program.

For your further information, there is enclosed herewith a copy of my letter of today's date addressed to the Secretary of

- 2 -

the Treasury. Similarly, I am transmitting to the Secretary of the Treasury a copy of this letter.

Sincerely yours,

Attorney General.

JUL 2 1941

My dear Mr. Attorney General:

Receipt is acknowledged of a letter signed by Assistant Attorney General Shea, dated June 28, 1941, with respect to the forfeiture, under the Espionage Act of June 15, 1917, of certain listed foreign flag vessels.

The Department of the Treasury has advised the Department of State that it will take no action towards the seizure of such vessels without prior advice from the Department of State or the President that the seizure and forfeiture of such vessels does not contravene the foreign policy of the United States; nor, in the present circumstances, will this Department take such action without a request to do so from proper authority.

Very truly yours,

(Signed) E. H. Morgenthau, Sr.

Secretary of the Treasury.

The Honorable,

The Attorney General.

DEPARTMENT OF JUSTICE

Washington, D. C.

June 28, 1941. ✓

The Honorable

The Secretary of the Treasury.

Sir:

This Department is in receipt of a recommendation from the Maritime Commission that certain named vessels, the list of which is attached hereto, be forfeited under the Espionage Act of June 15, 1917. This Department is in possession of considerable evidence with respect to the alleged acts of sabotage committed thereon, consisting in part of information furnished by the Coast Guard. Based on the recommendation of the Maritime Commission and the investigations which have taken place, including the information furnished by the Coast Guard, it is our view that probable cause exists for seizure and forfeiture of these vessels.

In this connection, however, I call your attention to Section 603 of the Tariff Act of 1930, which provides as follows:

It shall be the duty of the collector whenever a seizure of merchandise has been made for a violation of the customs laws to report the same to the Solicitor of the Treasury, and promptly also to report any such seizure or violation of the customs laws to the United States attorney for the district in which such violation has occurred, or in which such seizure was made, including in such report a statement of all the facts and circumstances of the case within his knowledge, with the names of the witnesses, and citation of the statute or statutes believed to have been violated, and on which reliance may be had for forfeiture or conviction.

Respectfully,

For the Attorney General,

(Signed) Francis M. Shea

Francis M. Shea
Assistant Attorney General.

<u>Yessel</u>	<u>Location</u>
PAULINE FRIEDRICH	Boston
ADA O	New Orleans
ANTONETTA	Chester, Pennsylvania
BEVERDEEN	Chester, Pennsylvania
BURO	Baltimore
GULAN	Newport News
GUIDONIA	Newport News
IDA E.O.	Mobile
IACONIA	Newport News
LENN	Portland Oregon
MAR CLAUO	Chester, Pennsylvania
MONFICRE	New Orleans
MONSIGIA	Galveston
PINETRO CAMPANELLA	Baltimore
SAN GIUSEPPE	Norfolk
SAN LEONARDO	New York
SANTA ROSA	Philadelphia
VILLANPEROSA	New York
VITTORIN	Norfolk

JUL 2 1941

My dear Mr. Secretary:

Receipt is acknowledged of the letter dated June 30, 1941, signed by Acting Secretary of State Sumner Welles, relating to the attitude of the Department of State with respect to foreign flag vessels which have been lying idle in American ports.

The Department of the Treasury will take no action towards the seizure, under the Espionage Act of June 15, 1917, of sabotaged foreign flag vessels which have been lying idle in American ports without prior advice from the Department of State or the President that the seizure and forfeiture of such vessels does not contravene the foreign policy of the United States.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of State.

COPY

DEPARTMENT OF STATE

Washington

June 30, 1941. ✓

My dear Mr. Secretary:

I have been requested by Mr. Cairns, Assistant General Counsel of the Treasury Department, to express to you the attitude of the Department of State about certain foreign flag vessels which have been lying idle in American ports.

The Department of State is advised by the Department of Justice that under the laws of the United States the commission of sabotage on a vessel within our jurisdiction subjects the perpetrators to criminal prosecution and the vessel to forfeiture to the United States. The Department of State recognized that the laws of the United States are controlling and authority exists in law for forfeiture of foreign flag vessels which have been lying idle in our ports and which have been sabotaged.

The Department of State understands that it is
this

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

this Government's policy that foreign flag vessels lying idle in our ports, which have not been sabotaged and concerning which no criminal charge exists, will only be taken by the Government of the United States under recent legislative authority upon the payment of just compensation.

Sincerely yours,

(Signed) Sumner Welles

Acting Secretary.

JUL 2 1941

My dear Mr. Ambassador:

Reference is made to your letter of June 17, 1941, relative to final settlement for the Spanish silver purchased by the United States Government in 1938.

I wish to assure you again that the melting of such silver is moving forward as promptly as the available facilities at the Assay Office in New York permit. As stated in our previous letters, you will be advised as soon as the various charges (including those for attorneys' fees and other litigation expenses) have been determined.

Very truly yours,

(Signed) H. Morgenthau, ~~573~~

Secretary of the Treasury.

His Excellency
Juan F. de Cardenas,
Ambassador of Spain.

FH/ma
6/27/41

File to Mr. Thompson

By Messenger

July 2, 1941

My dear Senator Byrnes:

Now that the President has signed the bill to extend the stabilization fund and the dollar devaluation powers, I want you to know that I am deeply appreciative of the part that you played in its enactment.

Please accept my sincere thanks.

Yours sincerely

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Honorable James P. Byrnes
United States Senate

KHFJr/LJB/fm
Typed 7/2/41

File to Mr. Thompson

By Messenger

July 2, 1941

My dear Senator Glass:

Please accept my sincere thanks for all you did both in Committee and on the Floor to secure the continuation of the stabilization fund and the dollar devaluation powers before they expired on June 30.

Without your personal support and skillful handling of the legislation I am convinced that it could not have been passed.

As always, I am deeply grateful for what you have done.

Yours sincerely,

(Signed) H. Hergenthan, 663

~~Secretary~~ of the Treasury.

Honorable Carter Glass,

United States Senate.

By Messenger

JUL 2 1941

My dear Mr. Ickes:

Thank you for your letter of June 30, 1941, with reference to the President's suggestion that from time to time you call together the heads of the various departments and agencies, or their representatives, as a committee to discuss some of your problems as Petroleum Coordinator for National Defense and to develop ways of effectuating the highest degree of coordination between them in the furtherance of the policy outlined in his letter to you of May 28, 1941.

This will advise you that I have designated J. J. O'Connell, Jr., Special Assistant to the General Counsel for this Department, to represent me on such a committee. He will be available for the meeting indicated in your letter as scheduled for Thursday next at 10:00 a.m., as well as for any subsequent meeting.

2.

Mr. O'Connell (who, incidentally, was one of Mr. Foley's assistants when he headed your P.W.A. legal division), was this Department's representative on the Temporary National Economic (Monopoly) Committee, and is presently acting as my alternate on the Price Administration Committee which meets weekly with Mr. Henderson and which has, as I view it, a somewhat similar function to the one to which your letter refers. I feel sure that Mr. O'Connell's experience, and particularly his present assignment working with Leon's organization, make him a logical choice to represent this Department on your committee.

Sincerely yours,
(Signed) E. Morgenthau, Sr.

Secretary of the Treasury

Hon. Harold L. Ickes, Coordinator,
Office of Petroleum Coordinator
For National Defense.

By Messenger
FILE TO MR. FOLEY

JJO'C:ljh:7-1-41

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UNITED STATES
DEPARTMENT OF THE INTERIOR
Office of Petroleum Coordinator
FOR NATIONAL DEFENSE
WASHINGTON

June 30, 1941.

My dear Mr. Secretary:

I invite your attention to the letter under date of May 28, 1941, from President Roosevelt to me, a copy of which was forwarded to you. In this letter designating me as Petroleum Coordinator for National Defense, the President proposed a procedure for assuring the coordination of all governmental activities relating to petroleum, as follows:

"It is suggested that from time to time you call together all or any of the heads of such departments and agencies, or their representatives, as a Committee to discuss such problems as may arise and to develop ways and means of effectuating the highest degree of coordination of Federal functions for the furtherance of the policy herein outlined. The heads of the departments and agencies concerned are being informed of this suggestion and of the contents of this letter, and I am sure you will find them ready to cooperate fully in rendering the assistance requested herein or otherwise needed to assure success of the program."

In compliance with the President's request, I would appreciate your attendance at a committee meeting which I will hold in my conference room (5160 Interior Building) at 10:00 A. M., Thursday, July 3, 1941.

Sincerely yours,

/s/ Harold L. Ickes

Petroleum Coordinator for National Defense

Hon. Henry Morgenthau, Jr.

Secretary of the Treasury.

NOT FOR PUBLICATION

15531

STATEMENT OF TELEGRAM MESSAGE

FROM: AMEMBASSY, CHUNGKING
TO: Secretary of State, Washington
DATED: July 2, 8 p.m.
NO. 1 287

211

SECTION FOUR. (Economic) Deterioration continued in the economic situation of that portion of China which is unoccupied. A rise, though at a slower rate than in May, took place in commodity prices and wages. The four Government banks made additional loans totaling \$100,000,000 Chinese currency to industrial enterprises so that production might be augmented and the shortage of essential manufactured commodities alleviated. A slight increase in industrial production took place. The anxiety which had been felt concerning the prospects for the Szechuan rice crop was dispelled by heavy and widespread rainfall during the latter part of June. Hunan shipped small quantities of rice to Szechuan. The organization of the Ministry of Food was completed. Economically, the highlight of the month was the Third Financial Conference which more than 400 central and provincial financial officials attended. There were adopted at this conference far reaching measures aimed at the overhauling and unification of the fiscal system. The most important of these measures are: (1) Control of provincial finances shall be assumed by the National Government; (2) the land tax shall be collected in kind; (3) a reorganization of the entire tax structure shall be made aiming at an improvement in the budget situation and the augmentation of revenues.

SECTION FIVE

YUNNAN FIN. (Kunming) Conversations with Chinese officials and bankers as well as several conferences with the Chinese members on the Currency Stabilization Committee were held by the American member who recently arrived in Chungking. Pending the actual organization of the committee he left on June 12 for Shanghai for the purpose of making a brief study of conditions. The committee will start functioning in July, it is believed. Present plans, which are going forward steadily for the construction of the Yunnan-Szechwan railway, contemplate that by the end of 1942 the line to Kailangyan will be completed and six months later to Yunnanfu. Effective July 1, the supervision of all highways will be entrusted to the Transport Control Board of the Military Affairs Commission, being transferred from the Ministry of Communication.

GAUSS

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

25 JUL 44 PM 2 28

RECEIVED
TECHNICAL ASSISTANT

TELEGRAM SENT

213

GMW

GHAY

July 2, 1941

AMERICAN EMBASSY,

ROME.

468.

~~_____~~ *sent July 1*
Supplementing Department's 458, June 30, Italian Embassy has been advised that Italian consular officers in the United States who experience difficulty in selling their furniture and automobiles should make application to Federal Reserve Bank of the district in which they reside for licenses to sell such property and receive the proceeds in the bank accounts of such officers. Pertinent instructions to this effect have been issued by the Treasury Department to all Federal Reserve Banks.

You are instructed to bring the contents of this and the Department's 458 to the attention of the Ministry for Foreign Affairs and make it clear that this is the treatment at present being accorded Italian consular officers and employees to facilitate their departure from this country. Since this procedure is conditioned by reciprocal treatment being accorded to American consular officers and employees in Italy, you should keep Department informed if equal facilities are not granted immediately to American officials in Italy.

125.0065/217
Eu:JWJ:RIC

WELLES, Acting
(DA)

MP

PLAIN

Berlin

C

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P

Y

Dated July 2, 1941

Rec'd. 3:18 p.m.

Secretary of State,

Washington.

2643, July 2, 11 a.m.

Embassy's 2588, June 27, 2 p.m.

The Minister of Economic Affairs promulgated in the DEUTSCHER REICHSANZEIGER of July 1st, the second order relating to the blocking of American property in the German Reich, dated June 28 on the grounds that property of organizations and companies having German participation in the United States has been blocked. Article One provides in translation that "companies, associations and corporations in Germany which are to the extent of twenty-five per cent or more directly or indirectly under the influence of natural persons or legal entities having either the citizenship of the United States of America or their residence seat or usual place of abode in the United States of America may not exercise disposition of their property except, with a permit from the Foreign Exchange Control offices."

Article Two requires such companies etcetera to furnish the Foreign Exchange Control authorities not later than July 4 with full details concerning their executives, Board of Directors etcetera as well as the amount and nature of the American participation.

Full text follows by air mail.

MORRIS

ALC

Copy:bj:7-3-41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current Developments in the High-grade Security Markets; Some Aspects of the Canadian War Effort

SUMMARY

- (1) During the past two weeks, prices of Treasury bonds have risen on balance, while prices of Treasury notes have shown little change. On June 26, long-term bonds closed above their previous record high prices established at the end of 1940, but they have since fallen back slightly (Chart I).
- (2) Rights to the new RFG note opened on the offering day at 100-24/32 bid. The new note closed last night at 100-21/32 bid. It appears that the market is pricing the new issue on the basis of a comparison with short-term Treasury notes only and that there is a definite discontinuity between the long-term market and the short-term market, but this is not without precedent (Chart III).
- (3) High-grade corporate and municipal bonds have advanced moderately in price since June 16 (Charts II and IV). New bond offerings in the New York market during June were slightly above \$160 millions.
- (4) The Canadian war economy appears to be approaching a point beyond which large increases in war production will not be possible without restriction of civilian consumption (Chart V). The curtailment of consumption would release skilled labor and other productive resources for the war effort. Bank deposits have advanced (Chart VI). Wholesale prices and the cost of living have also risen (Chart VII). The Canadian people face a choice between a planned restriction of consumption and an unplanned restriction imposed by accelerated price increases.

Secretary Morgenthau - 2

I. United States Government Securities

During the past two weeks prices of Treasury bonds have risen, on balance, while the prices of Treasury notes have remained virtually unchanged. A rather sustained rise in prices of bonds between June 15 and June 26 pushed the average price of bonds with 15 years or more to their earliest call date above their previous record high which was established at the end of 1940, but it has since fallen slightly below the former high (Chart I).^{*} Intermediate bonds still lack about 3/4 of a point of recovering the price loss sustained during the early weeks of this year.

Such price changes since June 16 are shown by maturity classes and by tax-exemption status in the following table:

Average price change June 16 - July 1		
Taxable issues	Tax-exempt issues	All issues
(In thirty-seconds)		

Secretary Morgenthau - 3

II. The RFC Financing

The subscription rights to the new 1 percent RFC note due April 15, 1944, opened on June 24, the offering day, at 100-24/32 bid. During the day, the quotation rose slightly above this level, but at the close was the same as it had been at the opening. The new issue closed yesterday at 100-21/32 bid.

Chart III shows the yields of the three outstanding taxable RFC notes and the yields of taxable direct Treasury issues due or callable before 1950. Our pricing of the new RFC issue was based primarily upon the dotted curves. The curve for the yields of direct issues connects the two shorter taxable notes with the 2 percent taxable bond of 1948-50 and treats the December 1945 note as though it were out of line. The dotted curve for guaranteed issues was projected from the 1-1/8 percent RFC note, issued in April, parallel to the dotted curve for direct obligations. On the basis of this curve, an April 15, 1944 guaranteed issue would sell at a premium of about 13/32.

Actually, as indicated above, the new issue is selling at a premium of about 21/32, at which premium it yields about 0.76 percent. A curve drawn to the yields of the three taxable guaranteed issues (the solid curve) suggests that the market is actually pricing the new issue on the basis of a comparison with Treasury notes only and is treating the September 1944 note (rather than the December 1945 note) as though it were out of line. In this case, there is a definite discontinuity between the short and long markets -- but this is by no means without precedent.

III. Other Domestic High-grade Securities

High-grade corporate bonds advanced moderately in price between June 16 and July 1 (Chart II). Municipals also gained (Chart IV).

New bond offerings in the New York market aggregated \$103 millions in the last two full weeks of June. Last week's \$83 millions was the third highest amount offered in a single week so far this year. Total offerings for the month of June were over \$160 millions. Of particular

Secretary Morgenthau - 4

interest among last week's offerings were \$15 millions of State of New York serial bonds and \$60 millions of bonds and notes of the Philadelphia Company.

The New York State issue consisted of 1-1/4's maturing serially in 1 to 25 years. They were offered at prices to yield from 0.15 percent for the shortest to about 1.30 percent for the longest maturities. It is worthy of note that interest rates on comparable New York State loans have steadily decreased during the past 2-1/2 years. For example, a 1-1/2 percent issue of exactly the same size, term, and security was sold 11 months ago at prices to yield 0.15 to 1.65 percent.

The first successful public utility offering under the recent competitive bidding rule of the SEC occurred last week. It consisted of \$48 millions of 4-1/4 percent, 20-year collateral trust bonds and \$12 millions of 2-5/8 percent, 1- to 10-year serial notes of the Philadelphia Company. The bonds were awarded to a syndicate headed by Kuhn Loeb and Company and were reoffered at 102-1/2 to yield about 4.07 percent. The notes were awarded to a syndicate headed by Mellon Securities Corporation and were reoffered at prices to yield from 0.80 to 3.35 percent. Both issues are rated Baa by Moody's Investors Service. The securities were well received, and the bonds went to a premium of about 1 point over their offering price.

IV. Some Aspects of the Canadian War Effort

The Canadian war economy appears to be approaching a point beyond which large increases in war production will not be possible without restriction of civilian consumption, the curtailment of which would release skilled labor and other productive resources for the war effort. The prospective shortage of skilled labor may be alleviated somewhat by a program to train unskilled workers for the mechanical trades, and the total supply of labor may be increased by drawing upon persons not ordinarily employed. But these measures are not expected to obviate the war need for men and materials now devoted to civilian production.

Secretary Morgenthau - 5

The conflict between the two indices of Canadian industrial activity shown in Chart V is difficult to reconcile. The index published by the Dominion Bureau of Statistics apparently does not reflect adequately the growth of defense industry. The decline of 6 percent registered by this index during the seven months from September 1940 to April 1941 cannot, therefore, be taken to mean necessarily either that the defense program bogged down in that period, or that the war economy was already operating at its practical capacity at the beginning of the period. The Canadian Bank of Commerce index, on the other hand, which has displayed great sensitivity to recent industrial expansion -- having gained 17 percent during the same seven months -- may err somewhat in the direction of hypersensitivity to war industry.

Along with the expansion in the Government's war expenditures, the volume of media of payment increased rapidly during the seven months ending April 1941. Deposits of Canadian chartered banks have reached record highs during the early months of this year, standing in April 21 percent above June 1939 (Chart VI). (In the same month, deposits of member banks in the United States were 26 percent greater than in June 1939.)

Prices also continued to rise in Canada during the period under review. Canadian wholesale prices stood in April 1941 at 118 percent of June 1939, having gained 4 percent from September 1940 to April 1941 (Chart VII). The United States index of wholesale prices advanced 7 percent in the seven-months' period, but stood only 10 percent above June 1939. The disparity between the levels of the two indices expressed in terms of June 1939 can be explained wholly or in part by the effect that the depreciation of the Canadian dollar in terms of the United States dollar had upon prices of Canadian imports from this country. Increases in the cost of living were nominal in both countries.

If, as appears likely, the curtailment of civilian consumption in Canada in the interests of maximum war production is imminent, then the Canadian people face a choice between a planned restriction of consumption and an unplanned restriction of consumption imposed by the harsh impact of accelerated price rises.

An attempt has already been made to proceed by the planned method. Authority for the control of prices and the rationing of goods exists, and the power to control prices

Secretary Morgenthau - 6

has been exercised moderately. A program to divert purchasing power from consumers into the hands of the State through borrowing and heavy taxation has also made considerable progress.

The magnitude of the government program of borrowing from the public is indicated by the amount of \$807 millions -- \$207 millions more than the stated goal -- raised during last month's Victory War Loan campaign. The amount raised in this loan is equivalent, on a per capita basis, to nearly \$10 billions in the United States.

More important in this connection, perhaps, is the Canadian small savings program, aimed at diverting purchasing power from the hands of numerous persons with small incomes. Up to the end of May 1941, more than \$60 millions had been raised through the sale of War Savings Certificates and Stamps. This would amount, on a per capita basis to more than \$700 millions in the United States. In view of the annual limit of \$480 at issue price placed upon the sale of these instruments to one buyer, the success of the small savings campaign is both impressive and significant.

Attachments

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from December 28, 1940 Price of Each Maturity Class

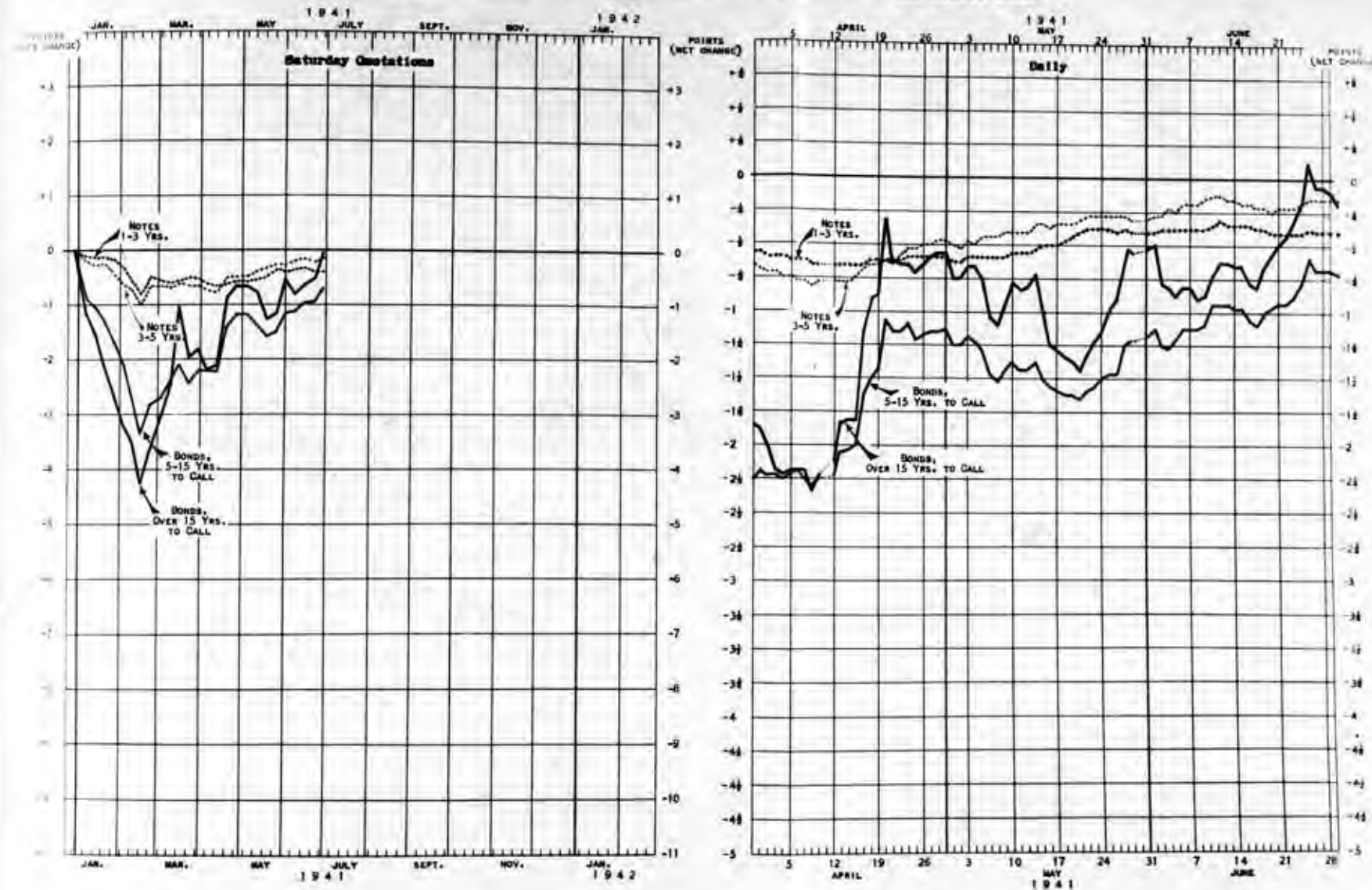
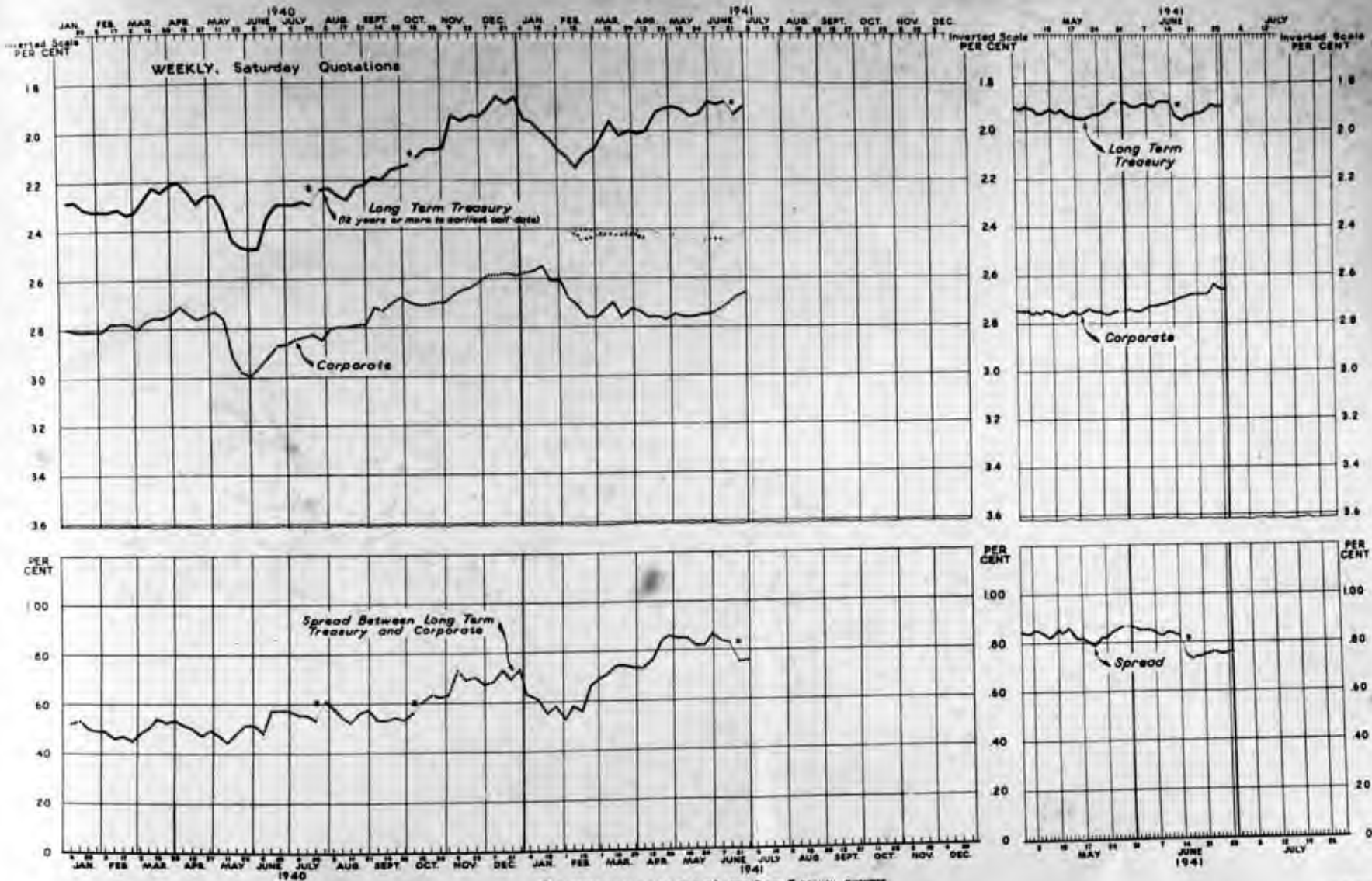


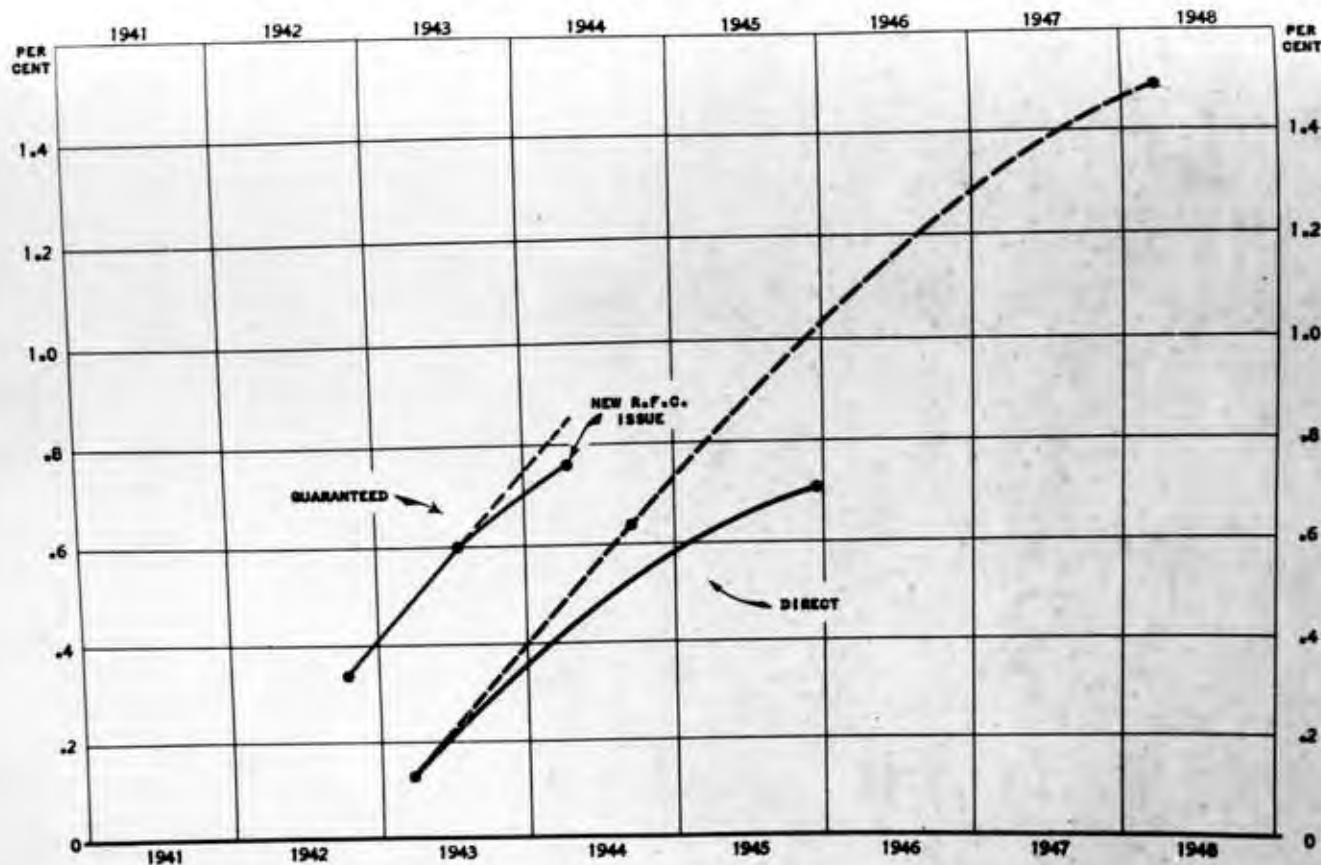
Chart II

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



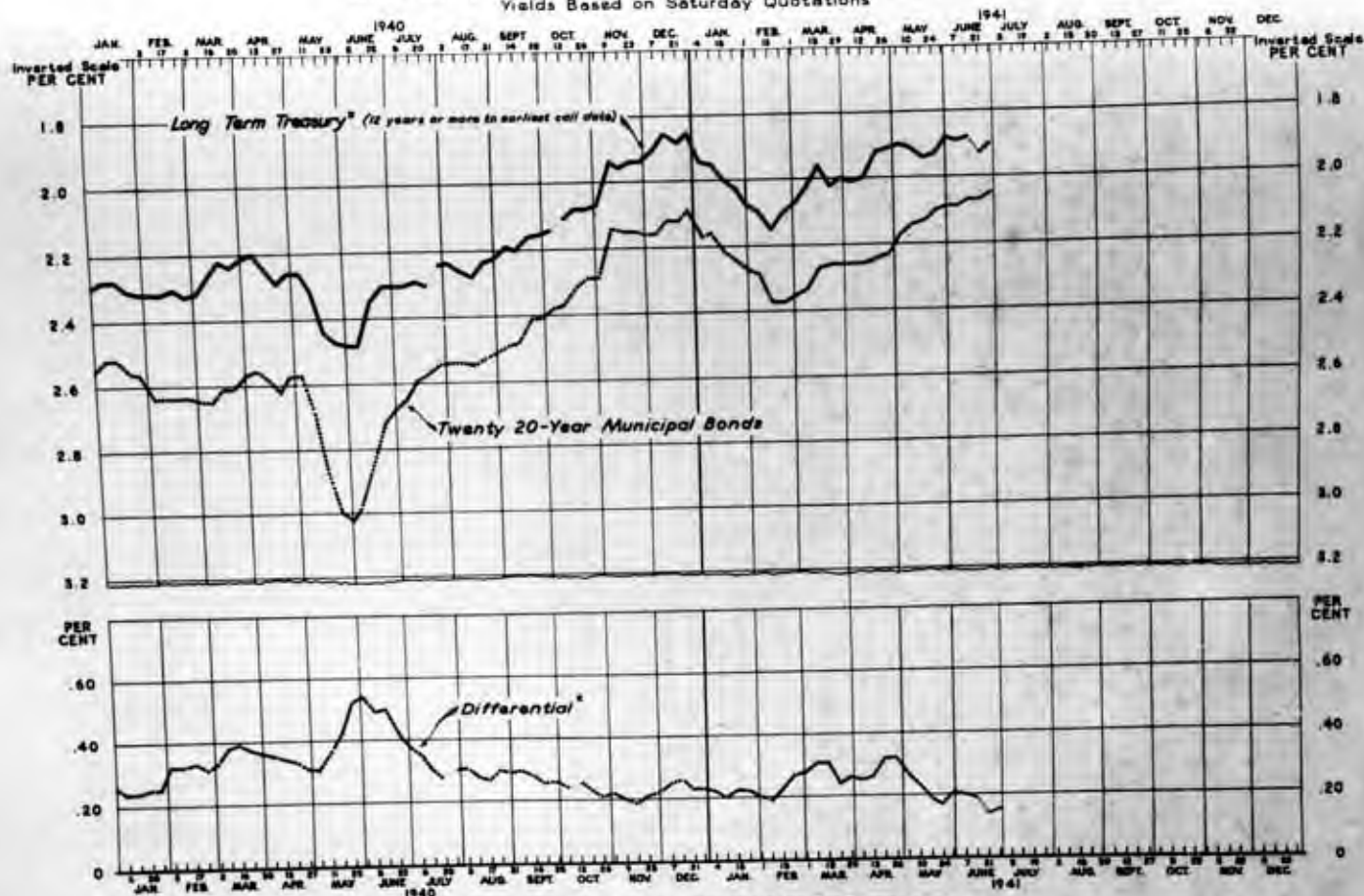
YIELDS OF TAXABLE DIRECT AND GUARANTEED ISSUES
MATURING OR CALLABLE BEFORE 1950

Based on Closing Bids, July 1, 1941



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations



*Break in line indicates change in composition of Long Term Treasury average.

Chart V

INDUSTRIAL PRODUCTION IN CANADA AND THE UNITED STATES

JUNE 1939 = 100

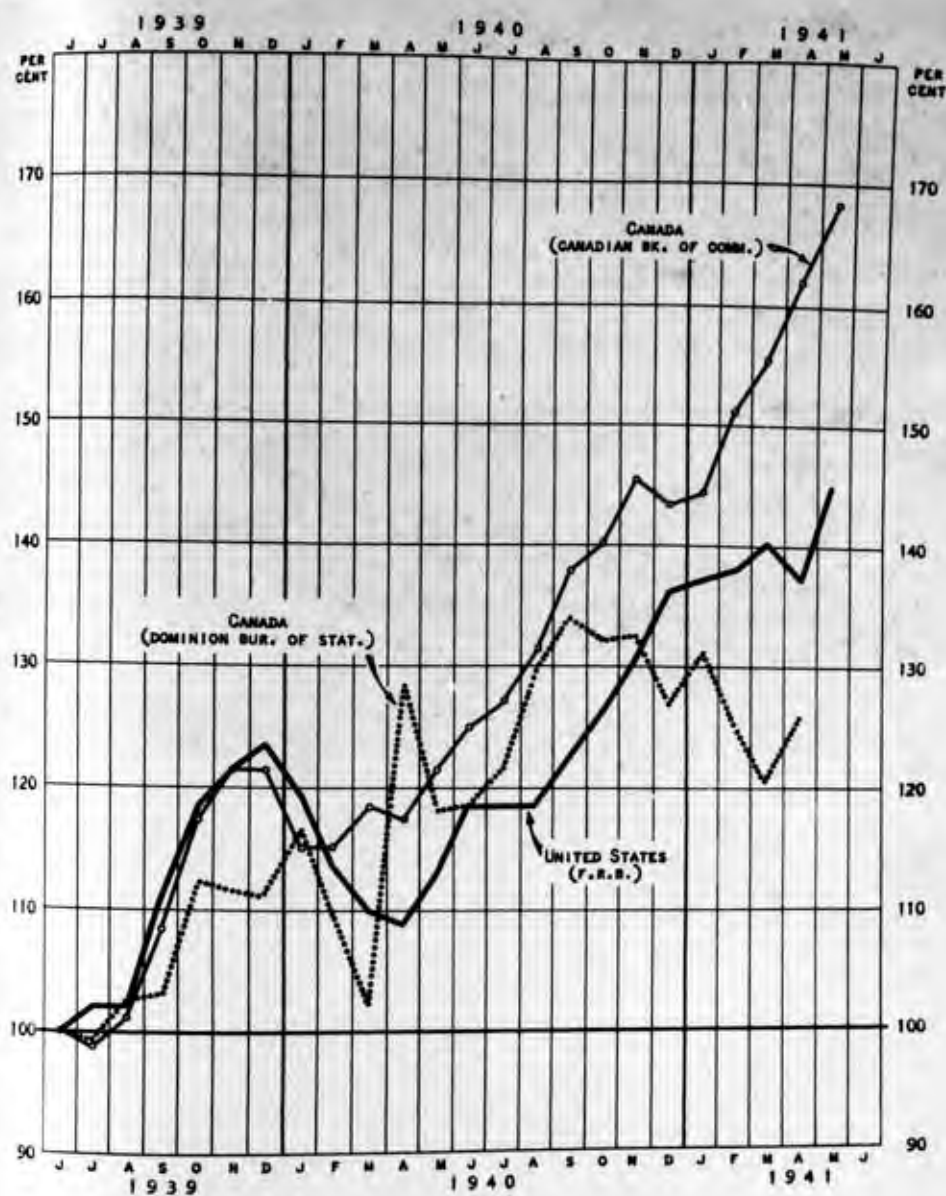


Chart VI

**TOTAL DEPOSITS IN CANADIAN CHARTERED BANKS
AND MEMBER BANKS IN THE UNITED STATES**

JUNE 1939 = 100

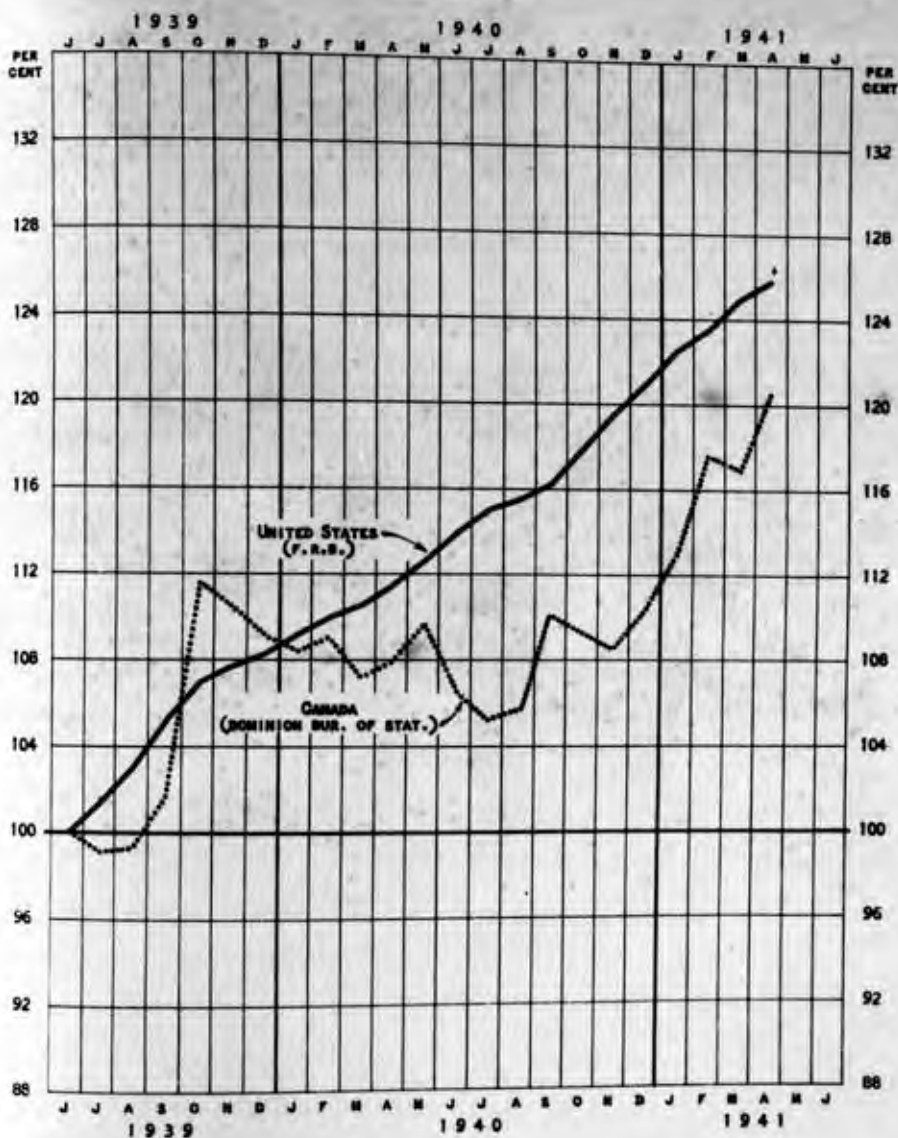
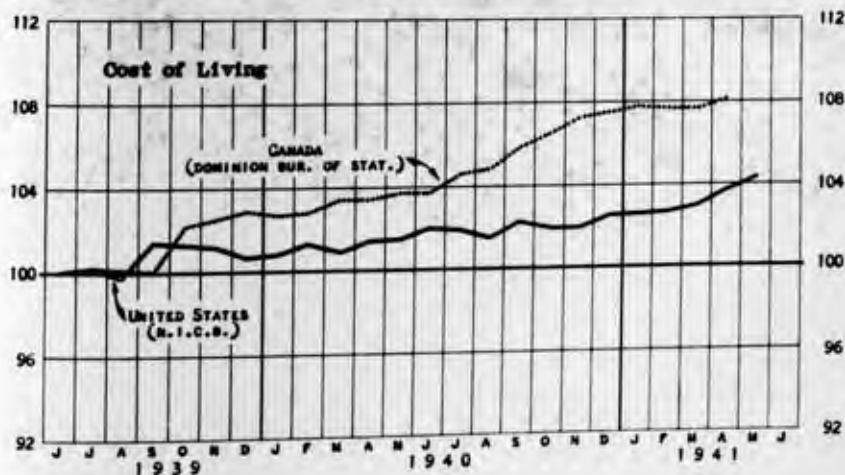
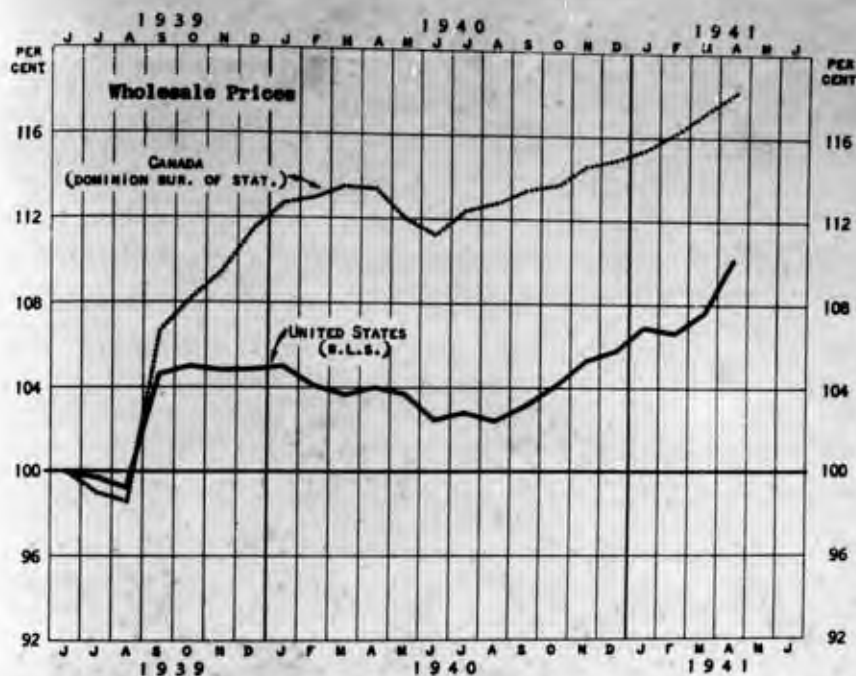


Chart VII

WHOLESALE PRICES AND COST OF LIVING IN CANADA AND THE UNITED STATES

JUNE 1939 = 100



For Miss Channing

TREASURY DEPARTMENT

228

INTER-OFFICE COMMUNICATION

DATE July 2, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£80,000
Purchased from commercial concerns	£ 7,000

Open market sterling was quoted at 4.03-1/2, and there were no reported transactions.

The Uruguayan free peso opened at .4425 this morning and remained at that rate throughout the day. Yesterday's closing rate was .4405.

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

Canadian dollar	11-5/8% discount
Argentine peso (free)	.2375
Brasilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	1-1/16% discount
Japanese yen	.2358

There was a holiday in Shanghai today, and no quotations were received from that center.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-3/8d, equivalent to 42.44¢.

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 four purchases of silver totaling 425,000 ounces, all of which were bought for forward delivery. Of this amount, 225,000 ounces represented new production from Honduras, and 200,000 ounces consisted of new production from Peru.



July 2, 1941.

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during June, 1941.

RB

Attachment.

Monthly Report on Projects in the
Division of Tax Research,
June, 1941.

I. New Projects.

1. Revenue Revision 1941.

- (a) Data and exhibits requested by members of the Ways and Means Committee in connection with the Hearings and executive sessions, were prepared. (Staff members)
- (b) A memorandum was prepared discussing the basis of the definition for new capital under the excess profits tax. (Mr. Campbell)*
- (c) A comparison of individual income taxes under present law and under the proposal adopted by the Committee on Ways and Means was prepared. (Mr. Zorach)
- (d) A comparison of individual income taxes under present United States law, Joint Committee, Treasury and Eccles' proposals, the 1918 Act,

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

and the laws of Canada and Great Britain was prepared. (Staff members)

- (e) Proposed estate tax schedules, together with tax burden tables, were compiled. (Mr. Mills)
- (f) Brief memoranda pertaining to various excise taxes were prepared for use in connection with the executive sessions of the Ways and Means Committee.
(Mr. Ecker-Racz and Mr. Farioletti)

2. Taxation of Interest on Savings Bonds.

An analysis of the problems involved in the taxation of interest on savings bonds sold at discount (series E and F) was completed. (Mr. Atlas)

3. Taxation of Husbands and Wives.

- (a) Statistical data for 1936 pertaining to husbands and wives were compiled showing percent of combined net income reported by (a) wife and (b) by one of the two spouses whether husband or wife. (Miss Coyle)
- (b) An historical statement summarizing the public expressions of the Treasury's official position respecting proposals advanced in Congress concerning the compulsory

filing of joint returns and the taxation of community income was prepared. (Mr. Mills)

- (c) A summary of the treatment of joint and separate returns under State income tax laws was completed.

(Miss Wells)

- (d) Tables were compiled comparing tax liability of individuals filing separate and joint returns under various proposals. (Mr. Atlas)

4. Insurance Companies.

- (a) Lists of suggestions with respect to the taxation of (1) life insurance companies and (2) mutual insurance companies, other than life, were prepared.

(Mr. Ecker-Racz and Mr. Mills)

- (b) A bibliography with respect to the taxation of insurance companies was prepared. (Mr. Mannen)

5. Excess Profits.

- (a) Tables showing the distribution of corporation income tax returns by rate of return on equity capital, total assets classes and industrial groups were compiled. The data were

derived from tabulations prepared by the Philadelphia Income Tax Study. (Mr. Anderson)

- (b) The proposal of Mr. Lucien W. Shaw regarding the unlimited inclusion of advance payments on Government contracts in borrowed capital for excess profits tax purposes was analyzed. (Mr. Campbell)

6. Excise Taxes.

- (a) Tax on Non-Beverage Alcohol.

An analysis of the Kefauver Bill to reduce the tax on non-beverage alcohol was prepared. (Mr. Campbell)

- (b) Tobacco Products.

Information respecting the cost of producing tobacco products was compiled. (Mr. Farioletti)

- (c) Excise Taxes in Defense Period.

A memorandum analyzing the role of excise taxes in the defense period as a means of consumption control and as a means of precluding wind-fall profits was prepared. A list of 26 commodities competing with defense products and upon which excise

taxes might be placed or increased was also analyzed. (Mr. Farioletti)

- (d) Tables showing tax rates on selected excises imposed by the various States were prepared. (Miss Wells)

7. Special Senate Committee on an Automatically Balanced Budget.

A draft of an answer to a letter from Senator Tydings containing a list of questions based on the findings of the Special Committee on an Automatically Balanced Budget was prepared. (Mr. Shere)

8. Dismissal Compensation.

A brief memorandum analyzing the proposal for dismissal compensation was completed. (Mr. Ecker-Racz)

9. Social Security Legislative Program.

A memorandum concerning the 1941 Legislative Program of the Social Security Board was prepared. (Mr. Ecker-Racz)

II. Continuing Projects.

1. Collection at Source.

A memorandum analyzing the problems involved in the collection of the individual income tax at source is in final stages of preparation. (Mr. Atlas)

2. Capital Gains and Losses.

An analysis of the tax treatment of capital gains and losses of individuals and fiduciaries since 1938 in relation to the tax treatment of other sources of income is in final stages of preparation. (Miss Coyle)

3. Income of Husbands and Wives.

A report upon the proposal to combine the income of husbands and wives for income tax purposes is in process. (Miss Coyle)

4. Amortization.

A memorandum analyzing statistical information relative to amortization under the Second Revenue Act of 1940 is in final stages of preparation. (Mr. Anderson)

5. Sales Taxation.

- (a) A memorandum analyzing the proposal to impose a tax on value added is in final stages of preparation. (Mr. Farioletti and Mr. Copeland)
- (b) A memorandum analyzing the advantages and disadvantages of a retail sales tax as opposed to a manufacturer's or a wholesaler's sales tax, is in process.

The problems which have arisen in the administration of State retail sales taxes are also being studied. (Mr. Farioletti, Miss Wells and Mr. Copeland)

6. Excise Taxes.

A summary of the Treasury's excise tax proposals, substitute proposals presented by industries affected and the Treasury's reaction to substitute proposals is in process. (Mr. Farioletti and Mr. Copeland)

7. Social Security Taxes.

An analysis of a proposal to increase the yield from social security taxes is being prepared. (Mr. Gordon)

8. Financial Records of Corporations.

A financial record of representative corporations for use in connection with the study of tax problems is being compiled. (Mr. Anderson)

9. Treasury Bulletin.

An article is being prepared for possible publication in the Treasury Bulletin analyzing the Income Tax Study of individual proprietorships. (Mr. Anderson)

10. State Income Taxes.

A tabular statement of provisions in State

income tax laws relating to business taxes incurred in connection with the collection or production of taxable income is in process. (Mr. Ecker-Racz and Mr. Mannen)

11. Intergovernmental Fiscal Relations.

An historical summary of important developments in intergovernmental fiscal relations is in process. (Mr. Gordon)

12. Income, Excess Profits and Undistributed Profits Taxation.

Reports on the following subjects have not been actively prosecuted during the month:

- (a) Analysis in the light of issues raised by the undistributed profits tax of the statistics made available from income tax returns and other sources. (Mr. Atlas and Mr. Copeland)
- (b) Analysis of the proposal to allow corporations with five or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)
- (c) Analysis of special treatment afforded financial, personal service and public utility companies, the professions and agriculture under the World War and present excess profits taxes of the United States, Great Britain and Canada. (Mr. Mills)

III. Routine Assignments.

1. Technical Review of Forthcoming Treasury Publications.

The page proof of Statistics of Income for 1938, Part 1 for individuals, was reviewed. (Miss Coyle and Miss Hughes)

2. The page proof of the preliminary report of Statistics of Income for 1939, Part 1 for individuals was reviewed. (Mr. Anderson and Miss Hughes)

3. Digests and Comments on Other Studies.

A review of the report entitled "Financing Defense" prepared for the American Farm Bureau Federation by members of the staff of the Iowa State College is in process. (Mr. Farioletti)

4. Statistics.

(a) In connection with the supervision of the statistical work of the Bureau of Internal Revenue, various proposals for statistical compilations were examined including suggested tabulations from the corporation income and excess profits tax returns.

(Mr. Blough, Mr. Shere and Miss Coyle)

(b) An analysis of the Income Tax Study data relating to differences between

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the use of size classifications based upon assets as of the beginning or end of year is in process.

(Mr. Anderson)

- (c) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented upon for Mr. Sullivan's information. (Mr. Campbell)

- (d) Data relating to different taxes digests of tax items, and congressional activity on tax items of interest to the Division are currently prepared.

(Staff members)

5. Correspondence.

The Division handled correspondence pertaining to tax matters. (Staff members)

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

July 2nd, 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,

Halifax

The Honourable ,

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

**TELEGRAM RECEIVED FROM LONDON
DATED JUNE 30th. 1941**

NAVAL.

2100/20th. Defender in position north of Sidi Barani reported picking up all survivors from H.M.A.S. Waterhen seriously damaged by bomb during air attack. Defender attempted to tow her into harbour but she capsized 0150 June 30th.

2. Canadian Troop Convoy No.11 has arrived safely in United Kingdom.

3. **Military. Abyssinia.**

Our column from Gimma has captured Dama taking 600 Italians and 100 Africans.

4. **Syria.**

Vichy French have not withdrawn from positions north west of Damascus. We met with considerable opposition and withdrew to line on south east slopes of Jebel Mazar astride Damascus Beirut road.

5. **Russia.**

No official news available. Germans believed to have crossed Dvina captured Dvinsk and passed Minsk.

6. **Royal Air Force.**

Night of June 29th/30th, we sent 159 bomber aircraft against Bremen Hamburg - 12 missing.

7. **Syria.**

Royal Air Force continuing to attack enemy. June 29th, while escorting our bombers Tomahawks shot down 6 Vichy Glenn Martins attacking our troops Palmyra area.

Alexandria/

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8. Alexandria was attacked night of June 27th/28th by 17 aircraft. Bombs and mines dropped only slight damage.

9. German Air Force.

June 29th/30th about 45 aircraft engaged mainly in sea mining and against shipping off east coast. One JU 88 destroyed by night fighters.

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, July 2, 1941

TENTATIVE LESSONS BULLETIN
No. 128
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

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.

GERMAN BALKAN CAMPAIGNSOURCE

This bulletin is based upon a report submitted by an American official observer in Berlin. The report comprised information released in narrative form by a distinguished American journalist at a conference held in Berlin on May 15, 1941.

In view of the fact that the German Government failed to invite American military personnel to visit the Balkan battlefields, this bulletin may possibly contain one of the few available reliable eyewitness accounts of the Balkan Campaign.

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GERMAN BALKAN CAMPAIGN

"I start this informal discussion backwards by enunciating some of the military lessons which were impressed upon me in the Balkan campaign, as well as in other campaigns I have observed. On this particular occasion, I travelled through Hungary, Yugoslavia, Bulgaria, and Greece, and saw at first hand the results of operations in those countries almost immediately after they had taken place.

"First of all, I am convinced that the best army in the world, even if strong in mechanized power, is at a definite disadvantage without the support of air power. This is true not only of combat aviation, but of observation aviation as well, and that fact was more than ever made clear to me after I had talked with British officers in Greece following their capture. One complained bitterly that the English used too little force, too late.

"The next lesson I received was on the value of preparedness. Yugoslavia was attacked before she had even finished her mobilization. The bombing of Belgrade and other important communication centers so paralyzed the control of the Yugoslav High Command that that country never really got into action.

"I learned a third lesson from the attitude of the Balkan armies. They gave the definite impression that they were still living in the spirit of 1914-18. This spirit is typified by the flimsy obstacles which had been erected by these forces and which the heavy German panzer vehicles lightly brushed aside.

"I have been tremendously impressed by the increasing importance of the work of the pioneers and of the communication units. Throughout the various campaigns the work of the pioneers has improved steadily, although it was good in the beginning. The demolition efforts of the Yugoslavs were unusually fine, but the German pioneers performed outstandingly in overcoming obstructions and in preparing crossings.

"As for communications, the Germans always seemed to have them when they wanted them; particularly was that true with the advance forces, largely panzer, pioneer, and aviation units.

"Another thing which made a great impression upon me was the effectiveness of the comparatively small number of men in these advance forces, the forces which made the penetration into enemy territory. The blitzkrieg tactics of the Germans do not provide for a general attack on a fan-like front, but only for intense attacks by small groups at selected weak points, attacks designed to break through and

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reach the rear.

"Those were the lessons I learned; now I will give details to support them, and other miscellaneous information which I have secured from various sources.

"A high ranking German Army officer in Bulgaria told me that Germany had three essentials for this war, coal, ores, and oil. He said that Germany now has sufficient coal and ores, and that its next step will be to gain control of a plentiful supply of oil and to deny enemy access to sources of oil. This accounts for the trouble in Iraq, and possibly for the fact that German submarines and aircraft are sinking as many tankers in the Atlantic as possible.

"The German Consul General in Budapest, Hungary, stated to me that Stalin was showing considerable interest in India. This statement seems to confirm a story I wrote on the same subject some time ago. I was admonished by the Propaganda Ministry because of that article and usually that happens only when I have written something fairly close to the truth.

"When I was in Athens I got the impression from confidential sources that Crete would be taken in the near future, probably during the week of May 11-17. A rather large force of German aviation is being concentrated in the vicinity of Athens, as well as a large number of parachute troops, all in tropical uniforms. It was said that the Rommel situation in North Africa would become critical, and that the possession of Crete would become necessary to relieve it.

"In a conversation had with an American observer in Athens, I found out the difference in tactics employed by the Italian and German air forces. The Italians usually attack more or less regularly in formation, with the result that they always manage to lose some machines. The Germans, on the other hand, attack simultaneously from many different directions, causing great confusion and pandemonium, and never attack in formation.

"On my way into Greece, and on my return, I saw German columns moving out of Greece toward the north. I noticed particularly that the 9th Panzer Division was moving through Yugoslavia toward Vienna.

"The occupation of Greece has placed a tremendous supply burden on the German Army, because all supplies must be sent into that area. Greece is unbelievably poor and will be unable to support any military forces for any length of time. German soldiers there are being required to take quinine every morning.

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"In Hungary I had a definite feeling that relations between Germans and Hungarians are not good. The Germans call the Hungarians the 'jackals of the battlefield,' for despite the fact that they have been given one of the richest parts of Yugoslavia, the Hungarians now want an outlet to the Adriatic Sea. They have killed some of the German people in Hungary, and several important conferences have been held on that subject.

"I was impressed by the primitive state of the Hungarian army. It has few motors, and much old-fashioned equipment in poor condition. The men whom I saw were armed with old, clumsy-looking rifles. I think my observations are a little prejudiced because of German propaganda on the efficiency of the Hungarian army, and because of an unconscious comparison of that army with the German fighting forces. It also seemed to me that the Hungarian engineers were lacking in skill, especially on bridge operations.

"The downfall of Yugoslavia might be attributed to two factors, lack of leadership and lack of equipment. The accurate bombing of the German Air Force in the early stages of the war disrupted communications, and the Serbian High Command had no control at all after forty-eight hours.

"In the Balkan theater, I was once more made conscious of the effect of the blitzkrieg operations. There, as in France, one could travel for miles without seeing any sign of combat. Between Nisz and Belgrade I saw only two villages which showed any damage at all; in those, Stukas had been used to frighten away resistance.

"When I arrived in Hungary it was moving day. Two hundred thousand Serbs were being moved out of the area which the Hungarians were to occupy. They were allowed to take with them only enough money to get them to the nearest Serbian town; no jewelry or valuables of any kind might be taken along. The Hungarians have not paid any indemnity for Serbian losses.

"The Bulgarian Army seemed somewhat better than the Hungarian and Serbian Armies, but it still left much to be desired.

"The British air force missed a great opportunity when it permitted the German troops to move down close to the Metaxas Line before April 6, 1941. Along the Struma Valley in Bulgaria the roads and avenues of communications passed through narrow corridors, and it would have been very easy for combat aviation to have blocked, or at least to have interfered greatly with this concentration. The turns and loops of the roads, bordered as they were by steep cliffs and deep precipices, would have facilitated such interference.

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"I wrote the following despatch for the Associated Press after I had inspected the Metaxas Line:

"Today I inspected the famed Metaxas Line on the Greek-Bulgarian frontier. It compares favorably with the Maginot and Siegfried Lines, but it was taken because the Greeks, like the French, apparently had not yet grasped Hitler's tactics of always looking for the weakest spot in the defense, instead of repeating the old German Verdun tactics of hurling masses after masses in frontal attack. Once again the German High Command's famed pincer movement triumphed.

"The Metaxas Line is perfectly located. The Struma River winds its way through wild mountainous country. Into these mountains, whose trees and shrubbery afforded natural camouflage, the Greeks had built fortifications of the most modern type, with connecting shafts, operating rooms, electric lights, modern ventilating systems, telephones to Salonika, and billets for as many as fourteen hundred men in the largest bunkers. This line had an advantage over the lines of western Europe in that cannons and guns could be built into the mountain slopes in tiers.

"One important point had been overlooked, however; the German tactic of encircling main obstacles if direct attack is difficult. Accordingly, when the Germans crossed the border at 5:15 A.M. on April 6, they first started in the orthodox direct approach. Artillery and Stukas supported the infantry by alternately shelling Greek fortifications. This shelling developed such a smoke that the Greeks in bunkers could not see the advancing German troops below them in the valley, and the German vanguard, headed by a panzer reconnaissance unit was able to pass the first line, which consisted of some thirty bunkers and pillboxes in the mountains on each side of the river. The Greeks finally opened fire, killing sixty-seven men and incapacitating the panzer unit. The rest of this formation dug itself in for the rest of the day and then under cover of night retreated to the border.

"In order not to risk further bloodshed, the German forces on the main road stood still for three days, while detachments looked for some weak spot. This spot was found by Major Enns and his men, who simply marched around the mountain on the west side of the Struma River - despite its thirty fortification works - and attacked the Metaxas Line from the south, or rear. At the same time other forces compelled Salonika to surrender - practically without a counter shot as the city was undefended. Another segment of the army closed in at Seres, and the encircle-

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ment of the Metaxas Line was completed. When the possibility of relief was eliminated by the surrender of Salonika, the Germans, on April 9, sent an emissary with a white flag to suggest to the Greek commander in charge of the fortifications that further resistance was useless and that bloodshed could be avoided by capitulation. The emissary advised the Greek commandant to satisfy himself of the correctness of the German assertions by telephoning Salonika from his bunker. The Commandant did this and was counseled to surrender, as Salonika was capitulating at that moment.

'From the Metaxas Line I drove seventy-five miles to Salonika. Except for one bombed army barracks about five miles from the border, and a cemetery where 67 Germans were buried, I saw no trace of fighting anywhere. In little towns through which I passed, life seemed normal, and on farms peasants were tending to their fields. Occasionally I would see small groups of released Greek prisoners of war - farm lads evidently were being released without much ado. I encountered thousands of captive Greek prisoners who were being marched northward by Bulgarian soldiers. These war prisoners looked like brave fighters, and German officers always acknowledge that they are and respect them as such.

'Salonika, which is said to have been awarded to Bulgaria as her share of the spoils, seemed like the east side of New York, with its teeming, milling crowds, the squalor of its hovels, and the colorfulness of its variegated population.

'Bootblacks were everywhere in evidence. Except for the presence of the German soldiers, nobody would have thought that Greece was, and still is at war. The city showed no signs of fighting!'

"Hitler's gesture of releasing Greek soldiers was not the sportsmanlike move it is sometimes considered. The real truth is that the Greek Army is completely broken, and the nation is so poor that further resistance is absolutely impossible. By taking Greek prisoners, the Germans would have been forced to undertake another relief problem which they have avoided by making what looks like a magnanimous gesture. The Greek soldiers were pathetic. They came limping back from the front and from the Albanian area with rags around their feet for shoes, suffering incredibly in the terrific heat. I watched them in the fields digging roots to satisfy their hunger, and many of them haunted the German kitchens, hoping for left-overs.

"Probably the sharpest fighting took place in the little town of Serbia, west of Mount Olympus. A German officer who took part in

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the action said that the English had put their artillery too far to the rear - in a normal defensive position - with the result that they had no heavy fire power forward for direct fire against German tanks, and the tanks broke through the infantry defensive position without much difficulty.

"I was very much impressed by the bombing of the German Air Force on the roads crossing the Thessalian Plain between Larissa and Lamia. German planes dropped bombs on both sides of the road and destroyed everything on the highway without damaging the road itself. Then German tanks came along and brushed the wreckage aside, allowing the Army units to push rapidly to the south. The bomb craters on both sides of the road were about ten feet deep and about twenty yards away from the road.

"The following despatch pertains to the operations which I have been describing:

'Stukas, panzers, a perfectly functioning air scouting service, an experienced engineering corps, and an amazing spirit of fearless attack, are the factors in Germany's Balkan Army which seem to have tipped the scales in the Reich's favor and to have put the Greeks and their British allies to rout. Traveling 400 miles in an open car of the High Command from Salonika via Kozani, Larissa, Lamia, Molos, and Thebes, over at least a dozen mountain passes to Athens, I was able to experience Hitler's Greek blitzkrieg in retrospect, as it were, and to conclude that the British rout might have been averted if the lessons of the Western Campaign of 1940 had been fully heeded.

'German scouts always knew exactly where the Greeks, Australians, New Zealanders, and English were. According to all German military men whom I questioned, there was almost no British air force visible in the interior of Greece. Not only did the military intelligence service and signal corps fail to function properly, but the RAF apparently made no effort whatever to bomb the advancing German Army while its endless columns moved at a snail's pace over passes 5,000 feet high and along poor roads crowded to the last inch. The situation would have been hopeless if RAF planes peppered loads of dynamite on the road. The Germans, on the other hand, threw bombs ceaselessly upon retreating British and Greek forces and greatly hindered their operations. This bombing was made more difficult because German orders were not to drop bombs on the road itself, but to drop them on both sides of it. The obvious idea was that the roads must be left intact so that the Germans could use them on their forward march. Retreating Britons could have dropped bombs on the roads without such considerations, and could thus have thrown confusion and death

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into the Reich's ranks and made the roads impassable at least for a while.

'Almost as though they had measured off the distance, the German Stukas dropped their heavy loads within fifteen feet of both sides of the road; even tanks were thrown over by the force of the explosions, not to mention lorries for thirty or forty men, many of which I saw lying bottom up in the gorges and ravines below.

'The British were very successful, as they retreated, in blasting bridges or tearing up roads with mine explosions. On one stretch of 45 miles between Thebes and Athens I counted twelve successful road blasts which undoubtedly proved a hindrance to the advancing Germans. But Hitler's soldier engineers are now so experienced in removing just such obstacles that the delay was not even sufficient for the British and Greek forces to rally for a new defense. I saw an example of this pioneer efficiency between Lamia and Thebes. The column in which I was came to a sudden halt because one heavy tank had been too much for the temporary bridge. Within two hours, however, an entirely new structure capable of holding even this massive machine was ready, and we proceeded on our march.

'As far as I could observe, the British played a purely defensive game throughout. They would occupy wonderful positions on heights commanding the valleys for miles and miles, and they would open artillery fire; but as soon as combined Stuka, artillery, and tank activity of the Germans became too much for them they would retreat. "English artillery fire against our tanks didn't faze us", one artillery captain told us. "For one thing, the British built their positions so far back that their shells reached us only at the end of their range."

"The following is a brief summation of the British-German encounter:

'The heights before Kozani were abandoned almost without a fight, since the British forces soon discovered that the Germans had made one of their famous pincer movements and had encircled them. Near the town of Serbia there was some artillery activity by the British, but when their guns proved to be short-ranged and when the tanks advanced without hesitation, they retreated. Heavy losses must have accompanied this retreat, for Stukas caught them on the plains between Larissa and Lamia and bombed the fleeing columns. The British could not make a stand at Larissa because that city, once a city of 50,000 persons, had been completely destroyed by Italian bombings, followed by an earth-

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quake, and followed still later by German bombing. Part of the British forces retreated from Larissa to Thermopylae Pass, where a stand with the Greeks was attempted. But there again the fire got too hot, and they left so precipitately that twenty-four big calibered guns fell to the Germans as part of their booty. Another British detachment took the road to Molos, and hid its guns in an olive grove. Eight German tanks took the same road, unaware that the British had three batteries planted in the midst of the trees; as the tanks came by, the British suddenly opened fire on them and put all eight out of commission. When the German main forces heard of this they sent enough forces to capture these three batteries, and that was the end of the real fighting; after that the British evidently made for boats wherever they could get them.'

"I do not believe that any exceptionally heavy equipment was used in this campaign because I noted that all of the bridges were the standard 16-ton type, the type that was used in the French campaign.

"Athens, I think, is the most crowded city in Europe. There has been an influx of about 1 $\frac{1}{2}$ million people; the Germans there might be likened to a swarm of locusts. The official rate of exchange was established at 50 drachmas to the mark. An idea of the value of this exchange may be gathered from the fact that a good meal costs about 100 drachmas. The result was that the members of the German Armed Forces, with their issue of Reichskreditkassenscheine as in France, bought out the city of Athens in about 24 hours. I tried to buy some soap, but it was all sold out.

"In Piraeus I saw 17 ships in the harbor sunk. Storehouses in the harbor area were burned effectively.

"My account of operations around Corinth follows:

'One Australian General, 300 British officers, 9,560 Empire troops from England, Australia, New Zealand, and India, and four Serbian Generals, 382 officers, 745 NCOs and privates, were today awaiting the rounding up of remnants of British troops on the Peloponnesus. They were quartered, pending transport in slow stages to the Vaterland, in Greek barracks about two miles from historic Corinth. I had an opportunity to talk freely to them, and they corroborated fully the impression I had gained in traveling over the route of the British retreat - that absence of the RAF was the chief factor which accounted for the Anglo-Greek rout.

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'Distinguished prisoners included Australian Brigadier Parrington, English Colonel Goodwin, Lieutenant Colonel E. Lillingston, and the leader of the Palestine contingent of 1,000 Jews and 550 Arabs. The leader of that contingent was G. P. Farsoun, of Haifa, but I could not ascertain his rank, as he wore a plain shirt.

'From conversations with higher officers as well as with doughboys, I became convinced that British troops fighting in Greece realized they were no match for their opponent. The Germans not only greatly outnumbered them, but the Germans also had the Luftwaffe working in perfect harmony with tanks and artillery, while England's expeditionary forces had no protection or cooperation from the air. These forces fought gallantly according to their own officers and according to the Germans. One Britisher, commanding eight hundred men, told me that four hundred were wiped out at Thermopylae. These forces which were caught in the Peloponnese were crack troops who had fought at Bengasi. They said that the absence of air protection also prevented their getting away on twelve destroyers sent to fetch them in the Gulf of Corinth.

'The Australian and New Zealanders seemed rather embittered about the RAF's failure to assist, but the English officers and men took it philosophically, saying that the RAF was so badly needed in Egypt that it could not be spared for Greece. They predicted the Germans would not get beyond Sollum.

'Most of these prisoners had been captured east of Sparta. They complained of insufficient food, but they did not blame this lack on the Germans. On the contrary, they said that they had been given every consideration. They realized, as the Germans do, that Corinth is almost destitute of food. Whatever is doled out to various contingents in the raw state - so that the unit can prepare it according to its own taste - must come from Athens. British supplies, it seems, were deliberately destroyed by the retreating British Expeditionary Force as a logical war measure on quitting Corinth. There is no water in this vast compound; it must all be brought from a spring two miles away. The place swarmed with Greek hucksters trying to sell small quantities of cheese, lettuce, bread, and artichoke, but only a few prisoners seemed to possess Greek money. All implored us for cigarettes, although the Germans that very morning had distributed 5,000 each to the British and the Serbs, who were billeted separately and had practically nothing to do with each other. Anzacs showed considerable feeling against English comrades. Rightly or wrongly, they feel they were let down and were used to cover the retreat while the majority of the English

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got away.'

"The American Minister at Athens told me that the greatest problem would be to get food for the Greeks. Normally they obtain about five million dollars worth of purchases from the United States; most of their vegetables come from Yugoslavia. Both of these sources are now cut off and the situation will be extremely critical in a very short time.

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G-2/2657-220 No. 432 M.I.D., W.D. 12:00 M., July 2, 1941.

SITUATION REPORTI. RUSSO-GERMAN FIGHT.

Ground: German-Finnish fighting continues in Murmansk-Kandalaksha area and on southeast Finnish border. A German column has occupied Windau on the Baltic. German columns have crossed the Dwina River and established bridgeheads between Riga and Dunaberg. Advanced German motorized units hold the west bank of the Beresina River between Borisow and Bobruisk. A Russian counter-attack against the left flank of this German force appears to have been launched from the Russian base at Vitebsk.

The German High Command claims in its July 2 Communique that "the larger part of the Russian armies fighting in the Byalystock region" were destroyed during the course of July 1.

South of the Pinsk Marshes, German columns have reached the line: Rovno—Dubno—Zloczow. Hungarian forces have commenced an attack across the Carpathian Mountains in the direction of Stanislawa and Kolomea. The Pruth River front remains inactive.

Air: Heavy German attacks on Smolensk and on the Odessa—Lwow railroad.

II. GERMAN-BRITISH FIGHT.

Air: German. Night raid on Cardiff.

British. Day attacks on northwest Germany and the occupied territory were renewed. In the evening of the 1st heavy Channel "sweeps" were instituted. Apparently minor activity last night, although Brest was bombed.

III. MEDITERRANEAN FIGHT.

No important developments.

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