DIARY

Book 387

April 8 - 10, 1941

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 8, 1941.
4/7/41

Press Service
No. 24-44

The Secretary of the Treasury announced last evening that the tenders for $100,000,000, or thereabouts, of 91-day Treasury bills, to be dated April 9 and to mature July 9, 1941, which were offered on April 4, were opened at the Federal Reserve Banks on April 7.

The details of this issue are as follows:

Total applied for - $208,941,000
Total accepted - 100,091,000

Range of accepted bids: (excepting one tender of $10,000)

High	- 99.995	Equivalent rate approximately 0.020 percent
Low	- 99.972	" " " 0.111 percent
Average Price	- 99.980	" " " 0.079 percent

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

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April 8, 1941
10:35 a.m.

RE TAX PROGRAM

Present: Mr. Sullivan
Mr. Tarleau
Mr. Blough
Mr. Haas

H.M.Jr: All right, gents, what have you got for me this morning.

Sullivan: Well, I think we had better have some understanding as to how much we ought to get here. If we are going to follow your two thirds rule, we need about three billion and a half. Dan says the expenditures for '42 in his opinion will be about nineteen billion, and two thirds of that is twelve and a half.

The estimate now on the receipts for fiscal '42, exclusive of social security taxes, are nine billion two, and that leaves us about three and a half billion dollars shy of the two thirds that you provided for.

Now, there are any number of different combinations we could use in arriving at that. We have got eight or ten different schedules. Just as a jumping off place, I have one schedule here that calls for two billion six, exclusive of any corporation tax, and my idea would be that that should be supplemented by another billion dollars from corporation taxes.

H.M.Jr: Individual income tax. Increase it by a billion one. Well now, will you explain this for me?

Sullivan: These are supplementary to these other schedules.

H.M.Jr: What do you mean, how are you going to get the one billion one?

Sullivan: I will get that schedule for you.

H.M.Jr: Does anybody know it by heart?

Sullivan: Know it by heart?

H.M.Jr: The one billion one. Why without the defense agencies?

Sullivan: Well, there are different ways of figuring it.

H.M.Jr: You are not dropping them?

Is this the one?

Sullivan: Yes. This is the comparison between what they now pay on this.....

H.M.Jr: These two?

Sullivan: That is right.

H.M.Jr: And if you do this, it increases it by how much?

Sullivan: A billion one hundred fifty million.

H.M.Jr: These two pieces of paper?

Sullivan: That is right.

H.M.Jr: Where is a good - ten thousand dollars?

Sullivan: Yes.

H.M.Jr: That looks straight, anyway. Surtax on net income is twelve per cent. You don't change that, do you? Bracket rate. Eighteen, eighteen - I can read it from this, can't I?

Sullivan: That is right. The present is ten, and it goes up to eighteen.

H.M.Jr: I don't need this sheet.

Sullivan: No.

H.M.Jr: Which is the right one?

Sullivan: One raises a billion a hundred and forty, and the other a billion a hundred and fifty.

H.M.Jr: Which one do you want me to look at? This one?

Sullivan: Yes.

Blough: I think so.

H.M.Jr: What?

Blough: That is right.

H.M.Jr: Then this fits into this. All right. The fellow would pay almost three times as much on the ten thousand income, wouldn't he?

Blough: There is a picture here of the tax thing.

H.M.Jr: Boys, get together, get together.

Sullivan: This gives the percentage of increase, over here.

H.M.Jr: This is the same thing?

Sullivan: That is right, same schedule.

H.M.Jr: Can't you get this stuff together?

Sullivan: Certainly, sir. We have so many different schedules here, that is all; and I don't think the chart would be as helpful as the table.

H.M.Jr: What makes you think it would increase the fellow in the ten thousand bracket a hundred and seventy-five per cent?

Sullivan: Because those people in that area are not paying as large a part of the burden as we believe they can pay.

H.M.Jr: Have you been over this, George?

Haas: No, sir, we made the estimates; but I haven't seen it set up.

H.M.Jr: Have you seen it set up? Can George get a set of this?

Sullivan: Yes, sir.

H.M.Jr: So he can be studying it.

Haas: The English set up is interesting, that was announced yesterday.

H.M.Jr: Yes. The biggest increase comes on the twenty-five hundred fellow, doesn't it?

Sullivan: That is right.

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H.M.Jr: Yes. The biggest increase comes on the twenty-five hundred fellow, doesn't it?

Sullivan: That is right.

H.M.Jr: What is the reason, Blough, for saying with or without the defense tax?

Blough: With the defense tax it is ten per cent higher.

H.M.Jr: What do you mean, without?

Blough: We find that at various levels of revenue there are quite a number of different ones it happened to hit without the ten per cent at about the figure we needed. That is the significance of saying it.

H.M.Jr: Now let me ask you some questions. The fellow with a twenty-five hundred income, under the present law, how much does he pay?

Blough: Under the present law the man with the twenty-five hundred income pays eleven dollars. With this rate schedule, he would pay sixty.

H.M.Jr: And the fellow with ten - this is total tax?

Blough: I think for this purpose you can disregard that column and take the one without defense tax.

H.M.Jr: That is the total?

Blough: That is the total; not the increase, but the total.

H.M.Jr: He would pay thirteen hundred and twenty dollars?

Blough: Instead of five hundred twenty-eight.

H.M.Jr: That will be before he takes any deductions.

Blough: That is his income without deductions. Ten thousand dollars is his total income. Then suppose he is a married person with no dependents, then he pays thirteen hundred and twenty dollars in tax.

H.M.Jr: When you look at it and leave out the percentages, that doesn't look so bad.

Sullivan: No, I don't think it does, either, sir.

H.M.Jr: Do you think so, George?

Haas: No, I think the taxes are very low. It happens to be in my area, but I think people in my class are getting off way too light.

H.M.Jr: They will be paying about thirteen per cent, or with the defense tax, fourteen and a half per cent.

Haas: I think that is very reasonable under these conditions.

H.M.Jr: Gross.

Blough: Well, that is the total tax. That is the total tax. That is the total income.

H.M.Jr: Then he gets his deductions?

Blough: No, this takes that all into account.

H.M.Jr: You mean a married man?

Blough: A married man with a ten thousand dollar salary.

H.M.Jr: And how many dependents?

Blough: No children. He pays thirteen hundred and twenty dollars after you make all your deductions and everything.

Sullivan: We have got some tough ones if you want to see some tough ones.

H.M.Jr: What do you mean, tough ones?

Sullivan: Tough schedules, where they go up a lot faster. You see, we have different schedules going all the way up.

H.M.Jr: Well, this one here gives me - it produces thirty-one hundred and fifty, is that right?

Sullivan: That is right, from the individual income return.

H.M.Jr: Fix me up afterward a set of this.

Sullivan: Yes, sir.

Blough: We have too many of these, that is our problem.

H.M.Jr: Let's just start with one. This will be the one we will show to the President. That is one.

Now, we will just show him the possibilities. Estate and gift taxes, reduce exemptions from forty thousand to twenty-five thousand. Adopt the state tax rate schedule. Where is the stuff on this?

Sullivan: Right here, sir.

H.M.Jr: All right.

Blough, come over here.

Blough: If you have an estate after your exemptions are all taken out, of between twenty and thirty thousand dollars, let's say, on the first five thousand your tax will be four per cent.

On the next five thousand, eight; on the next ten thousand, twelve; and on the next ten thousand, sixteen; and the total tax on the thirty thousand dollar, net estate, would be three thousand, four hundred.

H.M.Jr: What is it now? Does this compare it?

Sullivan: Yes.

Blough: It looks funny, because the rate schedules are not fixed up. Here you have that three thousand four hundred, and here you have the same fellow, a thousand two hundred under the present law, so you move from the thousand two hundred to the thirty-four hundred at thirty thousand dollars.

H.M.Jr: I see.

Blough: Now, if you want to go up to a hundred thousand dollars net estate, his present tax is ninety-six hundred. He moves to twenty-one thousand dollars under this proposal.

H.M.Jr: I can understand that. Let me see if I understand this other thing. You don't pay any tax on the first forty, is that right?

Blough: At the present time you don't. We propose to lower that to twenty-five thousand.

H.M.Jr: Reduce insurance inclusion from forty to twenty-five. I understand that.

And the gift tax --

Blough: Bring it down in the same manner.

H.M.Jr: And all of that will just produce three hundred forty-three million?

Blough: Three hundred twenty-one million.

Sullivan: It takes you some time to get that. Usually about fifteen to eighteen months.

H.M.Jr: I understand that.

Now, distilled spirits, additional two dollars per gallon. That brings it up to how much?

Blough: Three at the present time.

Sullivan: Five.

H.M.Jr: You will have bootlegging.

Sullivan: Well, I have gone over that with Berkshire, and he says that whenever you do put in an increase in your liquor tax, you do add to the incentive of bootleggers; but it is up there now so that the premium on tax-free liquor is sufficiently high so that there is as much - almost as much incentive now, and he said the problem will require an increase in personnel, but that they can handle it.

H.M.Jr: Well, I am sorry; I lived with this stuff for two years. I don't agree with you. I have been all through this, and I don't believe in what Berkshire is saying. The answer is, he isn't handling it now. Just as soon as you get - I was opposed to going above two dollars and a half. You men were with me then, weren't you?

Tarleau: That is right.

Sullivan: Well, how much do you want --

H.M.Jr: I don't want to do anything more on that. You would lose it. I mean, you are getting now - how much are you getting from distilled now?

Sullivan: Seven hundred fifty.

Blough: Nearly seven hundred fifty million dollars.

H.M.Jr: I wouldn't increase it at all.

Sullivan: They expect it. The industry does. And they have asked - they called on Berkshire, and they told him that they knew that when there was need for more funds they would be Number 1 on the list; and they said, "All we ask is that you have increased personnel to protect us."

H.M.Jr: Well, if you don't mind, this is the first one I am going to question. That is 229, isn't it?

Blough: Yes.

H.M.Jr: And what is that on the fermented malt?

Blough: That is beer. It is now $5.00 a barrel.

H.M.Jr: They can't bootleg that, can they?

Sullivan: Certainly.

H.M.Jr: They don't, do they?

Sullivan: That is where Capone made his money.

H.M.Jr: No, he made it distributing it. It is entirely a different kind of manufacturing.

Tarleau: Well, you have to have big equipment. You can't put a little still up.

H.M.Jr: You can't build it in a little place in the valley.

Blough: There the problem is not bootlegging but whether they will continue to drink it.

H.M.Jr: That is the point. I am going to question both of those. Wines and liquors - I don't know about cordials.

Sullivan: I think you ought to question all of them if you are questioning any, because they all go together.

H.M.Jr: I am. Now, tobacco? I don't have any feelings on that. Cigars, the same. Automobile taxes, including gasoline. That is $78.00. How are you going to get that?

Blough: That is the present manufacturer's excise tax on automobiles. This is the manufacturer's excise tax on automobiles, and that is doubled.

H.M.Jr: That is all right. Gasoline?

Blough: Increased a half cent.

H.M.Jr: Just make a note. Between now and the time I meet with you again, let's think of things which are non-essentials for defense which we could do away with. I mean, the people don't have to buy them. I mean, you don't have to buy a radio, for instance. Let's just stop and think a minute and look around at the kind of things which you don't need.

Tarleau: Cosmetics?

H.M.Jr: Perfect.

Sullivan: We are all for that. We think that the best defense against a general sales tax is picking out specialized excise taxes.

H.M.Jr: But you haven't done it.

Sullivan: Yes, we have. We have a list of them.

H.M.Jr: Will you bring it with you?

Blough: It is here.

H.M.Jr: Let me get that out, will you? Soft drinks, that is all right. Admission tax. You make it from twenty to nine cents? You reduce it?

Blough: The exemption is now twenty. This simply puts the exemption lower.

H.M.Jr: I see. Other excise. Where do you get the hundred and seventy-six from?

Sullivan: Right here.

H.M.Jr: Well now, let me just think a minute. Let's do this a little bit different. Is there a tax on telephones now?

Blough: Yes.

Sullivan: Yes.

H.M.Jr: Is it good or bad to increase that?

Sullivan: You see, the First Revenue Act of 1940, sir, that was the one thing that was not increased, and the reason it was not increased was because of the pay telephone situation. We couldn't have a ten per cent increase because the tax - there is no provision in the pay phones for putting in pennies, and it was generally understood there that we would wait until the time we had to increase it again, and then we would up it an even nickel or an even dime.

H.M.Jr: Passenger transportation?

Sullivan: That is right. If we had a tax on all transportation, including freight, that would be worth about two and a quarter million dollars.

H.M.Jr: Two and a quarter?

Sullivan: Two hundred twenty-five million, I beg your pardon. But then it would go into the cost of the goods, and it would be in the form of an indirect levy on all goods.

H.M.Jr: Now why electrical energy?

Blough: That is not an increase in the rate. At the present time the tax applies only to commercial and domestic consumption. It does not apply to industrial consumption. There is some administrative problem, quite a little bit involved, in distinguishing them, and this proposal is one simply to extend the present tax to include all electrical production.

H.M.Jr: It seems a funny thing to tax.

Blough: None of these three are what one might call ideal types of things to put excise taxes on.

H.M.Jr: I wouldn't put a tax on electrical energy. I mean, I question it.

Blough: It will help to clear up an administrative problem.

H.M.Jr: But that doesn't interest me in these times. I am trying to think of something you can justify. I think a tax on automobiles is ideal. They will make less automobiles in these times, and that is good. Then, when the war is over, we have got to increase production, and we can drop the tax on automobiles. I don't know of anything better. But certainly electrical energy, I should think, would be --

Blough: This will enter into the cost --

H.M.Jr: What?

Blough: Into the cost of doing business.

H.M.Jr: George, I wish you would talk up and not just sit there. You haven't had a chance?

Haas: Well, I didn't want to talk out of turn.

H.M.Jr: Well, candy, I would say "yes." Toilet preparations, yes. Club dues, double them, triple them. Matches?

Tarleau: Well, you had a tax on matches before, and that tax went off rather easily.

H.M.Jr: Let me just drill this into you - I have said it before - for God's sake, don't make any suggestions. Just because you have a tax, you want to increase it fifty per cent. That is no reason. Let's think in terms of these kinds of taxes, the things that you want to discourage the expenditure of and those things which you want more. You want your electric people to expand on them. You want the railroad people to expand, not necessarily in passenger service, but certainly they have got to buy more cars, more engines, everything. I don't know about matches. Just because we had it before, if you don't mind, doesn't mean a thing to me. I would call it a border-line case, wouldn't you?

Blough: Well, that is a cigarette smoker's adjunct.

H.M.Jr: Dentifrice, wonderful. Sporting goods, yes. Radio, yes. Bowling alleys, yes. What about skating rinks?

Blough: I think we could throw a number of those in with bowling alleys.

H.M.Jr: Aren't there a lot of other things which are luxuries which we could tax, that people could do with less of?

Sullivan: Furs and jewelry are along the line you are speaking of.

H.M.Jr: Yes, furs and jewelry. What else?

Blough: If you want to go into the retail field, in the so-called nuisance taxes which we had during the last war, of course at that time we went into a great many retail taxes on high-cost articles, for instance, high-priced shoes, high-priced hats, high-priced clothing. It was a nuisance and a headache.

H.M.Jr: Good. Now you are talking.

Blough: But we had a lot of those in the 1918 Act.

H.M.Jr: Perfect. They should go in. Now, what else? Did they make any revenue?

Blough: Yes. They will produce some revenue.

H.M.Jr: It is psychological. That is good. The President would love that. What else? Well, that kind of stuff - you haven't had time to think about it, have you?

Blough: We have not gone into that field yet. We thought you might want to save that until the last.

H.M.Jr: No, no; I would put it in immediately from the standpoint of public interest.

Blough: We had a couple of dozen of that kind during the last war.

H.M.Jr: Wonderful. I would dig them all out. See if they can't bring the amount you were going to get from liquor.

Sullivan: I think the largest one last time was the tax on all transportation, including freight, and I am quite sure you don't want that.

H.M.Jr: No. All right now, let me just think on this. You haven't got anything in here on corporations?

Sullivan: No, intentionally so.

H.M.Jr: How much on corporations?

Sullivan: We would like to raise a billion dollars. That would give you three billion six.

H.M.Jr: How would you do that?

Sullivan: You can do that by excess profits or your rate or a combination of an increase in the normal taxes and an increase in the excess profits.

H.M.Jr: Have you got anything for me to look at?

Sullivan: No.

H.M.Jr: You see what you could do, John, for the next meeting is drop liquor out and add those things which we have, and then Friday at 11 o'clock we can show them to the President and get his reaction.

Sullivan: That is right.

H.M.Jr: I am going along with you on practically everything except liquor, but I would like the excise taxes on the high priced stuff. Now, what have you got on the corporations? How much would it cost - what is another six percent on your excess? It would go from 24 to 30 and what would that produce?

Sullivan: About 450 million.

Blough: Four hundred fifty or five hundred million.

H.M.Jr: That is a wonderful figure because that is the figure I can tell John McCormack. Six percent on corporations would just about cover the increase in the Senate bill on agriculture over the President's budget. I have been wanting something like that to use.

Sullivan: There it is.

H.M.Jr: Now that. How else?

Sullivan: Then take your other half a billion in increase in excess profits taxes.

H.M.Jr: How would you do that?

Sullivan: By reducing the amount of invested capital from eight percent to six percent or five and a half percent and reducing the average earnings credit, which is now 95 percent of their average earnings for four years in the base period down to 70 or 75 percent.

H.M.Jr: I don't think I would drop it below six, but I would rather - I don't know - I would rather allow a fellow six percent on his money, but drop the average on his earnings, the credit.

Sullivan: Of course that is the fight we had last summer, and we are going to have a hard time reducing average earnings to the same proportion we have reduced invested capital. It would never get through the Senate by reducing average earnings lower than we have reduced invested capital. I asked Mr. Haas yesterday - was it you (Haas) I called?

Haas: Yes.

Sullivan: I guess I called you, George, and asked him for an estimate on how much additional revenue we would receive if the allowable invested capital credit were reduced from eight percent to six and the average earnings credit were reduced from 95 percent to 75 percent.

H.M.Jr: Do you have it?

Sullivan: Yes, he had a tentative figure this morning of 370 million dollars.

H.M.Jr: That it would produce?

Sullivan: Additional.

H.M.Jr: How much?

Sullivan: Three hundred seventy plus your five hundred is eight hundred seventy. You have that much latitude in this schedule.

H.M.Jr: Have I?

Sullivan: I think so.

H.M.Jr: Don't you need some - what about your normal tax?

Blough: Six percent is your normal. Isn't that what you had in mind?

Sullivan: You see this is two billion six.

Blough: Six percent was the normal tax, was it not? Was that not what you had in mind?

H.M.Jr: From four to six.

Blough: I am sorry. I thought you meant the tax on corporations to be increased by six percent.

H.M.Jr: From 24 to 30, that is right.

Blough: That is where the 500 million comes from.

H.M.Jr: That is where it comes from? We are talking about the same thing.

Sullivan: Now this schedule is two billion six plus that. It comes out at about three and a half. As a matter of fact, three billion four hundred sixty-six is the magic figure on the two-thirds.

H.M.Jr: How much?

Sullivan: Three billion four hundred sixty-six.

H.M.Jr: I think if you could work on this thing and then, as I say, bring it around and get in these luxury taxes and especially on high-priced articles. Bring in all the ones they had during the last war. Then this is something we can show him; and, after all, they will water it down.

Sullivan: They will water it down, but I think we are going to have to discuss liquors some more, sir, because they are all prepared to put it on.

H.M.Jr: That is all right.

Sullivan: Maybe a dollar.

H.M.Jr: Let's leave it off for the time being. I very seldom say that I know as much about that as anybody else, but I do because I spent about two years on it, and I know what happens. I know what we can and cannot do.

Sullivan: Berkshire is anxious to have his force increased now, and Mr. Gaston - this matter came up while you were away because of the number of men - 50 men were taken over into investigative personnel, and Herb told me he thought they were very much over-staffed, so I had Berkshire and Roy Davidson come over and talk with Herb, and Herb still believes they are over-staffed.

H.M.Jr: Have too many people?

Sullivan: Yes.

H.M.Jr: Who has too many people?

Sullivan: Berkshire.

H.M.Jr: Well, now, he tells me we practically never check up on him, whether the fellow has a 25 dollar license.

Sullivan: That is right. We did it under a WPA project. We have tried to get it from Congress, and they didn't do it. We made money on every one of those projects. We made a lot of money. Now, personally, I don't agree with Herb. I think it is penny wise and pound foolish.

H.M.Jr: Why does Herb pass on it?

Sullivan: Because it was under this coordination.

H.M.Jr: Well--

Sullivan: And then too, Herb has--

H.M.Jr: Will you fix it so he, you, and I get together.

Sullivan: Yes, good. What I wanted to do, I wanted to wait until the Commissioner had time to get his desk cleared up and then I thought--

H.M.Jr: Is he back?

Sullivan: Yes, sir, he called yesterday morning, and he says he feels fine. He - I thought that he and Berkshire should be in accord on this matter before we bothered you about it.

H.M.Jr: Will you push me when you are ready?

Sullivan: I will, sir.

H.M.Jr: We have made a little progress this morning, haven't we?

Sullivan: Yes, sir.

H.M.Jr: Let's keep it from now on on one sheet and then throw the stuff off. I will put you down for 11:00 tomorrow, John.

Sullivan: Right.

This three and a half seems about right to you, does it?

H.M.Jr: I would shoot for that, and I would rather be on the high side than drop it. That makes it good. After all, I have got to make good what I said publicly and in writing.

Haas: It is a very important reason, too.

H.M.Jr: Once in a while a public official wants to live up to what he says. Not too often, but on occasions. (Facetiously)

Tarleau: No, you are right, you have got to live up to what you say, but I think it is very good - the only thing that I have to say--

H.M.Jr: Has he (Tarleau) lost his sense of humor?

Sullivan: No, he has got something on his mind.

Tarleau: The only point here is the surtax schedule. You know what the man at different levels has got to pay. I think it is important. John knows how I feel about it. I think it is important - you see, they write us also, and they say, "I think it is a fine thing, and next year instead of paying five dollars more, I ought to pay ten dollars more," but you know we are not talking five and ten dollars. We are talking much bigger amounts. I think it is important that we ought to get some idea of the country pretty quickly before beginning to really soak them. Increasing a man at the 10 thousand dollar level a 150 percent in his tax is something that he has really got to face and face pretty seriously.

H.M.Jr: Sullivan brings me word about a man by the name of Doughton with tears in his eyes because there is something in the paper that Treasury says so and so and, after all, you are not very far off. They meet at the House on the 16th. So I mean, you are only a week off. But I thought what you were going to say was this: I think all of this would taste much sweeter in the public's mind if that 10 percent would be made 20 or 25 percent and get it that way, as a defense tax.

Sullivan: No, I--

H.M.Jr: They all liked that 10 percent.

Sullivan: No, I don't think they all do, sir.

H.M.Jr: Isn't there some way of doing it on that basis? I would much rather go that route. Well, what would it figure out. How much more could you get by increasing that in jumps of one percent? Have you done it?

Sullivan: That is just one percent of your total collections.

Blough: Oh, the individual income tax?

Sullivan: It was about three billion five, the two of them together.

Blough: You mean next year's estimate.

Sullivan: That is right. Three billion five so you would get 350 million for the first few additional percent you put on, and then it starts to drop off a little.

Blough: Would be 35 million per percent.

H.M.Jr: But I thought 10 percent was only on the individual.

Sullivan: It is on the corporations.

Blough: It is on everything.

H.M.Jr: And one percent would do 35 million?

Blough: Simply on the individual and corporation incomes.

H.M.Jr: Only 35 million?

Blough: Three billion five hundred million. One percent of that is 35 million.

H.M.Jr: Don't you like that tax?

Sullivan: No.

H.M.Jr: Why not?

Haas: Ten percent is enough. It loses its progression.

Sullivan: All right. You get away from your upward swing.

Tarleau: You see way up on the top, Mr. Secretary, we can't take the full 10 percent.

H.M.Jr: No, I see.

Tarleau: We have to start cutting down. In other words, the higher you go, the less the fellow up on the top has got to pay.

H.M.Jr: Well, this - I don't expect to have a tax program for the President Friday or for these people, but I think we ought to have a little statement showing how we arrived at the three and a half billion, you see. We ought to have a little statement ready to look at tomorrow, how we arrived at it, and then we will bring this in and say, "Now, Mr. President, I made this statement. This is a way of doing it. Which of these do you like, and which do you not like?" We are going to shoot for three and a half billion. Rather than thinking about the fellow at 10 thousand, maybe when they realize that to increase the tax by six percent on corporations only produces 450 million dollars, and just like that the Senate passes the thing 61 to 9, and if we are going to keep this up and stick to the two thirds what it means in the way of taxes, it may have some effect on the Hill. Have you talked to McCormack at all? Oh, you weren't in on that.

Sullivan: No, I wasn't.

H.M.Jr: I will call him.

All right, gents, I will see you tomorrow.

tax changes aggregating an additional $2,642.4 million of revenue 1/

Source	Estimated increase (In millions)	
vidual income taxes		$1,150.7
crease surtax rates by adopting attached rate schedule, thout defense tax (2/11/41)		
te and gift taxes		321.0
tate tax changes: (1) Reduce exemption from $40,000 to 5,000; (2) adopt the attached estate tax rate schedule;) reduce insurance exclusion from $40,000 to $25,000 ft tax changes: (1) Reduce the exemption from $40,000 $25,000; (2) increase the gift tax rates to three-urths the rates in the proposed estate tax schedule (1/27/41)		
r		343.7
stilled spirits: Additional $2 per gallon	229.6	
rmented malt liquors: Additional $2 per barrel	109.1	
nes, cordials, and liqueurs: 33-1/3% increase (3/26/41)	5.0	
cco		200.8
garettes: Additional 75 cents per 1,000	125.2	
nufacture of cigars, tobacco and snuff: Double rates (3/26/41)	75.6	
obile taxes, including gasoline		206.0
ms covered in Secs. 3403(b) and 3403(c) of Code: Double rates	78.3	
soline tax: Increase 1/2 cent per gallon (3/26/41)	127.7	
drinks		132.5
pose a tax on bottled soft drinks at the rate of cent per bottle with equivalent taxes on unbottled inks and fountain syrups (1/31/41)		
k tax		56.0
enact the 2-cent check tax which was imposed by the venue Act of 1932 (1/22/41)		
ssions tax		55.0
duce the exemption under the admissions tax from) cents to 9 cents (1/22/41)		
r excise taxes (Schedule attached)		176.7
reau estimate		2,642.4

sury Department, Division of Tax Research April 7, 1941

Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 42. The date when the estimate was made is given in parenthesis after each source. ly the separate effects of interrelated changes have been taken into account. The xtent to which the simultaneous enactment of these changes would reduce the yield of the separate proposals has not been estimated.

Other Excise Taxes

	Estimated increase in revenue (In millions)
Telephone, telegraph, cable, radio, etc.	$ 37.0
Passenger transportation	30.0
Electrical energy	30.0
Candy, chewing gum	19.0
Toilet preparations	12.0
Club dues, initiation fees	9.5
Matches	8.0
Cabarets	7.5
Dentifrices, toilet soap, etc.	7.2
Sporting goods	6.5
Radio receiving sets, etc.	5.0
Bowling alleys, etc.	5.0
	$176.7

3

Proposed estate tax rates under Schedule II compared with present estate tax rates

Net estate after specific exemption (in thousands of dollars)	Proposed rates 1/ Schedule II: Bracket rate (percent)	Proposed rates 1/ Schedule II: Cumulative tax on higher amount	Present rates 1/: Bracket rate (percent)	Present rates 1/: Cumulative tax on higher amount
0 - $ 5	4	$ 200	2	$ 100
5 - 10	8	600	2	200
10 - 20	12	1,800	4	600
20 - 30	16	3,400	6	1,200
30 - 40	20	5,400	8	2,000
40 - 60	23	10,000	10 - 12	4,200
60 - 80	26	15,200	12 - 14	6,800
80 - 100	29	21,000	14	9,600
100 - 150	32	37,000	17	18,100
150 - 200	35	54,500	17	26,600
200 - 250	38	73,500	20	36,600
250 - 300	41	94,000	20	46,600
300 - 500	44	182,000	20 - 23	89,600
500 - 1,000	47	417,000	23 - 29	222,600
1,000 - 2,000	49	907,000	32 - 35	557,600
2,000 - 3,000	51	1,417,000	38 - 41	952,600
3,000 - 4,000	53	1,947,000	44 - 47	1,407,600
4,000 - 5,000	55	2,497,000	50 - 53	1,922,600
5,000 - 6,000	57	3,067,000	56	2,482,600
6,000 - 7,000	59	3,657,000	59	3,072,600
7,000 - 8,000	61	4,267,000	61	3,682,600
8,000 - 9,000	63	4,897,000	63	4,312,600
9,000 - 10,000	65	5,547,000	65	4,962,600
10,000 - 20,000	67	12,247,000	67	11,662,600
20,000 - 50,000	69	32,947,000	69	32,362,600
Over 50,000	70	-	70	-

Treasury Department, Division of Tax Research March 31, 1941

1/ Exclusive of temporary defense tax.

Comparison of proposed estate tax under Schedule II with present estate tax on net estates (before exemption) of selected sizes 1/

Net estate before exemption (000)	Amount of tax: Present law 2/	Amount of tax: Proposed Schedule II: Without defense tax	Amount of tax: Proposed Schedule II: With defense tax	Effective rate: Present law	Effective rate: Proposed Schedule II: Without defense tax	Effective rate: Proposed Schedule II: With defense tax	Increase in tax: Amount: Without defense tax	Increase in tax: Amount: With defense tax	Increase in tax: Percent: Without defense tax	Increase in tax: Percent: With defense tax
$ 50	$ 220	$ 2,600	$ 2,860	0.4%	5.2%	5.7%	$ 2,380	$ 2,640	1081.8%	1200.0%
60	660	4,400	4,840	1.1	7.3	8.1	3,740	4,180	566.7	633.3
80	2,200	8,850	9,735	2.8	11.1	12.2	6,650	7,535	302.3	342.5
100	4,620	13,900	15,290	4.6	13.9	15.3	9,280	10,670	200.9	231.0
200	21,780	45,750	50,325	10.9	22.9	25.2	23,970	28,545	110.1	131.1
400	64,460	127,000	139,700	16.1	31.8	34.9	62,540	75,240	97.0	116.7
600	113,740	217,250	238,975	19.0	36.2	39.8	103,510	125,235	91.0	110.1
1,000	232,100	405,250	445,775	23.2	40.5	44.6	173,150	213,675	74.6	92.1
2,000	597,960	894,750	984,225	29.9	44.7	49.2	296,790	386,265	49.6	64.6
4,000	1,527,680	1,933,750	2,127,125	38.2	48.3	53.2	406,070	599,445	26.6	39.2
6,000	2,706,220	3,052,750	3,358,025	45.1	50.9	56.0	346,530	651,805	12.8	24.1
10,000	5,430,260	5,530,750	6,083,825	54.3	55.3	60.8	100,490	653,565	1.9	12.0
20,000	12,799,380	12,230,250	13,453,275	64.0	61.2	67.3	- 569,130	653,895	- 4.4	5.1
40,000	27,978,500	26,029,750	28,632,725	69.9	65.1	71.6	- 1,948,750	654,225	- 7.0	2.3
60,000	43,268,060	39,929,500	43,922,450	72.1	66.5	73.2	- 3,338,560	654,390	- 7.7	1.5
100,000	74,068,060	67,929,500	74,722,450	74.1	67.9	74.7	- 6,138,560	654,390	- 8.3	.9

Treasury Department, Division of Tax Research

March 31, 1941

1/ Under the proposal the attached rate schedule is substituted for the present schedule and the specific exemption is reduced from $40,000 to $25,000.

2/ Includes 10 percent defense tax.

4

Comparison of surtax schedules under present law and proposed Schedule

Surtax net income ($000)	Bracket rates (percent): Present law	Bracket rates (percent): Proposal	Total surtax cumulative: Present law	Total surtax cumulative: Proposal
$ 0 - 2	-	10%	$ -	$ 200
2 - 4	-	12	-	440
4 - 6	4%	14	80	720
6 - 8	6	16	200	1,040
8 - 10	8	18	360	1,400
10 - 12	10	20	560	1,800
12 - 14	12	22	800	2,240
14 - 16	15	24	1,100	2,720
16 - 18	18	26	1,460	3,240
18 - 20	21	28	1,880	3.800
20 - 22	24	30	2,360	4,400
22 - 25	27	33	3.170	5.390
25 - 26	27	33	3.440	5.720
26 - 30	30	36	4,640	7.160
30 - 32	30	36	5,240	7.880
32 - 38	33	39	7.220	10,220
38 - 44	36	42	9.380	12,740
44 - 50	40	45	11,780	15,440
50 - 60	44	49	16,180	20,340
60 - 70	47	52	20,880	25.540
70 - 80	50	55	25,880	31,040
80 - 90	53	58	31,180	36,840
90 - 100	56	61	36,780	42,940
100 - 150	58	62	65.780	73,940
150 - 200	60	63	95,780	105,440
200 - 250	62	64	128,780	137.440
250 - 300	64	66	158,780	170,440
300 - 400	66	68	224,780	238,440
400 - 500	68	70	292,780	308,440
500 - 750	70	72	467,780	488,440
750 - 1,000	72	72	647,780	668,440
1,000 - 2,000	73	73	1.377.780	1.398,440
2,000 - 5,000	74	74	3.597.780	3,618,440
Over - 5,000	75	75	-	-

Treasury Department, Division of Tax Research — March 31, 1941

Comparison of present and proposed individual income taxes
on net incomes of selected sizes 1/

Married person - no dependents

Net income before personal exemption 2/	Amount of tax			Effective rates			Increase in tax			
		Proposal			Proposal		Amount		Percent	
							Proposal		Proposal	
	Present law	Without defense tax	With defense tax	Present law	Without defense tax	With defense tax	Without defense tax	With defense tax	Without defense tax	With defense tax
$ 2,500	$ 11	$ 60	$ 66	.4%	2.4%	2.6%	$ 49	$ 55	445.5%	500.0%
3,000	31	128	141	1.0	4.3	4.7	97	110	512.9	354.8
4,000	70	264	290	1.8	6.6	7.3	194	220	277.1	314.3
5,000	110	420	462	2.2	8.4	9.2	310	352	281.8	320.0
6,000	150	576	634	2.5	9.6	10.6	426	484	284.0	322.7
8,000	317	928	1,021	4.0	11.6	12.8	611	704	192.7	222.1
10,000	528	1,320	1,452	5.3	13.2	14.5	792	924	150.0	175.0
12,500	858	1,870	2,057	6.9	15.0	16.5	1,012	1,199	117.9	139.7
15,000	1,258	2,484	2,732	8.4	16.6	18.2	1,226	1,474	97.5	117.2
20,000	2,336	3,904	4,294	11.7	19.5	21.5	1,568	1,958	67.1	83.8
25,000	3,843	5,594	6,153	15.4	22.4	24.6	1,751	2,310	45.6	60.1
50,000	14,128	16,404	18,044	28.3	32.8	36.1	2,276	3,916	16.1	27.7
75,000	27,768	30,054	33,059	37.0	40.1	44.1	2,286	5,291	8.2	19.1
100,000	43,476	45,584	50,142	43.5	45.6	50.1	2,108	6,666	4.8	15.3
500,000	330,156	326,904	344,214	66.0	65.4	68.8	- 3,252	14,058	- 1.0	4.3
1,000,000	717,584	706,864	736,178	71.8	70.7	73.6	- 10,720	18,594	- 1.5	2.6
5,000,000	3,916,548	3,816,324	3,935,142	78.3	76.3	78.7	- 99,724	18,549	- 2.5	.5

Treasury Department, Division of Tax Research

1/ Under the proposal, the attached surtax rate Schedule is substituted for the present schedule.
2/ Maximum earned income assumed.

April 8, 1941
11:17 a.m.

Harry Hopkins: Hello, Henry.

H.M.Jr: Hello, Harry. How are you?

H: Fine.

H.M.Jr: Harry, I met Forrestal Sunday night - I don't mean Forrestal - Salter and I'm tremendously impressed with the need that we move on these Danish ships.

H: Yeah.

H.M.Jr: I mean, I don't know of anything - a lot of things are important but after all until you get the stuff to move them in it isn't much use getting a lot of stuff together. I don't know whether they've told you that there is 430 odd thousand tons of steel on the docks here in America waiting shipment. Did you know that?

H: Yes, I knew that.

H.M.Jr: And I just figure if the President would give this Danish thing one hour, which it deserves, and call them together ......

H: Has anybody made a recommendation to him on it?

H.M.Jr: Well, you know what happened last Wednesday. Hull gave him a slip of paper which none of us saw and the President signed it and said O.K. Hello?

H: Yeah.

H.M.Jr: Well, I called up Hull yesterday morning and I said, "What have you done with it?" So first he said, "Well, I don't know anything about the seizure of ships," and I said, "I don't mean that. I mean what have you done about getting the necessary legislation?" Oh, he said, "That's on the President's desk." He said, "I'm waiting on the President." Well, I go over and have lunch with the President and the President says, "I haven't got anything from Hull; I don't know what he's talking about." Well, I come back, I call up Hull again and Hull says it is on the President's desk with a message to Congress.

H: Huh.

H.M.Jr: Now, what is today - Tuesday ......

H: I think that's that - it isn't that Ankara business.

H.M.Jr: What's that?

H: It isn't that thing they call some fancy name about seizure without declaring an emergency.

H.M.Jr: Well, now ......

H: Has anybody talked to Bob Jackson?

H.M.Jr: Foley talked with Jackson about taking over the Danish ships without legislation and Jackson said if it was what the President wanted he was ready to go along.

H: You mean, he'd find the law.

H.M.Jr: Yeah.

H: Well, I'm going to try to get that thing off of that desk and up here and take a look at it in five minutes.

H.M.Jr: Don't you agree with me that before you can do anything else you've got to get the bottoms?

H: Oh, absolutely. What was the other thing, Henry?

H.M.Jr: Well, it's just to get this Danish thing free, and if it's right that the President can do it without legislation, well then if we could only get him to move in the next day or so.

H: Yeah.

H.M.Jr: The figures that Salter mentioned Sunday night were - it takes 18 ships a month. It takes them four months to get back, so it takes 70 ships to keep the Middle East going.

H: Yeah.

H.M.Jr: And if we could take care of that, that would mean there'd be 70 ships to take this steel and food over to England, and we just sit here all of us and nothing happens.

H: Well, there is a lot happening, Henry, that isn't true. A lot of things are happening. These damn Danish ships aren't moving.

H.M.Jr: What?

H: These Danish ships aren't moving.

H.M.Jr: That's what I mean. Well, I mean happening in the sense of getting them straightened there, Harry.

H: Well, there's a lot ....

H.M.Jr: What is happening?

H: Well, we're moving probably 50 shiploads of stuff to the Eastern seaboard that we're getting those 25 Yugoslav ships which is 125,000 tons; the Maritime Commission is ready to buy 60 ships that are now in existence as American flagships and lend-lease them to the British unless the President is willing to run them under our own flag, a decision which he still hasn't made although he has talked about it a great deal; but about the Danish ships nothing has been done.

H.M.Jr: Well, what I hear about those 60 ships, the Maritime says that they can't do it that public opinion wouldn't stand for it.

H: Oh, well that's crazy. That sounds like Admiral Land again.

H.M.Jr: And as far as the Yugoslav ships are concerned, the English say that is nothing new because they've been carrying stuff anyway.

H: Well, I saw the routes of all the Yugoslav ships. Some of them have been carrying some terrible stuff.

H.M.Jr: Well, anyway ......

H: The Danish ships is what is important. There they are sitting right there and they tell me they can't find ships.

H.M.Jr: That's what I called you up about.

H: Yeah. I'll get that - I'll see that - I never heard this before about anything being on the President's desk.

H.M.Jr: Well, I thought if I told you what happened yesterday - I called up, I wanted to tell you yesterday that with your help maybe something would happen.

H: Well, let me get right at it. I'll get Grace Tully to get it off the desk.

H.M.Jr: O.K.

H: All right.

LIST OF DANISH VESSELS IN CUSTODY OF THE UNITED STATES

NO.	NAME	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	YEAR BUILT	TYPE	POWER	SPEED
1	JUTTA	290.0	1,549	Esbjerg	Portland, Maine	4/12/40	1934	Freighter	Single screw, 4 cylinder compound steam engine with low pressure turbine	-
2	EMMA MAERSK	466.3	8,278	Nyborg	Boston	4/9/40	1928	Freighter	Twin screw, oil engines	-
3	HERTA MAERSK	287.9	1,890	Aalborg	Boston	12/16/40	1939	Freighter	Single screw, 3 cylinder compound, steam engines and low pressure turbine	-
4	RITA MAERSK	287.9	1,889	Aalborg	Boston	4/16/40	1939	Freighter	Single screw, 3 cylinder compound, steam engines and low pressure turbine	-
5	AUSTRALIAN REEFER	332.6	2,321	Esbjerg	New York	4/10/40	1937	Freighter (Refrig. machine)	Single screw, oil engines	15
6	BROHOLM	280.7	1,544	Copenhagen	New York	4/20/40	1925	Freighter	Single screw, 4 cylinder compound, steam engines and low pressure turbine	-
7	GEORGIA	310.0	2,272	Copenhagen	New York	4/10/40	1920	Freighter	Single screw, 2 steam turbines geared to one shaft	-
8	GERTRUD	326.8	2,282	Copenhagen	New York	4/17/40	1938	Freighter	Single screw, oil engines	14
9	JONNA	271.8	1,517	Esbjerg	New York	12/10/40	1933	Freighter	Single screw, 4 cylinder compound, steam engines and low pressure turbine	-

NO.	NAME	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	YEAR BUILT	TYPE	POWER	SPEED
10	LUNDBY	357.0	4,150	Kallehave	New York	4/21/40	1926	Freighter	Single screw, oil engines	-
11	MARIA	258.2	1,369	Esbjerg	New York	6/28/40	1933	Freighter (Refrig. machinery)	Single screw, 4 cylinder compound steam engine and electric drive from low pressure turbine	-
12	MARNA	292.0	1,700	Esbjerg	New York	6/21/40	1936	Freighter	Single screw, 3 cylinder compound steam engine and low pressure turbine with reduction gear and chain drive	12
13	NORA*	356.4	2,937	Esbjerg	New York	7/23/40	1940	Freighter	Twin screw, oil engines	-
14	OLYMPIA	384.7	4,488	Copenhagen	New York	6/3/40	1930	Freighter	Twin screw, oil engines	-
15	PAULA	290.0	1,549	Esbjerg	New York	4/4/40	1934	Freighter	Single screw, 4 cylinder compound steam engine and low pressure turbine	-
16	SESSA	290.0	1,700	Esbjerg	New York	4/3/40	1936	Freighter	Single screw, 3 cylinder compound steam engine and low pressure turbine with reduction gear and chain drive	12
17	SICILIEN	271.7	1,654	Copenhagen	New York	4/7/40	1938	Freighter (Refrig. machinery)	Single screw, oil engines	13

*Hull strengthened for navigation in ice.

NO.	NAME	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	YEAR BUILT	TYPE	POWER	SPEED
18	TANJA	265.0	1,392	Esbjerg	New York	7/3/40	1937	Freighter	Single screw, compound 4 cylinder, steam engine	-
19	TUNIS	271.7	1,641	Copenhagen	New York	4/15/40	1936	Certified for carrying passengers refrig. machinery	Single screw, oil engines	13
20	P. N. DAMM	326.8	2,832	Copenhagen	Philadelphia	4/9/40	1929	Freighter	Single screw, compound 4 cylinder, steam engine	-
21	NORDEN	401.4	4,700	Copenhagen	Philadelphia	4/8/40	1937	Freighter	Twin screw, oil engines	13
22	BROSUND	305.0	2,939	Frederikshaven	Baltimore	4/3/40	1916	Freighter	Single screw, triple expansion steam engines	-
23	ALSSUND	332.1	3,222	Frederikshaven	Baltimore	4/5/40	1920	Freighter	Single screw triple expansion steam engines	-
24	LEXA MAERSK	439.0	5,614	Copenhagen	Baltimore	4/6/40	1939	Freighter	Oil engines, single screw	15
25	RAGNHILD	326.8	2,252	Copenhagen	Baltimore	4/9/40	1938	Freighter	Single screw, oil engines	14
26	COLUMBIA	384.7	6,049	Copenhagen	Baltimore	6/5/40	1928	Freighter	Twin screw, oil engines	-
27	ANNA MAERSK	441.4	5,339	Copenhagen	Baltimore	7/3/40	1932	Freighter	Single screw, oil engines	15

Sheet No. 4

NO.	NAME	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	YEAR BUILT	TYPE	POWER	SPEED
28	NIEL MAERSK	418.9	5,086	Svenborg	Baltimore	8/13/40	1931	Freighter	Twin screw, oil engines	14
29	LAURA MAERSK	455.9	6,599	Copenhagen	Baltimore	7/5/40	1939	Freighter	Twin screw, oil engines	15½
30	FRODE	289.7	2,140	Copenhagen	Norfolk	4/11/40	1918	Freighter	Single screw triple expansion steam engines	-
31	E. M. DALGAS	326.8	2,836	Copenhagen	Norfolk	4/21/40	1930	Freighter	Single screw, 4 cylinder compound steam engine	-
32	CAROLINE MAERSK	456.8	7,691	Fredericia	Jacksonville	4/14/40	1928	Tanker	Twin screw, oil engines	-
33	NORDPOL	380.0	4,480	Copenhagen	Los Angeles	4/13/40	1926	Freighter	Twin screw, oil engines	-
34	NORDHVAL	380.0	4,472	Copenhagen	Los Angeles	4/20/40	1924	Freighter	Twin screw, oil engines	-
35	NORDVEST	401.4	4,702	Copenhagen	Grays Harbor, Wash.	4/11/40	1938	Freighter	Twin screw, oil engines	13
36	GERTRUDE MAERSK*	418.9	5,038	Svendborg	Manila	6/18/40	1930	Freighter	Twin screw, oil engines	14
37	GRETE MAERSK*	471.9	6,576	Copenhagen	Manila	7/20/40	1937	Freighter (Refrig. Machinery)	Twin screw, oil engines	16
38	HULDA MAERSK*	439.0	5,601	Copenhagen	Manila	7/27/40	1938	Freighter (Refrig. machinery)	Single screw, oil engines	15

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NO.	NAME	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	YEAR BUILT	TYPE	POWER	SPEED
39	MARCHEN MAERSK*	471.9	6,580	Copenhagen	Cebu, P.I.	8/11/40	1937	Freighter (Refrig. machinery)	Twin screw, oil engines	16

*Taken over by Navy in Philippines.

Note: Speed of vessels is recorded in Lloyd's Register only when greater than 12 knots. Accordingly, where the speed is not shown it may be assumed to be less than 12 knots.

See Ltr to Pres of 3/17

April 8, 1941
11:28 a.m.

Robert Patterson: Henry?

H.M.Jr: How are you?

P: Bob.

H.M.Jr: I haven't talked to you in a long time.

P: No, I miss you.

H.M.Jr: Bob, on this matter that Stimson brought up a couple of times in connection with this taxing of national defense contracts ......

P: State taxes on gasoline. Yes, I know about it.

H.M.Jr: Would it be agreeable to you to let Greenbaum work on that?

P: Yeah, I'd ask nothing better.

H.M.Jr: Well, could you put him on that so that he could work with us also.

P: Yeah.

H.M.Jr: I think it would be helpful.

P: First rate.

H.M.Jr: O.K.

P: Whatever he says I'll abide by it and I'll see to it the Secretary does.

H.M.Jr: Well, if he could be put on that then he could work with Foley and then we could develop it together.

P: Yes. I'll ask him to.

H.M.Jr: Thank you.

P: Thank you, Henry.

April 8, 1941
11:30 a.m.

RE FINANCING (RFC)

Present: Mr. Haas
Mr. Hadley
Mr. Murphy
Mr. Bell

H.M.Jr: Is this fixed as of last night? (referring to report)

Haas: Yes, sir. That has each day.

H.M.Jr: I see the March 15, '43, is off a little, isn't it?

Hadley: The whole market is up this morning.

H.M.Jr: Is it?

(Mr. Bell entered the conference.)

H.M.Jr: Hello, Dan.

Bell: Good morning. How are you feeling?

H.M.Jr: A little better.

Haas: You should get off your feet. It is hard to fight a cold.

H.M.Jr: Well, it is much better today. What is new, Dan?

Bell: Nothing new. New York says there is no change in the situation from what they reported yesterday. I talked with Eccles last night, and he said his first choice was six hundred million dollars, one issue, either in the three year period at one and a quarter, or four years at one and a half.

His second choice would be a three hundred million dollar, two issues, two years at seven eighths, and four years at one and three eighths. He said if you adopt what he called "Jones' choice," that is, the January and the July, '43, he would put a seven eighths and a one per cent coupon on those.

H.M.Jr: He would?

Bell: Yes.

Murphy: He has reversed Piser.

H.M.Jr: How?

Murphy: Piser favored a one and an eighth. I mean, I call attention to the fact --

Bell: On the three hundred million?

Murphy: Yes.

Bell: This morning?

Murphy: That was yesterday.

Bell: This was late last night.

Haas: He reversed him last time.

Murphy: Piser was more conservative than we were.

On the one and three quarters, that is, the January, 1943, he had an estimated premium of par fourteen as against par seventeen which we had, and for a two and a quarter, we had an estimated premium of par seventeen as against par eighteen. He wasn't so optimistic about it. He had taken six thirty-seconds off his premiums on the theory that they weren't going to sell at what they called the computed premiums.

In the case of this last issue, Eccles was more optimistic than Piser, and reversed him on grounds of policy and stepped in and took an eighth off the coupon.

Bell: Well, these are more in line with your estimates, are they not?

Murphy: No, the - we - our estimates were in line with the ones that Piser made except that we have a little higher premium.

Bell: You recommend a one and a one and an eighth?

Murphy: Yes.

Bell: Is that right?

Murphy: I think the lower coupons would go, but they would be lower premiums than we have offered at any time in the past, and I don't know as this is the time to break ground on that.

Hadley: There is some thought in New York that the premium is going to be determined by the amount of selling that come out, and the experience of other RFC and guaranteed issues is that after the original subscription they go back into the big banks, and they expect the same sort of selling might take place this time.

H.M.Jr: What effect would that have?

Hadley: That would have a tendency to cut down your estimated premiums during the early period of the offerings.

H.M.Jr: Where do you stand today?

Hadley: I think that the seven eighths on the shorter issue and one per cent on the longer issue will go, but I would rather see the one per cent than the one and one eighth, because I think it would give us a little more margin.

H.M.Jr: Henry?

Murphy: Just the same.

Haas: The same.

H.M.Jr: Dan?

Bell: Well, that sounds very good to me. I don't think we would quarrel about one eighth on this.

H.M.Jr: Why don't we get Sproul and Rouse together?

Bell: Sproul is sick. Rouse is there.

H.M.Jr: What was the reception this morning on financing news?

Bell: They carried the story that you were going to have two issues of three hundred million each.

Hadley: There was no editorial comment.

H.M.Jr: I will tell you how I feel. I feel a little less comfortable this morning than I did yesterday.

What does one eighth amount to on each issue, has anybody figured it?

Hadley: The average cost over two years would be about a million and a half more on six hundred million. That would be the total cost.

H.M.Jr: How much?

Bell: Well, it wouldn't be --

Murphy: Three quarters --

Bell: It would be three quarters of a million a year.

Murphy: If it was eight hundred million it would be a million.

Hadley: I figured it out. It is a million and a half over the life of the two issues.

H.M.Jr: On six hundred million dollars? That is an awful lot.

Haas: There is the past history of the premiums on previous offerings of RFC.

H.M.Jr: You say the market is better today?

Hadley: Yes. On the Treasury direct issues, it is up three and four thirty-seconds. The guaranteed issues haven't moved, but they have a firm tone.

(Telephone conversation with Mr. Rouse follows:)

April 8, 1941
11:35 a.m.

H.M.Jr: Mr. Rouse?

Operator: Mr. Rouse said he'd like to wait about three minutes.

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

11:37 a.m.

H.M.Jr: Hello.

Operator: Mr. Rouse.

Robert Rouse: Good morning, sir.

H.M.Jr: How are you?

R: I'm fine. I hope your cold is better.

H.M.Jr: Well, a little.

R: You sound a little heavy.

H.M.Jr: Yeah. How did they take the preliminary announcement?

R: Very well. Very well. The market is good and firm just as it was yesterday. The bonds are a shade better, 1 to 3/32nds better, and the note is unchanged. The market is all ready for the issue and it's just a case of hearing the terms.

H.M.Jr: What's your judgment as to where we should price it?

R: You have in mind the January and July '43?

H.M.Jr: That's right.

R: 7/8s and 1%.

H.M.Jr: 7/8's and 1.

R: Yes, sir.

H.M.Jr: Are you fairly confident of that?

R: Yes, I think it could be done at 3/4's and 7/8's but I wouldn't recommend it.

H.M.Jr: Now what are you recommending for the January 15, '43?

R: January 15th the 7/8's coupon and July 15th, '43 a 1% coupon.

H.M.Jr: Is that right?

R: Yes, sir.

H.M.Jr: You surprise me.

R: Why?

H.M.Jr: Well, I thought you were going to ask for 1/8th more on each.

R: Oh, no. I really think that the - you could skin it by with a 3/4 and a 7/8's. They'd be taken but you wouldn't have a satisfactory situation in my judgment.

H.M.Jr: But will you have ......

R: But these at 7/8's and 1%, I think you'd have a very satisfactory reception.

H.M.Jr: On the 7/8's how much margin do you think there is.

R: Well on the 7/8's it was our feeling that they should be worth in the neighborhood of 55-56 which is just a shade over half a point.

H.M.Jr: I see. And on the other?

R: And on the 1% I think about .75, which is 18/.32nds. Now it's awfully difficult.

That's where the thing fits in on your lines and on your theories that a guaranteed issue is worth 15 to 20/100s more in basis than the direct issues and that I think it is also clear you have to allow the full 24% corporate tax equivalent.

H.M.Jr: 24.

R: Yeah. What the difficulty is, when you get to the low rates, that is 1% or less, it's largely a money market operation and whether the money market institutions will step up to that level initially to buy the surplus that comes in from the rest of the country is another question. I think they probably wouldn't.

H.M.Jr: Well, have you talked to - this will mostly go to the banks won't it?

R: Yes, sir.

H.M.Jr: Have you talked to some of them?

R: Yes, I have, and people like the Guaranty and the Chase and the City I think will all be glad to take this and some expressed the view that they'd buy in the open market but I don't think they'd buy at the premiums indicated of 18/32nds, judging by the rest of the market, and that will take probably a little time to achieve unless the out of town banks keep them. If any large supply comes in, the banks here will tend to hold back and take them on the good side of the market however it opens.

H.M.Jr: I see. Well, you'll be around for the next 15-20 minutes, won't you.

R: Oh, yes. I'll be right here.

H.M.Jr: O.K.

H.M.Jr: That is surprising.

Bell: While he was in favor of the seven eighths and one, he weakened a little at the last about them coming in in value and not holding.

Murphy: That premium is a little ambiguous because he says with that premium there probably won't be that. It is there, but you can't see it.

Bell: He means that they will sag in the first few days until the shifting is over.

H.M.Jr: He is figuring on a twenty-four per cent basis, too.

Murphy: Of course the premiums we had in the past we got on the day of trading. They may have gone up subsequently, but those are the ones you got right off the bat.

H.M.Jr: How strong do you fellows feel on the extra eight?

Murphy: I think it will go without it, but it is apt to be a week system.

H.M.Jr: George?

Haas: I feel it would go without it, but this is the first one in the RFC that you are putting out that is taxable; and with conditions as they are and with just an eighth, I would feel much happier if you took the eighth.

Murphy: It doesn't seem this is a good time to break new ground. If they have been too high, this isn't a good time to change policy.

(The Secretary on the White House phone.)

H.M.Jr: Hello.....

Right.....

Good morning.....

Oh, pretty good. I have got a little head cold.....

Oh, I have done three different things.....

It pretty near knocked me out.....

I have tried three different medicines, and I don't know which is the worst.....

I have been over there.....

Yes.....

All the time necessary.....

John E. Mack, Jr.? His father is Judge Mack, who nominated the President....

No.....

The boy must be a Democrat.....

Oh, you mean not Coca Cola, the other one.....

Pepsi Cola. Oh yes. He is the president of the New York Republican Club, I think.....

Or the National Republican. He is the president of some Republican club.....

I think he is president of the National Republican Club or something.....

It is M-a-c-k, but it can't be John. I don't know what his first name is, but it isn't John.....

It is Mack, Jr., but I don't know what his first name is.....

It is not John.....

Damned if I know what it is.....

That is right. Does he want something of the boss?.....

Oh.....

Oh.....

Well --.....

He is very clever. He has made a hell of a lot of money.....

But some of the more conservative people up in New York don't think he is so hot.....

Well, that is one of these investment trusts. It is an investment trust, but he has just been a little bit too smart for some of them up there.....

I see....

I see....

Yes.....

Yes.....

Yes.....

That is right.

I see.....

Well, I will tell you two fellows who could give you a line on it. One is Forrestal, and the other is Bob Lovett.....

Now, they would know him. They really know him. But those two men --.....

Yes. Or Bob Lovett, who is a very able conservative fellow and both those men would know him.....

He hasn't left yet, has he?.....

Well, Lovett would know, and I will tell you who else would know him. What is this man over at SEC who --.....

I was thinking of Frank and Pike. Do you know Sumner Pike? If you ask Jerome Frank to check through his New York office, if you want to do that.....

No, he is a New York boy, I think. He is a New York boy.....

Well, I have seen him, I think once over ten years.....

Well, the only thing that you might is if we put a tax on soft drinks.....

Well, does that help you any?

O.K.....

Well, I will forget it.....

Good bye.

H.M.Jr: I don't know whether you fellows could hear or not.

Bell: Could hear your end of it, but not his.

H.M.Jr: Had an offer. Where were we? Some of those conversations on the White House phone, they just upset you. I told him not to use it except for the President. I thought I would call up Eccles. Will I get anything from him?

Bell: The same as you got last night, I think. I told him I might call him today, and he said, "Well, you can if you want to. I don't think there will be any change in it."

H.M.Jr: Supposing I call him. What time do we have to make up our minds?

Bell: Well, we have got just as much time as we had until the other. The only thing is, every time we delay it until the afternoon--

H.M.Jr: We might as well do it now, mightn't we?

Bell: If you get it out of here by one o'clock, the banks have time to get it into the mails.

Hadley: A few hours won't make any difference.

H.M.Jr: I am inclined to give them the extra eighth, I swear.

Bell: I am too.

Hadley: We can get it back on the next one.

Bell: Will this have any effect on our three quarters percent note out, putting a coupon like this.

Hadley: Well, they are already in the dog house.

Bell: Yes, I know, but would it put them back in the corner further?

Hadley: I don't think so.

Murphy: The guaranteed and direct markets seem to be pretty distinct.

(Telephone conversation with Mr. Eccles follows:)

April 8, 1941
11:50 a.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

Marriner Eccles: Good morning, Henry.

H.M.Jr: Good morning Marriner. How are you?

E: I'm fine. I just got back Sunday after being away a little while.

H.M.Jr: Good.

E: How are you feeling?

H.M.Jr: Oh, I've got a head cold.

E: You have. Didn't you get a little rest while you were away?

H.M.Jr: Oh, had a .....

E: Got all over it by now, eh?

H.M.Jr: Well, I got my head cold Saturday night at that damn dinner.

E: Well, I was expected to get in here. I took a plane and got grounded over in Illinois so I missed it.

H.M.Jr: Well, you didn't miss anything.

E: (Laughs).

H.M.Jr: Marriner, we've pretty well fixed the period we want to borrow on, January 15, '43 and July 15, '43.

E: Yeah. Split it into two of $300 million each.

H.M.Jr: Yeah. We could do 7/8's in one case and 1% in the other. That's what Bell tells me is the way you felt.

E: Yeah.

H.M.Jr: I wonder if you still feel that way?

E: I do.

H.M.Jr: I felt that way yesterday. I've weakened a little bit.

E: You think it's too low?

H.M.Jr: No, I think it'll go but I think the after market might not be so good. I'm inclined to add an 1/8th in each case just as a sort of insurance policy. It's the first one and ......

E: Well, I think you're just giving it to them. (Laughs).

H.M.Jr: Well, that might be true.

E: Of course, it's cheap money no matter what you do. What I'm thinking of course is the effect it has generally upon the Treasury short issues. It sort of establishes - helps to establish a price for your financing because there certainly is a close relationship.

H.M.Jr: Yeah.

E: You offered a 3/4 note as an option in the last financing for a 2-year note and a 7/8's for a 2-year note - less than two years as a matter of fact. Here's only 1.9. It's a pretty good rate. The commercial paper - of course that's even shorter - but commercial paper is selling at 1/2 or 3/4's of 1%. I can't imagine that a 7/8's or a 1% paper that there could be much question about it. It's purely a bank financing and they are loaded with reserves. It's comparable with, of course, a very short term money market and even if a long bond might go down, I can't imagine a short rate of this sort. It will be pretty largely held by the money market banks. It's almost entirely a New

York and Chicago issue and what else can they take. Where can they go and get 1% for short money?

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

E: There is just no place they can put it and they've got the idle money and it just looks to me like anything more than 7/8's or this - this ought to give them a premium of 1/2 anyway. That's the way it looks .....

H.M.Jr: Well, it depends upon whether you figure that corporate tax at 24 or 30.

E: Well, that's correct. Of course, that applies on everything else though. That applies on all the private financing. Of course that darn corporate tax thing - it's too bad we can't freeze it at 24 so far as Government financing is concerned because it does give these tax-free securities an advantage.

H.M.Jr: That's right.

E: I don't know. Isn't it possible to freeze that so far as tax purposes is concerned to freeze that at 24?

H.M.Jr: I don't know. Might think about it. Anything is possible these days.

E: The ......

H.M.Jr: Where is Piser on his figuring today? What coupon does he put on it?

E: Well, let's see. I've got a grade here. 7/8's figures about a half premium. 1%, that's July 15, '43 would give a - gives a taxable yield of .77. The other gives a yield of .61. If you go to the 1/8's it gives a yield of .93 and of course a little higher premium, but this would give a little better than 1/2 for less than two years. That's taking into account - well, let's see - that's assuming you've got a premium of about 1/2 point.

H.M.Jr: Yeah.

E: I was a little sorry that we didn't possibly - couldn't get Jesse to go four years and put possibly a 1½ out and get it scattered throughout the country.

H.M.Jr: Yeah.

E: This stuff is going to be entirely in ......

H.M.Jr: In the banks.

E: Well, it's going to be entirely in New York and Chicago largely whereas the 1½ would have been pretty well scattered through a lot of banks. There would have been a national distribution of it.

H.M.Jr: That's right.

E: But Dan said that Jesse was pretty loath to go more than 1%.

H.M.Jr: That's right.

E: And so you've got a problem here, it seems to me, of just what you want to give the New York banks. That's about all there is to that, and they've got $3½ billion of reserves and can't get anything on it and are paying 1/12th of 1% Federal Deposit rate. Now, I think that whatever ......

H.M.Jr: You mean you think they'll just have to take it.

E: Well, I mean, I think they would take it because they've just got no other place to put their funds and whatever - if you give them the 1/8 more - of course, they're not earning too much. I'm not - it's cheap money at 1% but if you want to price it in the market it looks to me like that 7/8's and the 1% is .....

H.M.Jr: Is what the market calls ......

E: I think it's what the market calls for in lieu of what the Treasury's own financing is. Now, we figured a 3/4 for 2 years is pretty good and it looks to me like if you figure more than this you're looking at Government guaranteed stuff as worth considerably less than direct, and it really isn't, is it?

H.M.Jr: No. Well, thanks. We'll work on it some more and Bell will give you a ring as soon as we make up our mind here.

E: Well, I'll check a little more on it too. I really hadn't done very much this morning. I just looked it over and analyzed it was all. I'll check a little more and if I have any other ideas I'll call you back.

H.M.Jr: Thank you.

H.M.Jr: What do you suppose he was doing this morning?

Murphy: I don't know.

H.M.Jr: Just to nail this thing down, how many thirty-seconds do you place on January 15, '43?

Hadley: On seven-eighths, I will put a little under half a point. One a one percent, I would go up to about twenty thirty-seconds.

H.M.Jr: And you?

Murphy: Twelve on the seven-eighths and 17 on one.

Bell: Seventeen is ample, isn't it? You mean that is on the January?

Murphy: That is on the January.

H.M.Jr: You put 17 on the January?

Murphy: Seventeen on a one, for a one. Twelve for a seven-eighths.

Bell: There is five thirty-seconds between the rate and--

Murphy: The other three thirty-seconds goes to the tax.

H.M.Jr: Let me ask you this. How much difference does an eighth make in each case, how many thirty-seconds?

Murphy: Five in the January and six in the July.

H.M.Jr: On the seven-eighths, how much do you put?

Hadley: Par 15.

H.M.Jr: And how much do you do?

Murphy: For the seven-eights, 12.

H.M.Jr: And on the one percent?

Hadley: I will put 20.

Murphy: We put 17.

H.M.Jr: Well, the only thing that is questionable is the seven-eighths, isn't it? That might get down to 12. Is that your low?

Murphy: Twelve is our low, or rather it is our most probable.

Bell: I would say 12 would be ample in a two-year obligation if the subsequent selling didn't press it way down.

Murphy: This is, as we say, on the line. We haven't knocked off anything on this 12.

H.M.Jr: What do you mean?

Murphy: We have priced it just on the line as we have taken it from other issues. We haven't said, "This will go better later, so we will take off five thirty-seconds." With respect to the tax assumption, Mr. Secretary, I think it is interesting to know that the second defense note which shows the widest tax differentiation showed an allowance of 41 percent of its coupon as compared with a tax exempt note due the same date. They closed yesterday. It doesn't make sense to me, but I can't argue with it.

H.M.Jr: What does that mean? I don't quite get that.

Murphy: Two notes due the same date, September 15, 1944. One is fully taxable. The difference in their yield is equivalent to 41 percent of the coupon of the taxable note. The taxable note - you could pay a tax at 41 percent and still have the same amount less.

H.M.Jr: So the taxable note is out of line or the other one is out of line.

Murphy: The 41 percent seems high to me.

H.M.Jr: But we are not selling a taxable note.

Murphy: My point is we are not selling a taxable note. We propose to make, in our pricings, an allowance of 30 percent. It sounds high. I merely call your attention to the fact that an actual outstanding issue has an allowance of 41.

Hadley: That is a result of the initial selling, and if we price this too thin, we are liable to have the same thing on this. The initial selling on that second defense note forced the price down.

H.M.Jr: Well, here is the point. I never care what people think. New York says we could do it. I will call up Jones and Jones says he will do whatever I tell him to. I don't want to argue over the phone. I want to say I will or I won't. I don't want to say, "Jesse, you make up your mind." He is looking to me to tell him. So we want to make up our mind and call him up and say - now New York says they don't need it.

Murphy: The argument that Mr. Eccles urged and that

I think might have been in Mr. Rouse's mind also about the effect on the directs, it seems to me, is exaggerated. The direct and the guaranteed markets appear to be quite different. For example, the guaranteeds give a substantial yield for the same maturities at which the directs are selling at a considerable premium above the zero yield. The main reason, probably, is that on the short directs, the people think they have got a chance to get a long issue at a nice premium. On the guaranteeds they know they haven't and that is quite--

Bell: They don't put the same value on the rights.

Murphy: Yes. That is quite an addition to the fact of the guaranteed being perhaps not quite as ritzy and that causes a big difference in the outstanding issues. If it is in the outstanding issues, it seems we have got to read it into the prices in the new one. Doesn't it seem that way to you, Bill?

Hadley: That is right.

H.M.Jr: You say you haven't knocked anything off?

Murphy: No, we put it right on the line.

H.M.Jr: Well, what do you think, George? Sum up.

Haas: I would say one and one and an eighth. I don't think this - I think that is the conservative thing to do, and this is your first issue of this type. You have got - the risk isn't worth taking. I think it would go over, but I wouldn't take it. Eccles' argument is a stock argument. You could use that on anything.

H.M.Jr: You could sit here and say, "You have got--"

Murphy: Two years--

H.M.Jr: So much money is there, but I know that you could have excess reserves, and if the fellows don't want to buy it, they are not going to buy it.

Murphy: Two years is quite a time.

H.M.Jr: But I mean the point that I am making is that they don't - the fact that the excess reserves are there, everything is there, has not worked out.

Hadley: They will buy if they think the issue is going up. If they think it is going lower, they will wait.

H.M.Jr: Yes. Have you (Bell) expressed yourself?

Bell: Well, I agree with the one and the one and an eighth.

H.M.Jr: I do, too.

Bell: I think there is going to be some selling coming from outside. Everybody is going to subscribe in order to get this little premium at a profit, and I think they are going to dump them right in the market afterward.

H.M.Jr: I have always been a little bit on the generous side, and it hasn't hurt me any. I think we will do it that way. Each time, by being a little generous, it has helped.

Haas: And you get your dividends on the later financing.

H.M.Jr: That is right.

(Telephone conversation with Jesse Jones follows.)

April 8, 1941
12:06 p.m.

Operator: Operator.

H.M.Jr: Mr. Jesse Jones.

Operator: Right.

12:07 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

Jesse Jones: Mental telepathy. I was just that very instance wondering when I was going to hear from you.

H.M.Jr: Well, I've just been talking to Brother Eccles - or listening. It delayed me a little bit.

J: (Laughs). O.K.

H.M.Jr: Jesse, so that you get the picture, the New York Fed. says I can do this at 7/8's for the January and the July at 1%, and Eccles says the same thing.

J: Yeah.

H.M.Jr: But I've been thinking fairly hard on it and the point that New York makes is that they are worried about the after market and they think it is questionable what kind of a market you'll have, and you've got to sell a lot more of these and this is the first one. Now, we can sell it at 7/8's and 1%, but I don't recommend it. I recommend that we add 1/8 to each, leave a nice taste in their mouth and then when we come back - we think in the long run we'll save money. We shaved it too close on our own and the thing went below par and we ruined the short-term market for ourselves.

J: Now, that's January '43 ......

H.M.Jr: January '43, what I'm recommending is 1% and July 15, '43, 1-1/8, and that is not the advice that I'm getting from the Federal Reserve System.

J: Uh-huh. Couldn't you work it out on an average of one.

H.M.Jr: I don't see how. I know what you've got in your mind, you'd like it

J: Well, what I thought is this: I believe, Henry, that the 7/8's and the 1% is plenty sweet. I think it will go and go well and I don't think the future market would bother but then I was just thinking that if a fellow bought $1,000 why $500 of it would be in January and $500 in July and both demand 1%. That's just an idea I had.

H.M.Jr: Well, I - no.

J: I think they'll grab them all right.

H.M.Jr: I think they will. I think that they'll - I tell you what I could do. If the January 15, '43, which isn't quite sweet enough .....

J: The January.

H.M.Jr: I could shorten that up three months.

J: Well, supposing you did that.

H.M.Jr: Have you got a minute?

J: Yeah, got all the time you want.

H.M.Jr: Supposing we made that October, '42. Just a second. (Pause). (Talks aside). Hello.

J: Yeah.

H.M.Jr:	Let me call you back in five minutes.
J:	O.K.
H.M.Jr:	I'll call you back.

H.M.Jr: Just a second.

Murphy: Par thirteen.

H.M.Jr: Just one up, is that all?

Murphy: Yes. Of course, as your premium gets shorter, it is harder to get a premium, and getting a premium means more and more. For example, on a very short one, we would be satisified with seven, but we would only get par thirteen.

H.M.Jr: It wouldn't help any?

Murphy: Yes, I think it would. It amounts to more than the one thirty-second appears, because you are working both ways. You are shortening the issue which increases the significance of any premium.

H.M.Jr: Would you worry about the other one, shortening the other one? I mean, the July.

Murphy: If that was the correspondingly short one, we would get par fifteen. In other words, if each of them were shortened three months and their coupons clipped, we would get par fifteen and thirteen.

H.M.Jr: Do you think that would be better?

Bell: You would put out a seven-eighths and a one.

Haas: And have the same security as you have now.

Hadley: For an average of one percent, you could just move the first one back three months and leave the other one one and an eighth.

H.M.Jr: Leave the one percent where it is. Leave it at July 15.

Hadley: Well, that is one and an eighth.

H.M.Jr: No, I think --

Bell: It would be a little thin on the one.

H.M.Jr: What?

Bell: It would be a little thin on the July.

H.M.Jr: One man said it was twenty thirty-seconds, and the other man said seventeen.

Bell: No, that was the January based on the seven-eighths coupon and a one percent coupon.

H.M.Jr: Then I have got it written down wrong. I had seven-eighths and one of you said fifteen thirty-seconds and one said twelve thirty-seconds.

Hadley: That is right. And then we said on one percent.

H.M.Jr: Oh, I meant at one percent to July 15. Let me get this thing straight. As of today's market, the seven-eighths --

Hadley: I will say fifteen.

H.M.Jr: And what do you say?

Murphy: That is the January?

H.M.Jr: Yes.

Murphy: We say one.

H.M.Jr: Supposing you move that back three months.

Murphy: We say thirteen.

H.M.Jr: Well?

Bell: You would say about sixteen?

Hadley: Yes.

H.M.Jr: Is that enough difference?

Bell: It isn't much difference.

Murphy: It is a little sweeter than it seems, but it is not as sweet as the - you don't get as much back by moving it three months as you lose by the eighth, but you get back volume.

Hadley: That would give you an average of one if you moved your January one back three months and left your July one at one and an eighth. There is an average of one percent. He wanted to get an average of one percent.

H.M.Jr: Put the one back to seven-eighths?

Hadley: And move it back three months.

H.M.Jr: Would that give you that?

Hadley: Yes.

Haas: Yes, just.

Murphy: Just. You would have a seven-eighths and a one and an eighth. They would be nine months apart.

H.M.Jr: What we are suggesting is October 15 --

Hadley: Forty-two.

H.M.Jr: 1942 at seven-eighths, and you think - at seven-eighths, and the July 15, 1943 at one and an eighth. Right?

Murphy: That is right.

H.M.Jr: And that would give an average of --

Bell: One.

Hadley: You have an equal amount of each, three hundred million in each issue, so it would average one.

H.M.Jr: Isn't that what he - that would give him what he wants.

Bell: That gives him an average rating which is what he wants.

H.M.Jr: What do you think?

Murphy: I think it will go all right.

H.M.Jr: Will it get more subscriptions than the July?

Hadley: I think you will have about an equal amount of subscriptions because you have already split the issues.

H.M.Jr: But that is fairly safe then, isn't it?

Hadley: Yes.

Murphy: I think so. It is not quite as sweet as the other, but I think it is safe.

H.M.Jr: What do you think?

Bell: Not quite as sweet as the one percent in January.

H.M.Jr: What do you think?

Bell: Why, it will go. It is all right. I hate like hell to split eighths. The argument today in which we all agreed was that we would try to get him in the January and July schedule, and now he breaks it up for the sake of averaging a one percent rate.

H.M.Jr: That is all right. He is our customer. We have got to try to satisfy him.

Bell: We are his supporter.

H.M.Jr: Support? How do you mean?

Bell: We support him in the market. We stand behind his ten-year loans and five-year money.

Murphy: Five-year money?

Bell: Two-year money now.

Murphy: One and a half.

H.M.Jr: I think that is all right. That is what he asked for.

Haas: It makes it easy to figure his profit, and he has got an even one percent.

H.M.Jr: Does the President have to pass on this?

Bell: No, just you.

(Telephone conversation with Jesse Jones follows.)

April 8, 1941
12:15 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

H.M.Jr: Thank you. Hello.

Jesse Jones: Hello.

H.M.Jr: Well, we can give you the 1% average - October 15, '42, 7/8's and July 15, '43, 1-1/8.

J: All right. You think that's the right .....

H.M.Jr: We think so.

J: You think so?

H.M.Jr: Yes.

J: Well, it's more important to you than it is to us because you've got to ......

H.M.Jr: We've got to watch the market for you.

J: Not only that - no, not so much that but you've got a lot more money to borrow.

H.M.Jr: True. No, I feel perfectly happy on this.

J: That's all right.

H.M.Jr: Now, we'll get out the orders. Now, while I've - hello?

J: Yeah.

H.M.Jr: Anything happen on that tobacco company?

J: Yes. I've been figuring here as to/how to work it out with our lawyer boys here and I think tomorrow or maybe Thursday I might be ready to talk to you.

H.M.Jr: O.K.

J: About Thursday?

H.M.Jr: That's all right. Peacock will be down here tomorrow.

J: He'll be down tomorrow.

H.M.Jr: Yeah.

J: Well, I told these boys that I thought we could work it out and I suppose he'll talk to you tomorrow about it. I don't know whether he will or not.

H.M.Jr: Well, he may not.

J: He may not.

H.M.Jr: But I'm apt to hear from you Thursday.

J: Yeah. I think this, Henry. If he understands that the pressure is off a little bit why I think that they'll be able to do what they want to do.

H.M.Jr: Well, after you left I sent word to him that you'd asked for an opportunity to figure with these people and I said to go ahead and do it. He knew it the same day.

J: O.K., fine.

H.M.Jr: He knew it the same day.

J: All right then maybe we'll get to it Thursday.

H.M.Jr: O.K.

J: Thank you.

H.M.Jr: I think that is all right. It was the seven-eighths, wasn't it?

Bell: Yes.

Murphy: Seven-eighths, October.

H.M.Jr: At seven-eighths and one and an eighth. Does that look kind of funny? It is half a percent for nine months.

Hadley: No, it is just a quarter.

H.M.Jr: Is that about right?

Murphy: Yes, sir.

H.M.Jr: That - let's see, October 15 is what, that is one and a half years, isn't it?

Haas: Yes.

Bell: Just one and a half.

H.M.Jr: Well, that is going to go at seven-eighths.

Haas: Oh, no question about it.

Murphy: Thirteen is a pretty good premium for a year and a half.

H.M.Jr: I think that is a pretty good decision and gives him the one percent.

Murphy: It is O.K. with me.

H.M.Jr: What do you think?

Bell: It is O.K.

H.M.Jr: I mean, it doesn't look funny, the quarter percent on the nine months?

Hadley: I think it is better to have those two issues spread a little farther apart than six months.

H.M.Jr: Will you let Eccles know?

Bell: Yes, and I want to get Kilby started.

H.M.Jr: All right

April 8, 1941
12:20 p.m.

H.M.Jr: Hello.

Operator: Mr. Rouse.

Robert Rouse: Hello.

H.M.Jr: Rouse, Jones wanted a 1% rate average, so we're going to give this: October 15, '42, 7/8's and July 15, '43, 1-1/8.

R: My, those are generous.

H.M.Jr: What?

R: I think those are quite generous.

H.M.Jr: Well, I want to be a little generous.

R: Well, they certainly are. It seemed to me that the ones that I mentioned were - I had in mind that they would create, that is, the 7/8's of January and 1% July would more than set off the tone. Most of the people - a good many that we talked to could see even 1% up for 2½ years.

H.M.Jr: Well, we down here don't feel - you see, we're not as volatile as you fellows are.

R: (Laughs). I don't believe it.

H.M.Jr: No, I'm serious about that.

R: No, I don't think we're volatile.

H.M.Jr: No, I say we're not.

R: Well, we'll argue that some other day.

H.M.Jr: And now you're feeling much better than when I did my last financing I ought to kid you fellows into $500 million.

R: Well, we try to reflect the market condition to you, as you know.

H.M.Jr: Well, we're not quite up with you this time so we think we'll do it this way.

R: Well, I think you're very liberal, I don't think there is any question as to its going. It's more than liberal.

H.M.Jr: Well, we'll know tomorrow night, but I'd rather err a little bit on the liberal side.

R: Well, that's fine.

H.M.Jr: O.K.

R: O.K.

Treasury Department
Division of Monetary Research

Date April 8, 1941 19

To: Secretary Morgenthau

From: Mr. White

The opinions of members of the Economists National Committee on Monetary Policy on the recommendations of the Federal Reserve System are of interest chiefly because of what they have apparently left out of their judgments. For example:

1. Nowhere is there mention that increase in reserve requirements would raise interest rates, and only a few of the 24 commentators give any indication that there may be some conflict between an increase in reserve requirements and the needs of Government for financing defense.

2. Only a few of them give indication of being aware that the recommendations embodied movement of control away from the Government and toward the banks.

3. Only a few of them indicated any awareness that powers already exist which could be used to increase reserve requirements if necessary.

4. 36 members endorsed the Board's recommendation without comment, and about 20 endorsed it with some qualifications.

(Incidentally, you will be amused by the comment on the top of page 13.)

HDW

Recommendations of the Board of Governors of The Federal Reserve System with Respect to Reserve Requirements of Member Banks

(December 31, 1940)

★

Opinions of 60 Members of The Economists' National Committee on Monetary Policy

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I.

The recommendations of the Board of Governors of the Federal Reserve System, with respect to reserve requirements of member banks, made to Congress on December 31, 1940, were submitted on February 1, 1941, to the members of the Economists' National Committee on Monetary Policy in order to determine the extent of their approval or disapproval, and to obtain opinions from those willing to state them.

Thirty-four members endorsed the Board's recommendations without comment; twenty-two endorsed and added qualifications or other comments; and four made comments without endorsing.

The Board's recommendations, which the members of the Committee were asked to endorse, or on which they were invited to express opinions, follow:

"1. CONGRESS SHOULD PROVIDE means for absorbing a large part of existing excess reserves, which amount to seven billion dollars, as well as such additions to these reserves as may occur. Specifically, it is recommended that Congress—

"A. INCREASE the statutory reserve requirements for demand deposits in banks in central reserve cities to 26%; for demand deposits in banks in reserve cities to 20%; for demand deposits in country banks to 14%; and for time deposits in all banks to 6%.

"B. EMPOWER the Federal Open Market Committee to make further increases of reserve requirements sufficient to absorb excess reserves, subject to the limitation that reserve requirements shall not be increased to more than double the respective percentages specified in paragraph (A). (The power to change reserve requirements, now vested in the Board of Governors, and the control of open market operations, now vested in the Federal Open Market Committee, should be placed in the same body.)

"C. AUTHORIZE the Federal Open Market Committee to change reserve requirements for central reserve city banks, or for reserve city banks, or for country banks, or for any combination of these three classes.

"D. MAKE RESERVE requirements applicable to all banks receiving demand deposits regardless of whether or not they are members of the Federal Reserve System.

"E. EXEMPT reserves required under paragraphs (A), (B) and (D) from the assessments of the Federal Deposit Insurance Corporation."

II.

The 34 who endorsed the Board's recommendations without comment or qualification were:

Eugene E. Agger
Rutgers University

Don C. Barrett
Haverford College

Benjamin Haggott Beckhart
Columbia University

Jules I. Bogen
The Journal of Commerce and New York University

William Adams Brown, Jr.
Brown University

Neil Carothers
Lehigh University

Edward H. Collins
New York Herald Tribune

Garfield V. Cox
The University of Chicago

Charles A. Dice
The Ohio State University

William E. Dunkman
The University of Rochester

William D. Ennis
Stevens Institute of Technology

Clyde Olin Fisher
Wesleyan University

Earl J. Hamilton
Duke University

William F. Hauhart
Southern Methodist University

Frederick C. Hicks
University of Cincinnati

John Thom Holdsworth
The University of Miami

William H. Kiekhofer
The University of Wisconsin

Ray V. Leffler
Dartmouth College

J. L. LEONARD
University of Southern California

ARTHUR W. MARGET
University of Minnesota

MARK C. MILLS
Indiana University

MARGARET G. MYERS
Vassar College

CLYDE W. PHELPS
University of Chattanooga

LELAND REX ROBINSON
76 Beaver Street, New York City

OLIN GLENN SAXON
Yale University

JOSEPH A. SCHUMPETER
Harvard University

WILLIAM H. STEINER
Brooklyn College

RUFUS S. TUCKER
Westfield, N. J.

LEONARD L. WATKINS
University of Michigan

WILLIAM O. WEYFORTH
The Johns Hopkins University

NATHANIEL R. WHITNEY
The Procter and Gamble Co., Cincinnati

MAX WINKLER
College of the City of New York

IVAN WRIGHT
Brooklyn College

JOHN PARKE YOUNG
Occidental College

III.

The 22 who endorsed and added comments or qualifications were:

JAMES W. ANGELL
Columbia University

CHARLES C. ARBUTHNOT
Western Reserve University

JAMES WASHINGTON BELL
Northwestern University

ERNEST L. BOGART
University of Illinois

FREDERICK A. BRADFORD
Lehigh University

J. RAY CABLE
Washington University

WILLIAM W. CUMBERLAND
120 Broadway, New York

J. ANDERSON FITZGERALD
The University of Texas

Herbert F. Fraser
Swarthmore College

Roy L. Garis
Vanderbilt University

E. C. Harwood
American Institute for Economic Research

Hudson B. Hastings
Yale University

Edwin W. Kemmerer
Princeton University

Frederic E. Lee
University of Illinois

A. Wilfred May
New York City

Ernest Minor Patterson
University of Pennsylvania

Charles L. Prather
Syracuse University

Howard H. Preston
University of Washington

R. G. Rodkey
University of Michigan

James G. Smith
Princeton University

Oliver M. W. Sprague
Harvard University

Russell Weisman
Western Reserve University

IV.

Those (4) who made comments without formally endorsing the Board's recommendations were:

Wilbur P. Calhoun
University of Cincinnati

Lewis H. Haney
New York University

David Kinley
University of Illinois

Walter E. Spahr
New York University

V.

The comments and qualifications made by those who did or did not endorse the Board's recommendations follow:

JAMES W. ANGELL

Professor of Economics, Columbia University

If the above is a literal transcript of the Board's proposals, I will endorse it without comment. If not, then I have two minor comments. On paragraphs (B) and (C): power to alter reserve requirements should be put in the hands of the Federal Open Market Committee, but subject to a veto within say one week by a majority of the Board of Governors. On paragraph (D): to prevent undue duplication and pyramiding of reserves by and in nonmember banks, it should be required that the required reserves of nonmember banks be held either in currency or in balances with Federal Reserve banks, and in no other form. But this might well be regarded as a nonconstitutional invasion of States' rights.

CHARLES C. ARBUTHNOT

Chairman, Department of Economics, Western Reserve University

I sign this because it recognizes the danger of inflation by abuse of bank credit, hoping that the *quantitative* control promised will not divert attention from the need for *qualitative* control.

JAMES WASHINGTON BELL

Dean, School of Commerce, Northwestern University

I approve this proposal somewhat reluctantly because I had hoped that we might (1) stop buying silver and Axis gold; (2) sterilize gold and silver for monetary purposes; (3) use existing powers to change reserves and test their effectiveness (may not need much more power).

I have some fear that we might be overdoing this business of regulating credit by changing reserve requirements. This second doubling raises the maximum to 52 per cent. To be sure, this is not as bad as 100 per cent reserve.

ERNEST L. BOGART

Professor Emeritus of Economics, University of Illinois

Paragraph (E) should be changed to read: (E) Exempt additional reserves ordered under paragraphs (A) and (B) beyond those now required and reserves required under paragraph (D) from the assessments of the Federal Deposit Insurance Corporation.

Under paragraph (E), as it now stands, apparently all reserves would be exempt from F. D. I. C.

FREDERICK A. BRADFORD

Professor of Economics, Lehigh University

I approve of all except (A). An increase of statutory requirements of the sort recommended, while all right at present, might be too high at some later date. I should prefer to keep the existing requirements and change (B) to give the Board discretionary power to raise reserves to whatever extent is needed.

J. RAY CABLE

Associate Professor of Finance and Banking, Washington University

With respect to paragraph (B): It should be remembered that the prime necessity now is speed. The Federal Reserve System should not place itself in the position of impeding the defense program in any way even if the alternative is the acceptance of a degree of inflation. A large increase of the power of the Board of Governors over reserves should probably be granted in such a way as to require full consultation and co-operation with Treasury authority. It should, however, be done in such a way as to insure full public knowledge of the point of view of the Reserve System.

WILBUR P. CALHOUN

Professor of Finance, University of Cincinnati

I endorse these recommendations as part of the program submitted by the Board of Governors of the Federal Reserve System to the Congress.

I believe that it is desirable, under present circumstances, for the Board to have such powers. However, I hesitate to endorse the recommendations on changes in bank reserve requirements alone if there is danger of even more complete domination of the Federal Reserve System by the government, particularly by the Secretary of the Treasury.

WILLIAM W. CUMBERLAND

Economist, Wellington and Company, New York City

While the proposals of the Board of Governors of the Federal Reserve System to Congress on December 31, 1940, are on the whole constructive, they are not sufficient, in my opinion, to rectify the monetary and banking difficulties and dangers in this country. For example, they only go part way in eliminating the silver foolishness; they make no proposals for the reestablishment of a working gold standard, with actual access of the public to gold; they do not recommend the machinery for sterilization and desterilization of gold imports; and they do not approach the difficult problem of financing the defense effort while avoiding the disadvantages of inflation.

J. ANDERSON FITZGERALD

Dean, School of Business Administration, The University of Texas

Any proposal for the welfare of the nation which has the unanimous approval of the Board of Governors of the Federal Reserve System, the presidents of the twelve Federal Reserve Banks, and the members of the Federal Advisory Council of the Reserve banks deserves the support of the Congress and the President.

HERBERT F. FRASER

Professor of Economics, Swarthmore College

I approve of the above in general, and am, therefore, pleased to sign. However, I should like to see more flexibility in reserve requirements. We could retain the 7, 10, and 13 per cent requirements and give the Open Market Committee power to raise these to 28, 40, and 52 per cent. Or, I should be pleased to have the matter left in the Committee's hands with no designated limits. Likewise, time deposits could be left at 3 per cent and the Committee be given power of discretion to raise the figure.

ROY L. GARIS

Associate Professor of Economics, Vanderbilt University

In (A) and (B) I approve giving the Board the power to fix the reserves at any percentage deemed essential. I see no need to limit the maximum reserves. To me the use of legal reserves is or can be the most effective and practical method of credit control available. Hence I should give the Board the power to vary the legal reserves from the present minimum to 100 per cent. If this cannot be secured, then I approve (A) and (B).

As to paragraph (C), the Board now has the power to reclassify cities; I think it should use this power. If it does, then why (C)? Paragraph (C) is all right, but if my suggestion in the above paragraph could be adopted, and the Board uses its present authority, it seems to me that (C) is superfluous. Recommendations (D) and (E) are approved.

LEWIS H. HANEY

Professor of Economics, New York University

I am opposed to manipulating legal reserve requirements. I am inclined to favor (C) and (D) only — and those only if accomplished by regular democratic processes.

E. C. HARWOOD

Director, American Institute for Economic Research

In my opinion, the provisions of paragraph (B) which authorize variable reserves are essentially undesirable from a long-term point of view and should be used only as an expedient in emergencies, pending the time when a more scientific method of controlling inflation may be applied. The proposed cure certainly does not correct the fundamental difficulty called inflation, and it is a blunt, heavy weapon for use where something analagous to the surgeon's scalpel is needed. Until we evolve the necessary economic scalpel, I suppose we must use the ax.

HUDSON B. HASTINGS

Professor of Industrial Administration, Yale University

Unless (B), (C), and (D) of the above recommendations are enacted into law, it will be utterly impossible for the Board of Governors of the Federal Reserve System, or the Open Market Committee, to prevent a disastrous inflation of bank credit, if an inflationary expansion once got under way. The Reserve authorities will be even more impotent than they were in dealing with the credit expansion which financed the stock market boom of

1927-1929. At this juncture there is grave danger of an inflationary boom in the commodity markets, rather than in the security markets.

EDWIN W. KEMMERER

Walker Professor of International Finance, Princeton University

I endorse the Board's recommendations as above stated, subject to the qualification that the limitation imposed in paragraph (B) be changed to provide that "reserve requirements shall not be increased by more than 50 per cent of the respective percentages specified in paragraph (A)."

DAVID KINLEY

President and Professor of Economics Emeritus, University of Illinois

I endorse the Board's recommendations with the following exceptions:

Paragraph (C) should read: "Authorize the Federal Open Market Committee to change reserve requirements for central reserve city banks, or for reserve city banks, or for country banks, or for any combination of these three classes, provided all are treated alike and there is no discrimination for political reasons."

I object to such authority over state banks as provided in paragraph (D).

FREDERIC E. LEE

Professor of Economics, University of Illinois

I endorse the Board's recommendations with the following modifications:

I approve paragraph (C) if this power is used for *bona fide* credit control purposes; no, if it is to be used in connection with "super economic planning."

Paragraph (D) is all right if the thing recommended can be done, but I think it doubtful.

A. WILFRED MAY

New York City

I heartily endorse the recommendations made by the Board of Governors of the Federal Reserve System to Congress on December 31, 1940; but these measures by themselves are inadequate to eliminate existing and potential monetary inflation. The Board should also demonstrate to the Congress the concomitant prerequisites of reducing government expenditure, and of wholly restricting Treasury borrowing to long-term paper sold to private investors and paid for out of real and current savings.

ERNEST MINOR PATTERSON

Professor of Economics, University of Pennsylvania

The recommendations of the Board of Governors of the Federal Reserve System are admirable and it is to be hoped that they will be carried out. At the same time, it should be emphasized that the country now faces far more important questions which are presumably not within the jurisdiction of the Board of Governors. Disturbances in our price structure are more apt to come in the near future from unwise methods of financing national defense. It is to be hoped that through legislative action and administrative decisions all possible emphasis will be placed upon taxation of a type that will not tend to raise prices, and that bonds will be sold, not to our commercial banks, but to other purchasers such as savings banks and private individuals, who will pay for them out of their current voluntary savings.

CHARLES L. PRATHER

Chairman, Department of Finance, Syracuse University

The change recommended in (B) in control-authority over reserve changes may not be necessary or desirable.

HOWARD H. PRESTON

Dean, College of Economics and Business, University of Washington

I should personally regard 12, 18, and 24 per cent, with 6 per cent for time deposits, as more appropriate minimum percentages. My reasons are:

1. This is near the present figure and hence involves using as the minimum about the present base.

2. It would be a simpler set of figures.

3. It would mean that the Open Market Committee would necessarily take action at once, whereas an increase to 14, 20, and 26 per cent might be regarded as enough of an advance at this time.

4. It may be of no consequence, but, as proposed, a reserve of 52 per cent is possible. It seems to me if we go above 50 per cent there is little reason for any statutory maximum. A minimum of 24 per cent keeps the maximum under 50 per cent.

5. I am interested in the methods by which (D) can be made effective.

R. G. RODKEY

Professor of Banking and Investments, University of Michigan

I endorse the Board's recommendations, but with respect to paragraph (B) I suggest that instead of doubling the reserve requirements they not be increased to more than 1½ times the respective percentages specified in paragraph (A).

JAMES G. SMITH

Associate Professor of Economics, Princeton University

I approve the Board's recommendation provided (B) is made to read as follows: "Empower the Board of Governors to make further increases of reserve requirements sufficient to absorb excess reserves, subject to the limitation that reserve requirements shall not be increased to more than double the respective percentages specified in paragraph (A)."

WALTER E. SPAHR

Professor of Economics, New York University

I favor giving the Reserve authorities—the Board of Governors or the Federal Open Market Committee—power to raise reserve requirements for member banks, but I am opposed to an increase by Congress of the present minimum reserve requirements to twice the present level as advocated by the Reserve authorities in its recommendations of December 31, 1940, and as provided for in the Taft bill, S.952. Similarly, I am opposed to the placing of any statutory upper limit on the requirements which the Reserve authorities may deem it wise to apply.

Either statutory limitation may prove to be very unwise over a period of time, and I regard the statutory doubling of the minimum requirements as particularly undesirable. If the Reserve authorities can be trusted to fix reserve requirements wisely within the limits suggested in their recommendations, they can be trusted to fix them just as wisely within wider limits.

Furthermore, I consider it undesirable to restrict the Reserve authorities, in fixing reserve requirements, to the three classes of banks as suggested. This classification will handicap individual banks unnecessarily and unwisely. I recommend that the Reserve authorities be given the power to deal with individual banks, treating each case on its merits.

Rather than endorse recommendation (D), I prefer to see Congress face the problem of the nonmember commercial banks frankly and provide by a simple amendment to the Federal Reserve Act that after a specified date they shall all be members of the Federal Reserve System. Such a step is thoroughly legal, and Congress should not compromise any longer with the fact that if a central banking system is to be effective it must be national in scope and complete in its membership. To attempt to establish such a system and at the same time to provide the means by which its strength can be impaired by a heavy percentage of nonmembership is to undo with one hand what is attempted with the other. This is not the way to provide the United States with an effective central banking and commercial banking structure.

I fear that I do not understand either the meaning or the implications of the recommendation in paragraph (E).

OLIVER M. W. SPRAGUE

Professor Emeritus of Banking and Finance, Harvard University

While I approve the proposals of the Board of Governors of the Federal Reserve System, I strongly believe that the adoption of those proposals should be accompanied or, even better, preceded, by the imposition of additional taxation. Such a policy will both facilitate the transfer of labor and materials from civilian to defense use and also reduce the amount of government borrowing. Unless such a policy is adopted, I believe that the financial necessities of the government will render any measures designed to lessen the danger of inflationary credit expansion quite ineffective.

RUSSELL WEISMAN

Associate Professor of Economics, Western Reserve University

Former Senator Townsend is right. There is little point in reducing excess reserves by raising lawful requirements as long as gold and silver buying proceed apace. Since to sterilize gold could involve more rapid debt expansion, that is out, while to refuse to buy gold is to withdraw an important aid to Britain. Academically we are right in this matter, but practically not much can come of it.

Additional copies of this pamphlet may be obtained upon request. It is the policy of the Committee to distribute its literature free of charge within the limits of its financial resources.

Such distribution is made possible by the gifts of contributors who believe in the usefulness of the Committee. These gifts are accepted under conditions specified by the Executive Committee.

The stipulations read as follows: "Believing in the purposes of your Committee, I hereby subscribe the sum of $.................. to be used by the Executive Committee in its educational campaign to foster a sound currency system for this country and to combat dangerous and unsound schemes and legislation. It is clearly understood by the Committee and the donor that these funds are given without restrictive condition, made or implied, and that the Executive Committee and its officers are to be the sole judges of policies and of how the funds are to be spent."

Purposes of the Economists' National Committee on Monetary Policy

1. To enlighten the public as to the economics of the monetary issues before the country.
2. To educate the public as to the desirability of an early return to a gold standard.
3. To combat unsound monetary programs such as those of the inflationists, devaluationists, and commodity dollar advocates.
4. To issue public statements on current monetary issues as circumstances seem to warrant.
5. To place speakers at the disposal of the public.
6. To distribute its own and other literature.
7. To suggest from among its members experts for those who wish such aid.

April 8, 1941.

To: The Secretary

From: James L. Houghteling

I interviewed today William Green, President of the American Federation of Labor, and invited him to come to see you at 3:00 p. m. on Wednesday, April 9th, in connection with our program of selling Defense Savings Bonds.

I told Mr. Green that we had been approached by various employers of labor who, in a patriotic spirit of helpfulness, had suggested that they would undertake a program of helping to sell Defense Savings Bonds to their employees. I stated, however, that the Treasury preferred to handle this matter in cooperation with the labor organizations to which the employees themselves belonged.

I pointed out to Mr. Green that the Treasury was offering to individual citizens a savings bond with a somewhat higher rate of interest than it was obliged to pay for money in the ordinary "money market", because we felt that the wide distribution of these bonds to individual citizens had the advantage of being:

1. An insurance of American democracy, by giving more and more citizens a financial stake in their country and hence a personal sense of responsibility for the maintenance of freedom and good government.

2. A hedge against inflation by attracting the increased earnings of our defense program into the purchase of savings bonds and out of luxury-buying, since the buying of unneeded articles which instinctively follows unaccustomed wage increases almost always ends up by boosting the cost of living out of proportion.

3. The establishment of savings reserves in the hands of as many citizens as possible as a backlog against the employment adjustments which will take place when the war ends.

Mr. Green agreed with me whole-heartedly and said that the American Federation of Labor would be glad to endorse this program to all of its member organizations and to arrange for the formation of committees to put this step into practical effect.

I asked Mr. Green to bring with him to the interview one or more of his assistants who might be in charge of the details of such a program.

This program may well consist of the following factors:

1. A general endorsement of the Defense Savings Bond program to be sent to all member organizations.

2. The undertaking of plans for systematic savings, so that members of the American Federation of Labor can take advantage of this investment opportunity over a period of time, by some arrangement for setting aside a convenient part of their pay for installment buying of savings bonds. It may be pointed out that the American Telephone and Telegraph Company, the General Electric Company, Armour and Company, and other large corporations are already proposing such plans to their employees. In discussing this phase of the matter with Isador Lubin, Assistant to Sidney Hillman of the Office of Production Management, Mr. Lubin suggested that one official of a union local in each plant might well be appointed to take charge of this installment buying. Or it might be possible for a labor organization by its own free act to arrange with the plant management for a "patriotic check-off" whereby part of the wages might be withheld at the source.

3. The setting up of committees in state federations and in local unions. The Treasury itself is organizing state committees and local committees of citizens, each having at least one labor representative. Mr. Gale Johnston, in charge of this part of the Treasury's program, will be greatly aided by contacts with such American Federation of Labor committees.

4. Mr. Green can help us to make the necessary contacts so that this program may be explained by special speakers at labor conventions, and that articles may be prepared for trade magazines of American Federation of Labor organizations.

5. We will have a considerable amount of publicity literature in the near future which we can supply for distribution in whatever way the American Federation of Labor thinks most effective.

James L. Houghteling

April 8, 1941

Mr. Cochran

Secretary Morgenthau

Walter Stewart is in town. Please tell him that I hope to come down later. I would like him to familiarize himself with the English and Canadian financial situation; also I would like him to help on the report that we are preparing for the President on the English and Canadian financial situation. I will be on the telephone later on, and I hope to get down to the office sometime this morning.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

Reference is made to the Secretary's memorandum of April 8 in regard to Dr. Walter Stewart.

On the evening of April 7 Mr. Stewart had come to my office and I had discussed with him developments which had taken place since his last visit to the Treasury early in March. When Mr. Stewart came to my office on the morning of April 8 I showed him the Secretary's memorandum. We continued to go over my memoranda touching upon all British and Canadian affairs. Furthermore, it was arranged for Under Secretary Bell to receive him. Mr. Bell, in turn, asked Mr. White to make available for study by Mr. Stewart the draft documents on which Mr. White was working with the view to incorporation in a report to the President on the English and Canadian financial situation. I was particularly careful to give Mr. Stewart all of the information in my possession with respect to the liquidation of British direct investments in this country since Mr. Stewart was to participate in the luncheon discussion with the British group on Wednesday, April 8.

H. M. C.

Copy for Mrs. Klotz

April 8, 1941

MEMORANDUM

To: Mr. Harry Hopkins

From: Mr. Philip Young

Re: Status of Canada

Attached herewith is a photostat copy of a letter, which I received from Mr. J. B. Carswell, Liaison Officer for the Canadian Government, attached to the British Supply Council in North America.

Mr. Carswell has submitted a requisition on behalf of Canada for the procurement of tank transmissions under the Lend-Lease Act but with a direct cash reimbursement from Canada to the United States Treasury. The further implications of this situation are set forth clearly in the attached.

It would seem to me that considerable could be done toward coordinating Canadian and United States production.

(Initialed) P.Y.

PY:bj

CANADA

DEPARTMENT OF MUNITIONS AND SUPPLY

PLEASE REFER

TO FILE

Room 960, Willard Hotel,
Washington, D. C.,
April 4th, 1941.

Mr. Philip Young,
President's Liaison Committee,
Treasury Department,
Washington, D. C.

Dear Mr. Young:

Followingup our discussion last week on transactions between United States and Canada on articles of defence, I am enclosing herewith, on Form 1, "Requisition for Defense Articles", a request that the UnitedStates Government should purchase for the Dominion of Canada, payment to be made by the Dominion of Canada in cash, some 1330 Transmissions for our Tank Programme in Canada. This Tank programme is running parallel with and is precisely the same as the Tank Programme in the United States. As a matter of fact, we have, in order to avoid any possible delay, given a temporary Letter of Intention to the Iowa Transmission Company (wholly owned subsidiary of Deere andCompany) authorizing them to proceed with the work.

In practice, it would avoid endless complications if the two contracts could be rolled into one. Your Government requires 1498 Transmissions; our Government requires 1330. The price is the same in both cases and it seems rather foolish to carry out this operation in any other way.

I would be glad if you would put this first requisition forward as quickly as possible.

This request will be followed in the very near future by other similar requests from Canada which will read in general terms as follows:

Washington, April 4th, 1941.

a) We will ask you to supply us with Engines for the Tank Programme, under exactly similar arrangements, to the value of about 10 million dollars;

b) We will ask you to supply Machine Guns for the Tank Programme; material to be supplied by a Company already in production and whose facilities, we believe, are available, to the extent of about 2 million dollars;

c) We will ask you to purchase for us 144 Bell Airacobra Pursuit Planes with Allison engines and Curtiss propellers complete, at a cost of approximately 10 million dollars;

d) We will ask you to supply 18 Douglas A-20 B Aircraft, together with engines and propellers at approximately 3 million dollars;

e) We will ask you to supply 12 C.53 Troop Carriers, complete with engines and propellers, at a cost of 1½ million dollars;

f) We will ask you to supply 477 Pratt & Whitney S1A4G 2800 engines together with the same number of Curtiss Propellers - these for our Martin B 26 air frames to be built in Canada, at a cost of approximately 15½ million dollars;

g) We will ask you to supply 350 Wright Cyclone G 102 engines for our Bolingbroke Air Programme in Canada at approximately a cost of 6 million dollars.

In other words we have immediate demands in the United States on these major items of something like 57 million dollars, all of which business we would like to place at the earliest possible moment.

On the other side of the ledger we have been discussing with the various officials of the Ordnance Department,

Washington, April 4th, 1941.

the practical economics of utilizing existing facilities for the production of munitions of war in Canada. These discussions are in a very preliminary stage at the present moment, but in the past few days it has become apparent:

a) That the surplus capacity existing in Canada for Bofor gun barrel assemblies should be used by your Ordnance Department to fulfil a requirement of the Ordnance Department for materials to the value of approximately 2¼ million dollars;

b) That similar surplus capacity for 3.7" gun barrels is available in Canada to fulfil a requirement of the Ordnance amounting to about 6½ million dollars;

c) That the existing plant in Canada erected and in operation for the production of Universal Carriers could be used to fulfil a requirement of 3400 of these Carriers to the value of approximately 14 million dollars.

Summarizing again, we are ready to go into immediate production on items totalling some 23 million dollars, utilizing existing facilities and available capacities.

We have submitted to your Ordnance Department a complete statement of available capacities in Canada for all kinds of munitions, and the three items mentioned above are only forerunners of a great many items which, from a practical point of view, could best be carried out in Canada having in mind the common object in our joint efforts.

It would appear to us to be very sound procedure to have both of these pictures handled as direct Treasury to Treasury operations.

We will be glad to have your considered views on this situation at an early date.

Yours sincerely,

J. B. Carswell

J. B. Carswell
Liaison Officer
Department of Munitions and Supply

JBC:B

Washington, April 4th, 1941.

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a) That the surplus capacity existing in Canada for Bofor gun barrel assemblies should be used by your Ordnance Department to fulfil a requirement of the Ordnance Department for materials to the value of approximately 2¼ million dollars;

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It would appear to us to be very sound procedure to have both of these pictures handled as direct Treasury to Treasury operations.

We will be glad to have your considered views on this situation at an early date.

Yours sincerely,

J. B. Carswell

J. B. Carswell
Liaison Officer
Department of Munitions and Supply

JBC*B

Copy for Mrs. Klotz

April 5, 1941

MEMORANDUM

To: Mr. Harry Hopkins

From: Mr. Philip Young

Re: Status of Netherlands Purchasing Commission

This office has received today eight requests submitted on the usual PMR form by the Netherlands Purchasing Commission asking that these Dutch orders for war material be placed by the United States Government under the provisions of the Lend-Lease Act but with a direct cash reimbursement from the Dutch to the United States Treasury. Although it has been my understanding that the Netherlands, including the Netherlands East Indies, are considered a part of the lend-lease area by the President, I would like to secure specific approval before transmitting these requests in accordance with the usual procedure.

As I pointed out in my memorandum to you of April 2nd, I feel that the Netherlands should be included in the lend-lease area on a cash reimbursement because of the size of the program and because of United States and British interest in the Far East.

In this connection it should be noted that the Dutch requests referred to are for United States standard type material and the cash reimbursement provision is such that there is no drain on the 7 billion dollar appropriation.

(Initialed) P.Y.

PY:bj

April 8, 1941

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: Interview between Mr. Stettinius and Mr. Nieuwenhuis of Lindeteves, Inc.

In accordance with the arrangements made in your office, Mr. Nieuwenhuis met with Mr. Stettinius at 4:00 p.m., on Monday, to discuss his inability to place orders for commercial items of iron and steel, copper, brass and bronze.

Mr. Stettinius reviewed the items in considerable detail and stated that almost without exception he saw no reason why the orders could not be placed and reasonable delivery secured without recourse to priorities. He felt that it was primarily a production problem, and agreed with Mr. Nieuwenhuis that undoubtedly a great many manufacturers were simply refusing to quote on orders for foreign accounts unless advised informally to do so by someone in authority.

Accordingly, Mr. Stettinius called in Mr. Hauck, in charge of the Iron and Steel Section of the Production Division of the Office of Production Management, who said that he anticipated no difficulty in satisfying almost all of Mr. Nieuwenhuis' requirements regularly. He said that he would telephone manufacturers and tell them that every effort should be made to fill these orders and have them call on Mr. Nieuwenhuis in New York Tuesday and Wednesday. He also went over the copper, brass and bronze list and agreed to have Mr. John Church, their copper man, follow the same procedure with the copper, brass and bronze manufacturers.

Mr. Nieuwenhuis left town at 5:45 p.m., completely satisfied that his problems would be solved and very appreciative of your efforts in his behalf.

PY.

Treasury Department
Division of Monetary Research

Date April 8, 1941

To: Mr. White

From: Mr. Ullmann

Export Control - Shipments to Japan

Week ending April 5, 1941

1. Gasoline: 129,000 barrels - 90% low octane.
2. Crude oil: 299,000 barrels - half high octane.
3. Fuel and gas oil: 240,000 barrels.
4. Lubricating oil: 31,500 barrels.

These shipments represent a marked increase over recent weeks.

MR. WHITE
Branch 2058 - Room 208

95

Mr Secretary Morgenthau

Some further information about Basra.

OSC

9 April 1941

MR. COX

COPY

British Embassy
Washington, D.C.

April 8th, 1941

Dear Mr. Cox,

I believe you had some conversation with Foster the other day about the most convenient ports in Africa through which aircraft consigned from this country to the British forces in the Near East might be consigned. In this connection you may be interested to know that we had a telegram a few days ago from Mr. Eden in Cairo dealing with this very question.

This telegram made it clear that the Port of Takoradi in West Africa, through which most of the aircraft are now landed and then flown overland to Egypt, is already being employed to capacity (we had incidentally independent confirmation of this from Sir Ashley Sparks in New York some days ago). Mr. Eden's telegram went on to say that in these circumstances

Mr. Oscar Cox,
Assistant to the General Counsel,
United States Treasury,
Washington, D.C.

British Embassy
Washington, D.C.

circumstances [sic] it would be of the greatest assistance if aircraft from this country could be shipped direct either to Suez or to Basra. Of these two places the local British Air experts prefer Basra - always provided that the internal situation in Iraq (which as you know is disturbed at the moment) did not make this undesirable.

Yours sincerely,

F. R. Hoya-Miller (sgd.)

Confidential

PARAPHRASE

A telegram (no. 402) of April 8, 1941 from the American Consul General at Shanghai reads substantially as follows:

It is the belief of Chinese bankers that the editorial mentioned in the Consul General's telegram no. 401 of April 8 had its inspiration in official sources and was intended to make the public aware of a part of the scheme of the Wang Ching-wei regime for taking over Shanghai's financial resources. It is the opinion of the Chinese bankers that the eventual aims of the Wang regime are to force the Farmers Bank of China and the Central Bank of China out of Shanghai, to issue bonds in an attempt to gain financial control of the branches in Shanghai of the Bank of Communications and the Bank of China, and to absorb Shanghai's private financial resources. This latter object is to be accomplished by raising the Central Reserve Bank's interest rates at a time when, on account of the abundance of idle money and the restricted scope of opportunities for sound investments, interest rates are in general low at Shanghai.

While realizing that individuals and small banks are likely to yield to the attraction of the high rates of interest offered by the Central Reserve Bank, Chinese bankers are of the opinion that in order to compete with these tactics, interest rates may be increased also by the Bank of Communications and the Bank of China. It is pointed out by the Chinese bankers that the greater part of the holdings of the National Government domestic bonds held by the Bank of Communications and the Bank of China are outside of Shanghai. With regard to the perfecting of economic control so far as to make voluntary investments attractive to individuals and small Chinese banks, Chinese bankers point out that the aspirations of the Wang Ching-wei regime are made difficult of attainment on account of the chaotic economic conditions existing in central China and the economic policies of the Japanese military authorities which are contrary to the aims of the Wang regime. Chinese bankers are of the opinion also that there is little likelihood that the public and banks will in the near future accept voluntary loan issues of the Wang regime.

Copy:bj:4-21-41

Confidential

Noted
H. M. Jr. [illegible]

100

PARAPHRASE

A telegram (no. 403) of April 8, 1941, from the American Consul General at Shanghai reads substantially as follows:

Chinese bankers in general interpret the release of the arrested members of the Central Bank of China and the Farmers Bank of China as definite evidence that as yet the Wang Ching-wei regime is not ready to break down the Chinese currency system in the central China area. Chinese bankers are not sure what restrictive action the Wang Ching-wei regime may take against the two banks above mentioned. They do not look for any drastic steps to be taken immediately and they are of the opinion that until the position of the Central Reserve Bank is strengthened further the two banks in question will not be ousted. It is said by Chinese bankers that the active financial commitments of the Central Bank of China and the Farmers Bank of China in Shanghai are very limited now, apart from the matter of prestige. However, the psychological reaction on the public of withdrawal of Shanghai would be adverse.

RECEIVED
TREASURY DEPARTMENT
APR 15 1941
SECRETARY

ch:copy

Regraded Uclassified

Delivered to Treasury by Mr. Nicholson

SHANGHAI

April 8 1941

It is expected that kidnapped employees of Bank of China and Bank of Communications will be released on bail within next day or so Stop Yesterday Ministry of Police of Nanking Regime issued following statement With reference to this matter quote Our purpose in placing these bank employees in custody was to bring home to general public our conviction that all bona fide citizens of Republic of China are entitled to demand for personal safety Stop With exception of Central Bank of China and Farmers Bank of China all local Chungking banks will be dealt with leniently and will receive all possible assistance from Nanking Regime should they exert their efforts to promote national interest Stop It is hoped that the authorities of the two foreign controlled areas will cooperate in stamping out the acts of the Chungking terrorists Stop However if the Chungking agents continue to use foreign controlled areas as a base for their criminal activities we shall be forced to take effective measures to liquidate situation unquote

JACOBS

eh:copy

DES

PLAIN

LONDON

Dated April 8, 1941

Rec'd 4:55 p.m.

Secretary of State,

Washington.

1395, Eighth.

For Treasury.

This morning's judgment of the press on yesterday's budget can be summed up as "bolder at last" though degrees of opinion as to its adequacy range from the DAILY TELEGRAPH'S belief that it places finance "on a footing which can properly be called commensurate with the requirements of total war" to the MANCHESTER GUARDIAN'S assertion that "the British Government is still content to spend for war supplies substantially less than Germany".

The introduction of post-war credits in both the income tax and excess profits duty systems is universally approved--even by the DAILY HERALD (formerly the bitterest and latterly practically the only opponent of Keynes' proposals) raising no objection, and pronouncing this featu as "paving the way for the turnover of industry now concentrated on war manufactures to peace activities".

Though judgment on the modifications to remove injustic in the effects of the excess profits duty is reserved until

details

-2- 1396, April 8, 1941 from London

details in the finance bill become available, there is recognition of the political difficulties which a conservative Chancellor of the Exchequer would encounter in lowering the rate, even by those who would wish to see it lowered, while all comments indicate that the post-war credits are welcomed.

General judgments on the budget are as follows: the TIMES city editor considers "that the fourth war budget will probably be regarded as the nearest approach yet to what a war budget should be", while the TIMES leading editorial, headed "A Stabilizing Budget" states that "nothing much more drastic could be imagined than proposals which will add two million to the number of income tax payers, will raise the rate of direct taxation on the highest incomes to 19S. 6D. in the pound and will produce £1,860 million in a single year. The DAILY TELEGRAPH city editor though remarking that Sir Kingsley may not be on sure ground in his measure of the "potentially dangerous inflationary gap" or in his belief that voluntary savings will not suffer from higher taxation consider that "one cannot escape the impression that at last financial measures are being taken to drain off spending power on an adequate scale". The FINANCIAL NEWS dubs it "the K.K.K. Budget" opened by Sir Kingsley, inspired by Keynes while Lord

Kindersley

-3- 1396, April 8, 1941 from London

Kindersley will do his best to make it a success and stat-s that "undoubtedly the Treasury has faced grim realities far more realistically and boldly than ever before" and points out that "the close reader of Sir Kingsley's speech will find in it many clues to the way the Treasury under its present mentors is assimilating its policy to the broad swe. of the Government's war effort", while the FINANCIAL TIMES editorial states that "the budget necessarily stringent without precedent must nevertheless be judged in both its fiscal and psychological aspects to have been well fashioned to meet the circumstances of the time". The NEWS CHRONICLE which heads its editorial "Good Enough" thou considering the assumption a big one that £500 million is a measure of the potential dangerous gap believes that this gap is "filled in a workmanlike way". The DAILY EXPRE points out that "Britain has felt from the outset that to beat the German national socialistic system she would have to evolve something almost as drastic herself. Here it is. with tax at 19S. 6D. in the pound on big incomes and at 10S. on others with compulsory saving and a pegged cost of living, here is an answer to Doctors Schacht and Funk with the modified compliments of Professor Keynes", while the DAILY HERALD'S editorial which is headed "Bolder" begins "not bad, Sir Kingsley Wood" and states that though having

some

-4- 1396, April 8, 1941 from London

some defects "this budget grapples more boldly with the monstrous problems of war finance than did any of its predecessors".

The TIMES, the MANCHESTER GUARDIAN and the FINANCIAL NEWS particularly emphasize the importance of the Chancellor of the Exchequer's announcement of the Government's policy of stabilizing the cost of living with a view to holding the wage situation stable. As the FINANCIAL NEWS puts it "here at long last is something for which we have hitherto asked in vain--evidence that the authorities have a wage policy and a statement of what that policy is" while the TIMES pronounces this statement of Sir Kingsley as the "most important single proposal in the budget speech", the MANCHESTER GUARDIAN considering it as "almost the most important".

Apart from the general impression gained from this morning's press that perhaps Sir Kingsley Wood is rather optimistic in placing the inflationary gap at only £500 million and in expecting voluntary savings, together with new taxation, to be adequate to fill this gap, the only important criticisms of the budget are to be found in the MANCHESTER GUARDIAN where points of some interest are stressed. The financial editor of this newspaper in a special article on the budget gives his opinion that one of the fiscal ideas taken over from Mr. Keynes, namely,

the

-5- 1396, April 8, 1941 from London

the deferred pay idea is good but the second, namely, that of excluding expenditure abroad from the estimate of total expenditure is bad. "This procedure is objectionable for two reasons, one is that some expenditure made abroad like that paid for exports demands the use of domestic resources and some like that paid for by the sale of securities requires sterling payments to previous holders in this country. Secondly it becomes almost impossible to form any judgment of the size of the British war effort". The article then quotes the Oxford Institute of Statistics as putting German war expenditure between £4,500 million and £5,000 million plus some £600-1,000 million of supplies from conquered territories and compares these estimates with the proposed expenditure at home for war purposes which are estimated roughly at £3,000 million with a further £1,000 million to be spent abroad which suggests no further increase in war expenditure beyond the present level which for the past month was at the annual rate of about £4,300 million. An editorial in the same newspaper also states "the complete exclusion from the balance sheet of purchases in the United States in particul is hard to justify, even if there were no other reason it is politically desirable for the sake of American opinion to take account of our potential debt".

Please supply copy of this and no's. 1262 of April 1 and 1374 of April 7 to Commerce.

CSB WINANT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Consulate General, Beirut, Lebanon

DATE: April 8, 1941, 9 a.m.

NO.: 100

The following is strictly confidential.

It has come to my attention that the French High Commission Exchange Office at Beirut has, in several instances, recently granted dollars from its free accounts in the United States for the purchase from Central Europe of certain goods.

Conversion of dollars into swiss francs, to be negotiated in the country of purchase, has been made. This was done on instructions from the Banque de Syrie at Beirut through the Chase National Bank at New York.

It was stated by the French Director of the Exchange Office that the Treasury Department of the United States had, presumably, been informed fully by the Chase Bank of the details of the transactions. It is my understanding that they include \$25,000 for electrical supplies and hops from Hungary and Yugoslavia respectively and \$50,000 for paper from Rumania.

ENGERT

EA:PAK

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE April 8, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

FBI reports:

April 3. A bill has been introduced in the Cuban Congress authorizing the executive power to prohibit or restrict exports of capital, credits, currency, etc. in the case of countries blocking Cuban credits, and the importation of merchandise and the like from countries discriminating against Cuba, and instituting a report system applicable to persons remitting or receiving foreign funds.

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 8, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£97,000
Purchased from commercial concerns	£26,000

Open market sterling was quoted at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£4,000
Purchased from commercial concerns	£7,000

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

Canadian dollar	12-7/8% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	5-1/8% discount

In Shanghai, the yuan was again quoted at 5-11/32¢. Sterling was unchanged at 3.93.

We sold $110,000 in gold to the Central Bank of the Uruguayan Republic, which was added to its earmarked account.

We issued a license under the Gold Reserve Act permitting the Federal Reserve Bank of New York to effect the following transfer of gold in its vaults tomorrow:

$939,170 from the earmarked account of the Swiss National Bank to B.I.S. account No. 2; gold in the latter account is the property of the B.I.S.

We understand that the Foreign Funds Control authorized the Federal, under Executive Order No. 8389, as amended, to receive the above gold for account of the B.I.S.

No new gold engagements were reported.

In London, a price of 23-1/2d was again fixed for both spot and forward silver, equivalent to 42.67¢.

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

We made two purchases of silver totaling 205,000 ounces under the Silver Purchase Act. This silver was bought for forward delivery, and represented new production from Argentina (175,000 ounces) and Honduras (30,000 ounces).

The report of April 2 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of $7,028,000, a decrease of $91,000 in the short position. Net changes were as follows:

Country	Short Position March 26	Short Position April 2	Change in Short Position*
England**	$ 571,000	$ 450,000	- $121,000
Europe	3,465,000	3,438,000	- 27,000
Canada	318,000 (Long)	342,000 (Long)	- 24,000
Latin America	319,000	350,000	+ 31,000
Japan	1,819,000	1,700,000	- 119,000
Other Asia	1,340,000	1,411,000	+ 71,000
All others	77,000 (Long)	21,000	+ 98,000
Total	$7,119,000	$7,028,000	- $ 91,000

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

**Combined position in registered and open market sterling.

H. M. P.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE APR 8 1941

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of March, 1941.

5-14-76

SUMMARY REPORT ON STUDIES OR PROJECTS IN THE OFFICE OF THE GENERAL COUNSEL - MARCH 1941

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Consolidated returns of affiliated corporations. Regulations relating to consolidated returns of affiliated corporations prescribed under section 730(b) of the Excess Profits Tax Act of 1940 (Subchapter E of chapter 2 of the Internal Revenue Code as added by the Second Revenue Act of 1940) were forwarded for approval on March 13, 1941, and approved by the Acting Secretary on March 14, 1941. Among the major problems covered in these regulations are the computation of consolidated invested capital, consolidated average base period net income, consolidated adjusted excess profits net income, and the adjustment of basis of intercompany stockholdings with respect to losses during consolidated return periods.

2. Excess Profits tax regulations. Regulations to be issued under the "Excess Profits Tax Amendments of 1941" are in the course of preparation.

The above matters were handled under the supervision of G. E. Adams, Head, Legislation & Regulations Division.

The following matters received attention in the office of Assistant General Counsel Cairns:

3. Coast Guard legislation. A bill has been prepared which modifies and repeals certain laws of the former Lighthouse Service with a view to perfecting its consolidation with the Coast Guard. This proposed bill also contains changes in existing Coast Guard statutes, deemed desirable because of national defense activities of the Service. The study was made by Mr. Harrison, Chief Counsel, Coast Guard, in cooperation with administrative officers.

4. Partial payments for construction of Coast Guard Vessels. Under the Act of May 5, 1894, partial payments for construction of Coast Guard vessels have been made on the basis of 75 per centum of the work completed. Other Federal agencies pay on the basis of 90 and 100 per centum. This situation placed the Coast Guard at a disadvantage, made it difficult to finance Coast Guard contracts, and tended to discourage competition. A recent invitation to 70 ship yards resulted in no bid. This situation has been ameliorated by resort to section 1 of the Act of June 28, 1940,

which provides for advances to contractors and for partial payments on the balance upon such terms as the Secretary shall prescribe. After procuring the President's consent, regulations under the latter act were issued by the Secretary authorizing payments for Coast Guard vessels on the same basis as other Federal agencies. This study was made and the plan formulated by Mr. Rupert of the Coast Guard Legal Section.

5. Exemption from Philippine export tax on shipments from Guam. In response to a letter from the Secretary of the Navy requesting comments on a proposed bill to exempt Philippine articles shipped to Guam from the Philippine export tax, Everett Smith of the Legal Section, Customs, reviewed the proposed bill, prepared a letter pointing out several defects in the proposed bill and suggesting a substitute, a copy of which was transmitted with the letter.

6. Customs legislation. The Commissioner of Customs and Chief Counsel Dwan have been cooperating with the Office of Production Management, the Reconstruction Finance Corporation, and the Navy

Department on the subject of appropriate legislation relating to importations of strategic materials free of duty. It has been made clear that the Treasury Department takes no position with regard to the tariff policy but concerns itself only with administrative practicability and clarity. A redraft of the contemplated legislation was prepared by Mr. Dwan and that redraft is being studied by the interested agencies.

7. Overtime compensation. The proposed bill to amend section 451 of the Tariff Act of 1930, as amended, to authorize the assignment of customs officers and employees to regular tours of duty at night and on Sundays and holidays, mentioned in the report of January 31, 1941, has been redrafted by Messrs. Dwan and Ivey of the Legal Section, Customs, so as to revise thoroughly the existing statutes relating to overtime compensation. Among other things, the bill would clarify the question of the authority of the Secretary under section 5 of the Act of February 13, 1911, as amended (U.S.C. title 19, sec. 267), to fix a daily rate of overtime compensation other than

the regular daily rate of pay, which question is involved in the cases of Harry A. Myers v. Henry Morgenthau, Jr., et al., and Joseph F. Callahan v. United States, now pending in the Court of Appeals for the District of Columbia.

Mr. Joseph J. O'Connell, Special Assistant to the General Counsel, reports the following study:

8. Government Depositary Act of 1941. Messrs. Reeves, Zarky and Sherbondy, in conjunction with the interested administrative officers, have made a study of the deposit and protection of Government funds, preliminary to the preparation of general legislation providing for appropriate supervision by the Treasury Department of the handling of deposits of Federal funds. The draft of a bill, completed in cooperation with Mr. Bernard's office, is now being reviewed with administrative officers.

The following matters received attention in the Legislative Section under the direction of Assistant General Counsel Bernard:

CONTINUATION OF PROJECTS

9. Bill to relieve the hospitals from double taxation under Harrison Narcotic Act (for

description see original report, item 9). This bill, prepared by Miss McDuff, together with subsequent material submitted in support of particular phases of the bill, has been returned from Budget with specific recommendations as to certain sections. A memorandum for Commissioner Anslinger is being prepared setting out Budget's recommendations, and suggesting that the bill be changed to comply with those recommendations and be submitted to Congress.

10. Fidelity bond bill (formerly identified as "Bond Survey") (for description see original report, item 10). Due to the interest of about ten other agencies in this bill, which was prepared by Mr. Spingarn, the Bureau of the Budget has not yet been able to give it the usual clearance.

11. Acting administrators bill (for description see June report, item 33). Miss McDuff is continuing her study of the necessity and feasibility of general legislation to provide for acting bureau or division chiefs in the absence of a chief.

12. Law Committee of Defense Communications Board (for description see November report, item 23). Mr. Spingarn is continuing his work as the Treasury

representative on the Law Committee of the Defense Communications Board.

13. Codification of Public Debt Laws (for description see December report, item 14). Mr. Koken is continuing his work on this project.

14. Survey of tax-exempt Federal securities, other than obligations. Mr. Morton is continuing his study to determine what agencies, corporations, associations, etc., issue stock, evidences of indebtedness, and similar Federal securities, other than obligations, which are tax-exempt.

NEW STUDIES

15. Administrative procedure bills. Under Mr. Bernard's supervision, Mr. Koken is coordinating the comments of the various staff members on the three pending administrative procedure bills, S. 675, which embodies the views of the majority membership of the Attorney General's Committee, S. 674, containing the minority membership's views, and S. 918, the American Bar Association's revised Walter-Logan bill, in order that the Department may be in a position to submit its views on those bills at the hearings beginning April 2, 1941.

The following matters were worked on under the direction of Assistant General Counsel Bernstein:

16. Foreign funds control. Freezing control was extended successively to Bulgaria, Hungary and Yugoslavia, with this office preparing the necessary documents. In the case of Yugoslavia it was necessary to certify a copy of the Order for publication in the Federal Register before receiving the original from the President at sea.

The direct application of freezing control to imports and exports between the United States and the invaded countries was both studied and discussed. The question was precipitated by certain French cargoes arriving from France. Pending further consideration we have dealt with the immediate problem on a provisional basis.

We are working upon a revision of certain of the outstanding general licenses in order to meet a number of problems which have developed subsequent to their issuance. In addition, a general license was issued freeing the accounts of American foreign service officers and other government employees in the invaded area. Work is also continuing upon various phases of the problem of a general extension of freezing control.

A Foreign Funds Control investigative unit is being established in New York under the direction of Mr. May of Customs. We have participated in conferences on the functions of the Unit and its mode of operation.

This office, together with Foreign Funds Control and Monetary Research, drafted the speech delivered by Mr. Pehle before the Export Managers Club of New York on the subject of freezing control. Reports indicate that the speech met with wide approval. The entire staff worked on these matters.

17. Foreign check regulations. This office cooperated with the Office of the Commissioner of Accounts and Mr. O'Connell's office in the preparation of the regulations issued under Public No. 828 with respect to Government checks drawn to persons in certain foreign countries, including the countries covered by Executive Order No. 8389, as

amended. The regulations were signed March 19, 1941. Mr. Bernstein, Mr. Luxford and Mr. DuBois worked on this matter.

18. Yugoslavian Gold. We have participated in the discussions relating to the sale by the Central Bank of Yugoslavia of $22,000,000 worth of gold to us and the transfer of the proceeds to the Central Banks of Brazil and Argentina. Mr. Bernstein and Mr. Luxford worked on this matter.

19. British contract under Lend-Lease Bill. We have worked on the draft of a contract covering the delivery to Britain of certain defense articles and the quid pro quo to be paid by England. Mr. Bernstein worked on this matter.

20. Liquidation of British assets. We have participated in conferences in the Secretary's office on the problem of the liquidation and the use of British assets for payment of outstanding commitments in this country. Mr. Bernstein worked on this matter.

21. Anglo-Palestine Bank matter. We have had a number of conferences with Mr. Istorik considering the various phases of his proposal and possible

ways of dealing with the proposal. Memoranda of the conferences have been written for the Secretary's files. Mr. Bernstein worked on this matter.

22. Chinese agreement. We have participated in a number of conferences with the Chinese and the British, State Department and Currie on the subject of the Agreement, and various provisions to meet the current views on the setting up of the Stabilization Fund have been prepared. Mr. Bernstein handled this matter.

23. Exchange clause in Navy contract with Venezuela. This office, with the cooperation of White's and Cochran's offices, assisted a representative of the Navy Department in drafting an exchange clause to be inserted in a Navy contract with Venezuela. Briefly, the problem was one of expressing a formula to be used in translating dollar payments into bolivars. Mr. Bernstein and Mr. Luxford worked on this matter.

24. Colombian developmental program. At the request of Mr. Spaeth, Assistant Coordinator of Commercial and Cultural Relations between the American Republics, this office has been conducting a study as to various

ways in which the Inter-American Bank might participate in the projected developmental program in Colombia. A memorandum is being prepared setting forth in detail the methods in which the Bank could be of assistance. Mr. Bernstein, Mr. Friedman, and Mr. Sutton worked on this matter.

25. Finnish Agreement. The draft of the proposed agreement between Finland and the United States postponing $235,398 due from Finland to the United States on December 15, 1940, was reviewed, revised in certain respects, and sent forward. Mr. Bernstein and Mr. DuBois worked on this.

26. Spanish silver. A study was made in conjunction with Mr. Dietrich and the Mint Bureau as to the procedure to be followed in fixing a charge for melting and refining the Spanish silver shipments with a view to arriving at a final figure for settlement under the purchase contracts. Consideration was given to the applicability of the Table of Charges for Mints and Assay Offices in this situation, and a memorandum as to suggested procedure was prepared for transmission to Mr. Bell. Mr. Bernstein, Mr. Sutton, and Miss Hodel worked on this matter.

27. Secret Service retirement bill. In conjunction with the Legislative Section a letter to the Director of the Budget was prepared with respect to suggested amendments to the retirement bill affecting certain members of the Secret Service, approved October 14, 1941, and with respect to a suggested amendment to such Act. Mr. Bernstein, Mr. DuBois and Mr. Sutton worked on this matter.
28. United States v. Pink. The petition for writ of certiorari in this case, involving the validity of the Russian decrees, was reviewed in the light of the general problem concerning the validity of foreign decrees. The assurance of Justice was obtained that in arguing for the validity of the Russian decrees they would not rely exclusively on recognition of the Soviet but also on the Litvinoff assignment; and a few minor suggestions in the petition along these lines were made to Justice. Mr. Bernstein and Mr. DuBois worked on this matter.
29. Black Tom awards. This office made a careful study of the problems raised by the Superintendent of Insurance of the State of New York in connection with his application for payment of certain awards

made to members of the Lloyds' associate groups. The recommendation of this office that payment be made to the individual awardees was approved by Mr. Bell and this office is now cooperating with the Office of the Commissioner of Accounts in connection with the payments of the awards. Mr. Bernstein and Miss Hodel worked on this matter.

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

April 8th, 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 APRIL 5th, 1941

NAVAL

Mediterranean, April 3rd. Four J.U. 88's escorted by a formation of M.E. 109's bombed minesweepers off Malta, one of which slightly damaged from seven near misses.

2. Two French merchant ships under escort passed Gibraltar west-bound.

3. RED SEA. No Naval casualties and all Naval Aircraft returned safely from attack on two Italian destroyers April 3rd, now known to be Nazario Sauro and Daniele Manin.

4. Two Italian destroyers Pantera and Tigre, abandoned 15 miles south of Jedda, have sunk.

5. MILITARY. LYBIA.

Demolitions completed at Benghazi before evacuation. April 4th our armoured force still in position at Ztmsus (65 miles south of Barce).

6. ERITREA.

Our advance on Massawa from the north continues. A detachment is following up the enemy's withdrawal on roads Asmara-Adowa and Asmara-Adigrat. Over 6,000 prisoners counted at Asmara and many more coming in.

7. BULGARIA.

General German troop movement westward reported. Total divisions believed 25, 9 area Sofia - Petrich, 3 extreme N.W.

8. HUNGARY.

No report of German concentrations but German

German detachments definitely passing through.

9. YUGO-SLAVIA AND GREECE.

All available evidence is that German attack on Yugo-Slavia is imminent, possibly combining with advance against Greece.

10. ROYAL AIR FORCE.

Night 4th/5th. 70 aircraft despatched; against Brest 54, Cologne 11, Rotterdam 4; Dunkirk 1. One bomber missing. Preliminary reports indicate 2 cruisers clearly seen at Brest, 1 direct hit claimed, 1 very near miss.

11. GERMAN AIR FORCE.

Night 4th/5th. Approximately 90 aircraft raided this country, majority operating in Bristol area. Fire at National Smelting Works, Avonmouth, reported under control, was the only serious incident, casualties appear light. Two enemy bombers destroyed, another damaged by fighters.

BRITISH EMBASSY,
WASHINGTON, D.C.

April 8th, 1941.

PERSONAL AND
SECRET

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

TELEGRAM RECEIVED FROM LONDON
DATED APRIL 6th,
1941.

1. **Naval.** Three German destroyers rounded Cape Gris Nez p.m. 5th proceeding down the channel. Movement may be connected with possible sailing of "Gneisenau" from Brest M.T.B.'s departing from Dover failed to contact these destroyers.

2. Reconnaissance Massowa p.m. 5th show all but four merchant ships scuttled in the harbour. One destroyer seen submerged her side sixty-five miles N.N.W. of Massawa believed either Caesare Battisti or Vincenzo Orsini. According to prisoners Giovanni Acerbi only destroyer in Massawa with guns removed damaged in air raids. Three convoys air attacked off east coast April 5th, one small ship of 450 tons sunk. One has unexploded bomb on board.

3. 2,000 ton ship with two smaller vessels off La Rochelle attacked by Blenheim aircraft p.m. 5th, big ship very near missed by several bombs.

4. **Military. Hungary.** Evidence of partial mobilization of Hungarian army commencing. Reservists of third army corps, one motorised brigade called up. These armies stationed areas near Yugoslav frontier. Three frontier Jaegar brigades brought up to strength. Reported troops at Szeged and within five miles of the Yugoslav frontier placed war footing.

5. **South-East Europe.** Germans attacked Greek frontier posts this morning. Disposition of German forces various frontiers of Yugoslavia. South Austria ten to twelve divisions. South West Hungary possibly three divisions. **Bulgaria.** Total German divisions twenty-five probably six in position to attack Greece

/and

and maximum of twelve against Yugoslavia. Roumania Banat some nine divisions.

6. <u>Libya</u>. German troops now believed to amount to one light armoured (Colonial) division, one armoured division and advance elements two infantry divisions. Another armoured division thought on the way.

7. On April 4th, our troops holding position on escarpment about twenty-five miles east of Benghazi withstood German attack by two battalions supported by tanks. Enemy column of fifty armoured fighting vehicles reported at Benina moving east and small enemy column moving northeast from Benghazi on the coastal road.

8. <u>Ethiopia</u>. Our advanced troops have entered Addis Ababa.

9. <u>Royal Air Force</u>. Direct hit claimed at Brest on night of the 4th/5th was from low level with a 1,900 lb. bomb on "Gneisenau".

10. <u>German Air Force</u>. Night of the 5th/6th, slight enemy activity during the period. Some damage and casualties caused at one Royal Air Force Aerodrome.

<u>Albania and Greece</u>. German aircraft bombed Corfu three times on the 3rd and Italian fighters machine-gunned Heraklion aerodrome on the 4th.

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 8, 1941

TENTATIVE LESSONS BULLETIN
NO. 89
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.

GENERAL DE GAULLE ON ARMORED UNITS

SOURCE

An American official observer recently had a two-hour conversation with General De Gaulle, commander of The Free French Forces. This bulletin presents General De Gaulle's views on the organization, training, and tactics of armored units.

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GENERAL DE GAULLE ON ARMORED UNITS

"In each armored unit there must be at least two - preferably three - types of tanks which operate independently.

"In the organization of the division, there should be:

"a. A reconnaissance element comprising motorcycles, armored cars, and tanks. This unit should be capable of sustaining itself at some distance in advance of the division, of conducting reconnaissance on a broad front, of driving back small reconnaissance elements of the enemy, and of keeping itself ready to fight for information where necessary. It may be reinforced at times with infantry and artillery.

"b. Two regiments of tanks formed into an armored brigade. Each regiment should comprise 30 heavy tanks, 40 medium tanks, and 40 light tanks, organized in separate battalions and not intermingled by type within a battalion. There should be at least a 20 per cent reserve held in the division park for prompt replacement of losses.

"c. An infantry brigade of four infantry battalions. These battalions should be equipped with their own small arms, two-pounder antiaircraft artillery, antitank rifles, and light antitank guns.

"d. A brigade of field artillery comprising two battalions of 105-mm. howitzers for close support of tanks and infantry, and two battalions of heavy guns or howitzers with a range of at least 15,000 yards for counterbattery purposes.

"e. An engineer battalion with adequate equipment to cross the average river, repair minor breaks in roads, and assist in laying mines and clearing mine fields.

"f. A supply element, which is of more importance than any of the brigades. The best man in the division should be placed in charge of the supply echelon.

"g. A reconnaissance aviation squadron and bombardment aviation organically assigned to the armored unit. Aviation must not confine its activities to a front; it must seek information and cover all sides of the armored unit because of the extreme mobility of hostile mechanized forces. Not only must it be prepared to reconnoiter, but it must spot for artillery and locate suitable targets for bombardment aviation.

"There should be no separate antiaircraft or antitank defense as such. These elements should be organized separately for technical training, but for operations they must be included within infantry, artillery, engineer, supply and air components.

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"If the technique of each arm is taught in individual and company exercises, battalions should be worked together. It is a waste of time to try to put smaller units in the same combat team. If they can operate as battalions with proper supporting units, smaller elements know what is expected of them.

"I cannot emphasize too strongly the necessity for a special artillery technique. The 105's must always be available to support tanks or infantry, whichever is in advance. For visual observation artillery observers must be put in armored vehicles. Men in tanks will not know their own whereabouts, and the artillery must keep track of the location of tank elements and its own battery positions.

"As tanks cross open ground in moving to attack a hostile position, they will find obstacles in the bottom of valleys. It is while they are crossing such obstacles and advancing up forward slopes that they require the maximum support of artillery. Protective artillery fire must be placed in front of and on the flanks of advancing tanks. The best targets for the 105 will be hostile tanks "hulled" down on ridges and antitank weapons on forward slopes. The 155 or equivalent weapon must engage hostile artillery by counterbattery fire, for enemy artillery will, in all probability, be sited to cover the obstacle in the valley and to fire on the slope in front of advancing tanks or antitank weapons.

"There should be a separate organization for technical training of the antitank battalion, which should be included in the infantry brigade. There should be a minimum of 12 guns with each battalion.

"There should be no heavy antiaircraft artillery with the division. It should be with the army and manned by army troops.

"It is feasible and practical to fire machine guns only from moving tanks. Whenever it becomes necessary to fire major weapons, tanks must come to a halt.

"The most important function to be performed in the division is that of supplying gasoline and ammunition. Every effort must be made to select the best commanders and men for these tasks. Considerable time and thought must be devoted to the training of specialized and General Staff officers in the supply echelon.

"Each unit must have its own supply and maintenance elements, but these should be combined under division control during combat. Alternate supply arrangements must be made as a hedge against loss of trains due to hostile action.

"Since the division commander and his staff cannot function from a permanent command post but will be moving from place to place, training is essential for development of the technique of control. There must be numerous skeletonized division exercises with command post personnel to work out this problem. Although most action will be reinforced battalion action, there must be control by the division or there will be no coordinated effort.

"Each artillery brigade commander should have two staffs - one to handle direct support with the 105's when tanks, infantry, or both are in action, and the other to conduct counterbattery fire.

"If elements are properly trained in their own technical fields and together by battalions, the division will be elastic enough to comprise any type of combat team essential for the job at hand.

"Since I had no antitank units with my division in France, I was forced to use my tanks to protect the infantry attached to me. The tanks provided their own antitank defense except when in bivouac or refuelling. In these cases the infantry furnished protection.

"Except for tanks, each unit should have both machine gun and two-pounder antiaircraft weapons.

"When the going is tough, heavy tanks must be placed in front to make a way for lighter elements to follow.

"All carriers for infantry and other combat personnel should be armored.

"One of the highly essential elements in preparing for war is adequate and varied terrain for mechanized exercises. Units must be forced off roads and made to study combat terrain. Night maintenance, supply, and movement under black-out conditions must become routine training, for it is not safe to depend upon daylight exercises.

"Crews in tanks must develop team work that will save time and allow accurate fire.

"Dive bombing by the Germans did little damage to tanks, but it destroyed trucks and unarmored vehicles in supply and maintenance columns. It is necessary beyond a doubt to place antiaircraft and antitank weapons with trains. Every unit must be self-sustaining.

"I wish to reiterate the necessity for long range artillery to counterbattery hostile guns. In this connection, it may be necessary in some instances to reinforce organic artillery and the divisional organization must be able to absorb and handle this incoming artillery.

"The division and its specially constituted combat teams must train constantly with air units, both observation and bombardment.

"Engineers must be highly trained in crossing obstacles and laying and removing mine fields. In the attack at Amiens the tanks of my division were hesitant about entering a German mine field; when infantry was despatched to remove the mines, their inexperience caused them to falter. As a result, mines were not properly cleared away and lives were lost unnecessarily. It cannot be too strongly recommended that engineers be trained to work with all elements of the division under every conceivable condition.

"Air units must not only provide all-round reconnaissance, but they must be trained to locate hostile mine fields and to spot artillery and antitank guns.

"When the Germans discovered that their antitank weapons did not easily stop heavy French tanks, they moved to positions under cover and fired against our tracks. Having thus immobilized the tanks, they closed in to destroy them with bottles of gasoline and other combustibles.

"There must be spare tanks and crews within the division if an offensive is to be maintained. At one time I was reduced to 20 tanks. A commander must consider the tank his most important weapon and ensure that it is properly employed.

"Troops must be taught to recognize their own tanks and avoid the mistakes made in France, where friendly artillery shot at French and British tanks. One French tank unit practically destroyed another, although the men in the second group climbed out to show that they were Frenchmen."

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G-2/2657-220
No. 360

M.I.D., W.D.,
April 8, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

Air: German. Last night the Luftwaffe attacked in force over England. Attacks were widespread, with a heavy concentration on Glasgow.

British. A relatively heavy force operated against Germany last night, centering on Kiel, Bremerhaven and Emden. Apparently about 100 bombers were used against Kiel.

II. Balkan Theater of War.

Ground: Yugoslavia. The German main effort apparently continues in the Struma and Strumitza Valleys, with definite progress being made to the west. The minor German thrust in eastern Greece seems to have reached the Aegean Sea. It is still uncertain that fighting is in progress in northern Yugoslavia.

Albania. A Greek offensive is reported.

Air: Axis. Close support of the ground operations plus strategic bombings of rail communications.

Allied. Minor offensive reactions against troops and communications.

III. Mediterranean and African Theaters of War.

Ground: Libya. The town of Derna, which is 164 miles northeast of Bengasi, has been taken by Italian and German mechanized forces. Derna is of particular importance because of its exceptionally good and abundant water supply.

Abyssinia (Ethiopia). Italian forces are being pursued on all fronts.

Eritrea. The Italians apparently still hold Massaua.

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

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SECRET
By authority A. C. of S., G-2
Date 29 apr 41 [initials]
Initials

Paraphrase of Code Radiogram
Received at the War Department
10:29, April 8, 1941.

Cairo, Filed April 7, 1941.

Position of British forces in Libya is serious. Line Tobruch-El Adem being taken up by retreating armored brigade and Australian Division. General Gamer is in command. All units of the Eleventh Hussars available and three regiments of the Sixth Division plus the first tanks have been sent forward to strengthen the position. Low flying bombers caused destruction of many mechanized vehicles. The armored troops at Mechili were attacked by two German motorized battalions accompanied by tanks on April 6. The next day British motor convoys were engaged by German patrols near Tobruch.

FELLERS

Distribution:
Secretary of War
State Department
Secretary of Treasury
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SECRET

Paraphrase of Code Radiogram
Received at the War Department
at 10:32, April 8, 1941.

Budapest, filed April 7, 1941.

1. The British, Belgian, Dutch and Greek legations are expected to leave Budapest on April 9th.

2. German divisions are now concentrated in Hungary as follows:

Szeged	3 divisions
Pecs	2 divisions
Nagykanizsa	1 division

3. It is expected that these German forces will attack the Yugoslav frontier fortifications with flame throwers during the night of April 8-9, probably at 1:00 A.M.

4. On April 7th, 3000 German air corps vehicles including certain ones of the 42nd and 61st Pursuit Units, together with straggling automobiles of the SS Division the bulk of which had passed previously, marched through Budapest. Many German officers and soldiers were observed in the city, especially in the vicinity of the War and Transportation Office.

5. The Hungarian IV and VI Corps are mobilized and concentrated facing Yugoslavia. Food shortages hinder further mobilization.

6. The Hungarian War Ministry reports that the Yugoslav Air Force bombed three towns on southern Hungary. British airplanes were shot down while bombing Szeged on April 8th.

7. It is believed that the Hungarian Minister of War flew to Berlin on April 3rd, returning to Budapest on April 5th, bringing a German demand that Hungary take military action against Yugoslavia. The Secretary

of State states tonight that Hungary will not fight unless further Yugoslav aggression against Hungary occurs.

[illegible]

Distribution:
- Secretary of War
- State Department
- Secretary of Treasury
- War Plans Division
- Office of Naval Intelligence

Paraphrase of Code Cablegram
Received at the War Department
12:04, April 8, 1941

London, filed 17:30, April 8.

1. British Air Activity over the Continent.

a. Daylight, April 7. British low-flying pursuit flights over occupied France attacked with machine gun fire grounded planes, airfields, motor transport and troop columns. On the same day German naval small craft off the Netherlands coast were attacked by single medium bombers with a number of hits scored. Heavy destruction was reported in bombing raids on industrial targets in the Lowlands, as well as two large freighters, an airfield, wireless plant and railroads.

b. Night of April 6-7. No definite damage except fires was observed in heavy raids on airfields in the Netherlands, occupied Channel ports, and German naval vessels at Brest. In the latter attack 71 of a total of 114 long range bombers took part.

2. German Air Activity over Britain.

a. Night of April 7-8. A total of about 245 German planes took part in raids over Britain, especially over Chatham (London area), Glasgow, Fort William and Liverpool district. Estimates of damage caused are not yet available.

b. Daylight, April 7. Scattered attacks by pairs of bombers took place over Devon, Cornwall, East Anglia and eastern Scotland. One plane bombed Folkestone. Elsewhere activity was limited to sea patrols over the (Thames?) estuary, Bristol Channel and the east and southeast coasts. No information as to damage has been received.

3. Air Losses, British Theatre.

a. British. No losses April 7; one bomber failed to return night of April 6-7.

b. German. Daylight, April 7. In the course of British fighter flights over occupied France two German planes were shot down and one damaged. Night of April 7-8. Night pursuit formations shot down five and damaged two German planes.

4. British Air Activity, Middle East Theatre.

a. (Libya) Daylight, April 7. Axis ground troops were attacked in the vicinity of El Agheila.

b. (Greece) Daylight, April 7. The Calato airfield on the island of Rhodes was bombed and on the continent north of Salonika thirty German planes were successfully attacked without British losses.

5. German Air Activity, Middle East Theatre.

a. Night of April 7-8. (Yugoslavia) In the course of the night Belgrade and airfields in Yugoslavia were severely bombed. Low-flying airplanes were employed against infantry columns in the Rupel defile.

6. Air Losses, Middle East Theatre.

a. British, Daylight, April 7. No losses reported.

b. German, Daylight, April 7. Six planes were shot down and one damaged in action with British north of Salonika.

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g. Italian, Daylight, April 7. In the Addis Ababa-Dessie section of Italian East Africa a total of thirteen planes were destroyed and five damaged by British attacks.

SCANLON

Distribution
- Secretary of War
- State Department
- Secretary of Treasury
- Asst. Secretary of War
- Chief of Staff
- War Plans Division
- Office of Naval Intelligence
- Air Corps
- Asst. Chief of Staff, G-3

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CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 24:04, April 8, 1941.

London, filed 18:25, April 8, 1941.

1. British Military Intelligence estimates that the Greek defenses at Rupel will shortly be outflanked from west and east and that the purpose of the German attack is to seize the valley of the Vardar. The reports of a Yugoslav column having entered Hungary in the direction of Szeged and that Scutari has been captured lack confirmation. Reports deemed reliable state that Germans are nearing Xanthi in Thrace. Other reports that they have succeeded in breaking through the Rupel defile in the Struma valley lack confirmation.

2. Identifications. Yugoslavia.

German 6th Mountain Division, advancing southwest towards valley of Vardar, ultimate objective thought to be Nish.

German 2d Mechanized Division, same as above.

German 73d Division has reached Shtip in the direction of Veles.

German 9th Mechanized Division is at Skoplje.

[illegible]

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

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Paraphrase of Code Cablegram
Received at the War Department
7:40, April 8, 1941

London, filed 12:58, April 8, 1941

To prevent error and duplication it is agreed by all British Departments concerned to recommend that requests for British wireless material (publications and drawings included) be made only through our Military Attache in London. This will expedite action due to the many sources of requests and the complex governmental structure here.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 9:55, April 8, 1941.

Bucharest, filed April 7, 1941.

1. German forces are distributed as follows:

<u>Bulgaria</u>: 2 to 3 air divisions; 34 divisions, 5 of which are armored.

<u>Rumania</u>: 6 to 7 divisions, oriented against the Yugoslavs.

<u>Banat</u>: At least 500 planes based here to operate against the Yugoslav forces.

<u>Moldavia</u>: 6 divisions. The greater part of these have been moved to the Pruth from the Sereth Valley.

2. The Rumanians have not as yet announced mobilization formally, but men are being called to the colors in secret. The present strength of the Rumanian Army is about 650,000. There have been no changes of significance in the disposition of these forces.

3. It is requested that you send an acknowledgment on receipt of this cable.

RATAY

Distribution:
- Secretary of War
- State Department
- Secretary of Treasury
- Asst. Secretary of War
- Chief of Staff
- War Plans Division
- Office of Naval Intelligence
- Air Corps

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 13:40, April 8, 1941.

Cairo, filed April 5, 1941.

It is estimated by informed military circles in Cairo that in the Massawa area the Italians still possess a few small auxiliary vessels, two destroyers and three submarines. It is believed by those circles that as soon as Massawa and Assab fall the Red Sea will be cleared entirely. They believe that the fall of Massawa may occur tomorrow and that with the capitulation of Italian East Africa, possibly during the next ten days, Assab will surrender.

FELLERS

Distribution:
- Secretary of War
- Secretary of Treasury
- War Plans Division
- Office of Naval Intelligence
- Air Corps
- G-3

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 13:48, April 8, 1941.

Rome, filed April 8, 1941.

According to information received in Turkish circles locally, it is denied that German troops are moving into Albania in any force. The tale is believed in these circles to be due to Nazi propaganda. This, however, does not preclude the chance that certain German technical units, small in size, may possibly have been sent to the Albanian front.

FISKE

Distribution:
- Secretary of War
- State Department
- Secretary of Treasury
- Asst. Secretary of War
- Chief of Staff
- War Plans Division
- Office of Naval Intelligence

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 13:30, April 8, 1941.

Cairo, filed April 5, 1941.

It is stated by informed military circles in Cairo that at any moment they expect Massawa to fall. It is confirmed by these circles that as seven Italian destroyers were attempting to escape from the port of Massawa five of them were sunk by British units and the Royal Air Force.

FELLERS

Distribution:
- Secretary of War
- Secretary of Treasury
- War Plans Division
- Office of Naval Intelligence
- Air Corps
- G-3

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, April 9, 1941.
4/8/41

Press Service
No. 24-46

The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, is today offering for cash subscription, at par and accrued interest, through the Federal Reserve banks, two series of notes of the Reconstruction Finance Corporation, in the amount of $300,000,000, or thereabouts, of each series. The notes of each series will be dated April 17, 1941; one series, designated Series U, will bear interest at the rate of 7/8 percent per annum, and will mature on October 15, 1942; the other series, designated Series V, will bear interest at the rate of 1-1/8 percent per annum, and will mature on July 15, 1943. The notes will not be subject to call for redemption prior to maturity. They will be issued only in bearer form with coupons attached, in denominations of $1,000, $5,000, $10,000 and $100,000.

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

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington; they will not be received at the Reconstruction Finance Corporation. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. Subject to the reservations set forth in the official circular, all subscriptions will be received subject to allotment. Payment for any notes allotted must be made or completed on or before April 17, 1941, or on later allotment.

The texts of the official circulars follow:

RECONSTRUCTION FINANCE CORPORATION

7/8 PERCENT NOTES OF SERIES U, DUE OCTOBER 15, 1942

Dated and bearing interest from April 17, 1941

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

1941
Department Circular No. 658

Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, April 9, 1941.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the Reconstruction Finance Corporation, designated 7/8 percent notes of Series U. The amount of the offering is $300,000,000, or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes will be dated April 17, 1941, and will bear interest from that date at the rate of 7/8 percent per annum, payable on a semi-annual basis on October 15, 1941, and on April 15 and October 15, 1942. They will mature October 15, 1942, and will not be subject to call for redemption prior to maturity.

2. The notes will be issued under authority of an act of Congress (known as "Reconstruction Finance Corporation Act") approved January 22, 1932, as amended and supplemented. The income derived from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof

by any territory, dependency, or possession of the United States, or by any State, county, municipality, or local taxing authority. These notes shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

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

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or the securities which may be allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions

from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for.

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

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before April 17, 1941, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

RECONSTRUCTION FINANCE CORPORATION

1-1/8 PERCENT NOTES OF SERIES V, DUE JULY 15, 1943

Dated and bearing interest from April 17, 1941

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

- - - - -

1941
Department Circular No. 659

~~Fiscal Service~~
Bureau of the Public Debt

TREASURY DEPARTMENT
Office of the Secretary,
Washington, April 9, 1941.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the Reconstruction Finance Corporation, designated 1-1/8 percent notes of Series V. The amount of the offering is $300,000,000, or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes will be dated April 17, 1941, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable on a semi-annual basis on July 15, 1941, and thereafter on January 15 and July 15 in each year until the principal amount becomes payable. They will mature July 15, 1943, and will not be subject to call for redemption prior to maturity.

2. The notes will be issued under authority of an act of Congress (known as "Reconstruction Finance Corporation Act") approved January 22, 1932, as amended and supplemented. The income derived

from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any Territory, dependency, or possession of the United States, or by any State, county, municipality, or local taxing authority. These notes shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

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

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington.

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

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

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before April 17, 1941, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the

amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.
Secretary of the Treasury.

April 9, 1941
9:25 a.m.

H.M.Jr:	Hello.
Operator:	Colonel Donovan's secretary says he doesn't know whether the Colonel is in the city or not but he'll call up and find out.
H.M.Jr:	Well, I want to talk to him. Wherever he is I want to talk to him.
Operator:	Wherever he is.
H.M.Jr:	Well, I mean, what I want to do is I want to know when he's going to be in Washington.
Operator:	Right.

9:27 a.m.

H.M.Jr:	Hello.
Operator:	Colonel Donovan.
Colonel Donovan:	Henry?
H.M.Jr:	Bill?
D:	How are you?
H.M.Jr:	I'm all right. How are you? I've got a little head cold.
D:	Well, that's too bad. Did you have a good trip?
H.M.Jr:	Oh, I had a swell vacation.
D:	That's good.
H.M.Jr:	Are you in Washington?
D:	I am.

H.M.Jr: Bill, I have a man by the name of Kamarck, K-a-m-a-r-c-k, who follows this war news for me and runs a war map.

D: Yes.

H.M.Jr: Could you spare five minutes to tell him where you think the English are going to hold this ......

D: Oh, why certainly.

H.M.Jr: He'll bring my map over with him and ......

D: Why, certainly. Of ccurse I will.

H.M.Jr: Well, you remember you told me that the English ......

D: Sure, on the Aliakmon Line.

H.M.Jr: What's that?

D: A-l-i-a-k-m-o-n, but I'll show him.

H.M.Jr: Will you show him that?

D: Certainly.

H.M.Jr: When could you see him?

D: Could he come to my office at 11:00, Henry?

H.M.Jr: He'll be there. Now where is your office?

D: That's in the Bowen Building.

H.M.Jr: What building?

D: Bowen, B-o-w-e-n.

H.M.Jr: B like in baby?

D: B as in baby, o-w-e-n. Ninth floor.

H.M.Jr: Ninth floor, 11:00 o'clock.

D: I'll be glad to see him.

H.M.Jr: Do you want a letter to introduce him?

D: No, no. See, it's working out as I told you, Henry, they ......

H.M.Jr: Well, I'd better give him a letter to identify him.

D: All right.

H.M.Jr: He'll have a letter from me to identify him.

D: All right.

H.M.Jr: Well, is it working the way ......

D: Oh, sure. They never - remember I told you, they are doing it that way, they are taking that line because they couldn't hold the other.

H.M.Jr: Well, you told me that, Bill, but damn it everybody is so blue isn't there someway of getting this out?

D: Well, of course I have, as I was going along, I've told all these people and newspapermen and everyone else.

H.M.Jr: But you see they'd evidently forgotten. I didn't because you remember you told me that they were going to land their stuff at Volos and all the dispatches mention the fact that they haven't met any Englishmen and I take it that the Englishmen are up in that peninsula.

D: Yeah, they're right up there in - running down - you'll find the town called Edessa.

H.M.Jr: Edessa. Yeah, I've got it.

D: And you'll find that Edessa is right on the river - it's a regular switch position. Now, you'll find also on the map Mount Olympus, see. That's what they call a zone defense.

H.M.Jr: I've got Olympus.

D: So if you take a line running down from between those two points and extending beyond it, you've got the zone defense the British are on, and you'll find there'll be in there three Greek divisions and three British divisions.

H.M.Jr: Well, of course at the speed with which the Germans are going in another day or two they'll be up against that line.

D: That's right. But even at that they're slower than the British thought they would be.

H.M.Jr: Are they?

D: Yeah.

H.M.Jr: I take a little bouquet for myself to dynamite loose that legislation for those Danish ships.

D: Oh, that's great.

H.M.Jr: I worked on that all Monday.

D: That's great stuff. Well, Henry, I haven't bothered you but I've been keeping in touch with Phil Young, and I went down to the Maritime people after I talked with you and discussed all of these questions to make them feel they were part of front and I think they are doing pretty well on the ships.

H.M.Jr: Well, they're not.

D: Well, now, what's the problem there?

H.M.Jr: You and I can call a spade a spade.

D: Certainly. Well, now, tell me what it is.

H.M.Jr: Well, I can boil it down in two minutes. You know without mentioning on the phone how many ships the English have got running to the Middle East and it takes four months to turn them around.

D: That's right.

H.M.Jr: Now, you know what it is. Now you know what it is - I don't have to mention the number. Now what they wanted to do is to take over that tonnage and release those ships so that they could pick up this steel which is on the docks and the food and send it to England. Now, that's the picture.

D: Yeah.

H.M.Jr: Now, we haven't done a God-damn thing.

D: All right. Now, what do you want me to do?

H.M.Jr: Well, I think that before we scrape around to get pickaxes and shovels and everything else - I've dynamited loose the Danish ships. Now, that's all right, but .....

D: That's how many?

H.M.Jr: Well, there is 35, but they're much smaller than people thought they were. I have a list. Most of them are two and three thousand ton. That's No. 1. No. 2, they keep saying they're going to pry loose 60 ships from the Maritime, the coastwise trade, and put it in this trade. They haven't done it. There isn't a ship. Now when Harry says well they've got these 25 Yugoslav ships, that isn't giving them anything. They always had those.

D: Yeah.

H.M.Jr: That's nothing new. In other words as of this morning there isn't a single ship that we've supplied to them, with the exception of the George Washington, the coal burner that's down off Chesapeake ......

D: Well, of course I was talking with them about those 60 ships and I'll ......

H.M.Jr: Well, that comes first, Bill.

D: That's right.

H.M.Jr: And we first have to give the bottoms before we even get the materiel, and there hasn't been a single bottom supplied and as I say the focal point right now is the Maritime Commission and I understand that they're not going to do it, they're afraid of public opinion, and they're not going to release those 60 ships.

D: Well, let me talk with Jerry today.

H.M.Jr: See?

D: Yeah. I'm glad you told me.

H.M.Jr: That's the picture. I could talk for two hours and I wouldn't tell you any more.

D: Yeah. All right.

H.M.Jr: Thank you.

D: All right, Henry.

April 9, 1941

Dear Bill:

This will serve to introduce Mr. Andrew Kamarck, who is doing confidential work for me by accumulating information on the war in Europe.

Anything that you can tell him will be appreciated by me.

Yours sincerely,

Colonel William J. Donovan,
Bowen Building,
815 15th Street,
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 9, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Interview with Colonel Donovan

1. There is no reason as yet to be down-hearted over the developments in the Balkans as far as the British cause is concerned. The British are not ready to take the offensive this year. The most they can hope to do is to secure and maintain a foothold on the continent of Europe.

2. In accordance with this view, the British have prepared merely to try to hold the bulk of Greece on the best available terrain for defense. A fortified zone on the line Olympus-Edessa-Phlorena-Greek advance line in Albania is being held.

This Anglo-Greek line is based on mountainous terrain and, for this reason, is a strong defensive position. The main weakness of the line is the thinness of air support available. There are only six fairly adequate air fields in Greece and these are not in good condition.

Should the losses in holding the line become too heavy, Colonel Donovan believes, it is probable that a switch to the Peloponnesus will be attempted.

The Dodecanese air bases are a real thorn in the side of British line of communications in the Aegean. With air bases in Sicily, Bulgaria and the Dodecanese, the Germans have the British inside an air triangle.

3. As Secretary Morgenthau thought, no serious attempt at defending Salonika was planned. Salonika would be valuable as a base for an offensive into the Balkans. From the standpoint of defense, trying to hold Salonika would merely stretch out the sector to be covered and would serve no useful purpose.

4. The resistance put up by the Yugoslavs to the German advance is pure gain as far as the British are concerned. It had been believed that the Germans would be able to use the Yugoslav routes freely and that, therefore, the German advance into Greece would have been more rapid than has actually happened.

Division of Monetary
Research

5. It is Colonel Donovan's impression that the Yugoslavs went into the war with the understanding that if they were driven out of the mountains in western Yugoslavia, that an attempt would be made by the British to evacuate the army via the Adriatic. Such an attempt would be very risky to make. In the meanwhile, the British will not try to send more than a trickle of supplies to Yugoslavia. Much more, in fact could not be sent, if it could be spared.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 9, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Army Information on the Anglo-Greek Line

1. The Anglo-Greek position is substantially as Colonel Donovan described it. Colonel Betts emphasized the fact that this was more than a line, it was a zone which was being defended. There is probably little elaborate fortification along it, although we have no information on this point. It is most likely composed of pill boxes, trenches and tank traps.

2. Colonel Betts expressed some apprehension about the section of the line between Edessa and the Albanian positions since he believes that the Greeks and the English had had the least time to spend on this section of the zone.

3. Colonel Betts would not venture any prophecy or even a valuation as to how long the British would be able to hold the Germans. This is the first time the British have faced the Germans in this type of terrain.

April 9, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Young
Mr. Haas
Mr. Wiley
Mr. Kuhn
Mr. Sullivan
Mr. Foley
Mr. Pehle
Mr. Gaston
Mr. Cochran
Mr. Bell
Mr. White
Mr. Thompson
Mr. Stewart
Mrs. Klotz

H.M.Jr: I just wanted to say in the confines of this office that I don't think that the war news is as bad as it seems, because if you will notice, there has been no dispatch saying that they have found any English soldiers anywhere.

Well, the English haven't been in that valley for some time, and they are up at the top of the peninsula there. They are up here, (indicating on map) on a line which they have been preparing for about a month, and I have just checked with Donovan, and he said that was absolutely right, that they have been evacuating Salonika for a month.

He gave me this line starting up here at

Odessa, running through Mt. Olympus, and they have been preparing that for over a month, and that is why you haven't heard of any English, and he says that it is absolutely going on schedule. In fact, it is taking the Germans a little longer than they figured it would. But I would let somebody else say that outside.

But I thought I was right, and I have been talking with him on the phone. Incidentally, where is Harry? Whatever Kamarck is doing, relieve him, because I have given him a lot of stuff to do this morning. Will you please? Whatever he is doing. I mean, just release him so that he can do this. He does his work in Miss Chauncey's room.

Norman?

Thompson: I have nothing this morning. I have several matters I would like to see you about.

H.M.Jr: Will you ask Steve?

Dan?

Bell: We will be making some expenditures pretty soon under the Lease-Lend Bill, and we have got the question up as to whether we show those in a separate item or in the daily, or put them in national defense or under the President's expenditure program. I am inclined to show them as a separate item. This defense aid, I think the appropriation called it, or we can call it the Lease-Lend Act.

H.M.Jr: What is that?

Bell: I am inclined to show them as a separate item.

H.M.Jr: So am I.

Bell: And then each month break them down by departments. We can't break them down by countries until we set up the central office. We can't break them down on a cash basis, and by countries, but we can on a check issue basis.

H.M.Jr: That would be a question as to whether you want to do that by countries, but certainly as between that and rest of that, I would.

Bell: I am in favor of that, too.

H.M.Jr: Don't you think that is the intent of Congress?

Bell: I think that is what we ought to do.

H.M.Jr: Anybody disagree?

Bell: I think the Budget had some question as to whether we ought to do it right away, because it would look so small; but we ought to do it anyhow. I don't think we ought to cover it up. We are prepared to do that.

H.M.Jr: Anything else?

Bell: That is all.

H.M.Jr: I am very glad we were generous yesterday in our financing estimates. I think you will find that the financial section is pretty good this morning.

Bell: The stock market. There was no criticism.

H.M.Jr: Harry?

White: I have nothing.

Schwarz: I think it is worth considering, realizing all the problems involved with the Ways and Means Committee, whether you or John might want to talk just before going to the - up on the Hill, might want to talk the day before to the Press Club without a preview of testimony; but if we could get clearance from Doughton and Harrison, and have them there, we might do a little bit of wholesome converting.

Sullivan: I discussed that with Mr. Schwarz yesterday, and I think that the two committees would feel that we were transferring the main show from the committee room to the Press Club.

H.M.Jr: Well, I am tickled to see Chick suggest it. I like those suggestions. But he mustn't feel badly if I turn them down.

Schwarz: I don't. I am just throwing it out.

H.M.Jr: It is a good idea.

Schwarz: I asked the chairman of the Speakers Committee, and they said they would be glad if they could have it the day before.

H.M.Jr: Sure they would.

Schwarz: Of course. O.K.

H.M.Jr: What else? It is all right. Chick got a beautiful letter from the head of United Press complimenting him on the work he did on the Coast Guard seizure. It was a very unusual letter.

Schwarz: International News.

H.M.Jr: International.

Gaston: He should have had a letter from my office, the Coast Guard, complimenting him.

Schwarz: As long as we were in that --

Gaston: They were on the job on a twenty-four hour, three shift basis.

Schwarz: We thanked the Assistant Secretary, as a newspaper man, for tipping us off.

H.M.Jr: I ought to have congratulated him. In the State of Arizona you could get me in three minutes. It is all right, Chick, that was a nice letter.

Anything else?

Schwarz: That is all.

Pehle: I asked Knoke to check on how many bank accounts there were from Salonika over here, just to see that they were watched.

I don't suppose there is anything we have to do. They ought to have made preparations. The signing authority wasn't left behind or anything. He will watch it and keep us advised.

H.M.Jr: Do you know how much money you have got in bank accounts for various countries that are frozen?

Pehle: Yes, sir.

H.M.Jr: How much?

Pehle: You mean offhand?

H.M.Jr: Yes.

Pehle: Well, the total was four billion two, something like that, and I imagine it is about half of that, at least half is in the banks. We have figures, though.

H.M.Jr: Dr. Stewart is going to talk to you about it. He and I cooked up an idea last night, and we might want to use that. He had the idea and I said I had dreamed about it.

George?

Haas: I have nothing.

H.M.Jr: George, why should cottonseed oil go up sixty per cent? And lard, I think, a hundred per cent.

Haas: Well, there are several factors there running them up. The Department of Agriculture, you know, is running up the price of hogs. That will affect the lard. You run up one fat --

H.M.Jr: I don't mean lard, I mean tallow.

Haas: Oh that, all those fats and oils are related. There has been a - on the demand side there has been a tremendous demand from Japan and some of these countries.

H.M.Jr: I have got a suggestion. The Secretary of Agriculture said if beef continues to go up so high, he is going to buy Argentinian beef. Doesn't Argentina have tallow for sale?

Haas: I would think so. It is a by-product of cattle slaughter.

H.M.Jr: Will you find out?

Haas: Yes.

H.M.Jr: Talk to Wheeler over there, whether they don't have tallow, whether we couldn't import tallow. It has gone clear out of line.

Haas: I will do that.

H.M.Jr: What about cotton-seed oil? God, there is enough cotton in the country.

Haas: Well, cotton-seed oil - at certain prices those oils are interchangeable, and the oils that came across the Pacific have gone up in price because the shipping rates have gone up, and there is a shortage of shipping.

H.M.Jr: Substituting that for cocoanut oil? Are you sure?

Haas: Yes. And the Japanese and the Russians are buying those oils.

H.M.Jr: Well, couldn't you find out from the Cotton Oil Institute whether they are running that thing on a twenty-four-hour basis and all the rest of it? Look into cotton-seed oil. That is edible, isn't it?

Haas: Yes. They make shortening out of most of it.

H.M.Jr: Anything you want to tell me?

Haas: No, sir.

H.M.Jr: Philip?

Young: I have nothing.

H.M.Jr: I will see you and Oscar again and we will have our post-mortem in the morning after this meeting.

Young: O.K.

H.M.Jr: I am quite pleased at the results that I was successful in dynamiting off the President's desk the legislation on the Danish ships. Do you know anything of what happened after I talked to him about it?

Young: No.

H.M.Jr: It took two phone calls to Hull, one visit to the President, and a telephone call to Hopkins to get it off his desk, but it worked anyway.

Schwarz: There was some good questioning at his press conference yesterday. The boys just followed up the - they got a wedge in and stayed with it.

H.M.Jr: I just sicked Donovan onto the Maritime Commission to try to get these sixty ships for the Near East which Land is very loath to give up. I feel good about the Danish ships, because I feel I had something to do with it.

Bell: What happened to the capital funds?

H.M.Jr: He likes it, and I didn't want to crowd him, because I was making myself chairman of it. If I don't hear, I would like a complete duplicate, because we will have lost it by Monday, to take over Monday for him to sign it. If I give him a week, that is enough. Will you (Bell) see that I get a complete duplicate of that?

Bell: Yes.

H.M.Jr: And I will give it to Mrs. Klotz, and she will see that I take it, because surely by Monday it will be lost. But he liked it. Incidentally, what are you (Young) doing, and Cox, to get the twenty-five million dollars for the ten Coast Guard cutters?

Young: There hasn't any definite action been taken on it.

H.M.Jr: Will you see Hopkins today?

Young: I don't know.

H.M.Jr: If you and Cox see him, tell him he promised me that at ten o'clock last Thursday morning, that he would have it as of last Thursday, and then if you don't get anywhere today, remind me tomorrow, and I will call him up. Will you write it down? I will give you twenty-four hours. But he promised to me at ten o'clock last Thursday, he said I could have it.

Harold? Kuhn?

Graves: Nothing.

H.M.Jr: Walter? John? Merle?

Cochran: Have you seen the report that the Germans had entered Salonika this morning?

H.M.Jr: Yes.

Cochran: There is a long story in the New York Times about the Regent of Iraq going down to Basra.

H.M.Jr: About what?

Cochran: About the Regent of Iraq --

H.M.Jr: Have they got it straight?

Cochran: I am not sure. I haven't checked. They didn't have all the information we had before.

H.M.Jr: John Wiley, do you suppose you could see Murray and have a talk with him and then give me - or repeat to me just what he found the situation in --

Wiley: North Africa?

H.M.Jr: Yes.

Wiley: I have already had a talk with him.

H.M.Jr: Have you got it?

Wiley: He says these stories of great infiltration of Germans in North Africa are very much exaggerated, that is in Morocco. That there are about sixty-five Germans in all and sixteen are officers. They are put outside of Casablanca in a special hotel. They are carefully watched by the French. He says the French have a very good Intelligence Service there, and that was about the only really encouraging thing he said.

H.M.Jr: What about - did he go into the feeding thing at all?

Wiley: I think so. He believes that there should be some formula for getting food into unoccupied France. He doesn't believe that much is getting into German hands.

H.M.Jr: Anything else that runs contrary to the general newspapers?

Wiley: I don't think so. He believes in DeGaulle's honesty and sincerity. He thinks Darlan is very bad news, perhaps worse than Daladier. That while Dal - Laval, I mean, he at least had some capacity for bargaining which Darlan doesn't have. Darlan just offers things almost before they are requested by the Germans.

Cochran: There was one point in that connection, Murray mentioned to me over at the State Department the other day, I asked him about that gasoline that was supposed to be going on from North Africa to Italy, and he said that second shipment never got across, that the Italian tanker which was coming to get it was sunk by the British, and that the gasoline is still in North Africa and that that rubber also never got to the continent, that that ship was put in at a North African port.

H.M.Jr: Anything else?

Cochran: No, sir.

Sullivan: In supplementing that list of a hundred companies, there is no particular desire to see that there isn't any over-lapping? You merely want a list of the March contracts, I understand.

H.M.Jr: March contracts?

Sullivan: Picking them up from the Federal Register.

H.M.Jr: I just want it up to and including.

Sullivan: That is right, but there may be some over-lapping, because the dates don't synchronize with the dates over there where we got the other figures.

H.M.Jr: I don't follow you.

Sullivan: Well, it may be a week between the time the contract is executed with Defense before it appears in the Federal Register.

H.M.Jr: Oh, what do you take it from?

Sullivan: From the Federal Register.

H.M.Jr: Can you pick them up on the first of April?

Sullivan: We are going to carry them right through to today.

H.M.Jr: Good.

Sullivan: I thought that would probably be adequate for your purpose. While you were away, Mr. James Roosevelt came to see me on a matter which I referred to Mr. Pehle's office, and I thought you might want a memorandum on it.

H.M.Jr: Wait a minute. How did you close this, Pehle? Did you do anything for him?

Pehle: He apparently didn't know what the problem was, and so there wasn't much of a point of discussion on it. He has an interest in a film company out there, along with a few other people, which has a heavy French interest in it. We have been giving them the necessary licenses to carry them along. There is no real problem.

H.M.Jr: Can you do anything for him?

Pehle: No, there was nothing to do.

H.M.Jr: What did they want to do, buy the French interests?

Pehle: No, they are already in the French interests. He was just concerned with the type of licenses we were giving them, and it was explained to him.

H.M.Jr: Could you explain it a little bit more?

Pehle: Can I?

H.M.Jr: Yes, to me.

Pehle: No, I can't. I didn't see him because I wasn't here. I was away for two days. As it was reported to me, he didn't understand the details of the working of the arrangement and neither did the man who saw him, because he just came in that morning and discussed it in a very general way and seemed satisfied with the discussion. That is the way it was left.

H.M.Jr: What does this company do?

Pehle: Makes color film. It is a competitor of Technicolor.

H.M.Jr: I see.

Pehle: There is Roumanian and French interests in it.

H.M.Jr: And they have an interest in it?

Pehle: Yes.

H.M.Jr: It is all right, is it?

Pehle: Yes, sir.

H.M.Jr: O.K. I have a reminder here that you were going to give me a one page memorandum on the question of taxing of American diplomats, on their expenses.

Sullivan: Yes, sir. I have spoken about that several times. I think I have it back here.

H.M.Jr: Well, do you want to bring it up at our tax conference?

Sullivan: All right, sir. I have it right here.

H.M.Jr: Bring it up at our tax conference.

Sullivan: All right. The gentlemen from Pittsburgh wired urging your acceptance of the invitation of the National Tax - Real Estate Tax Payers' Association to give a statement at their meeting here on April 25 and 6, and you had already regretted that invitation. Here is just a response to that wire.

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

Sullivan: That is all, sir.

Foley: Gene Duffield won't be here at 10:15 unless you want him. He has other work that he could do, but if you want to make a point of it, he can be reached.

H.M.Jr: Would he like to be here?

Foley: I asked him that, and the message came back that he had another thing, but he could change his schedule if you wanted him here.

H.M.Jr: What else?

Foley: Tietjens has come back from Saranac.

H.M.Jr: Oh, wonderful.

Foley: It will be a couple of months before he will be able to work, but he has been discharged from the sanatorium up there in the minimum time of six months, which is good, and he plans to come back to work in easy stages around the middle of June.

H.M.Jr: When he comes in the office, I would like to see him.

Foley: Yes.

Pending action by Congress on the legislation you sent to the President Sunday to permit negotiated contracts in the Procurement Division in connection with their purchases under the Lend-Lease Bill, they have seven and a half million or eight million dollars, the first allotment of funds, for purchasing for the British, and I think we had better have a conference with the Comptroller General to see how far on particular items he is willing to let us go, pending passage of the bill.

H.M.Jr: I would go ahead with the legislation. The President said that was all right.

Foley: You want us to go ahead and have it introduced?

H.M.Jr: Yes. Tell Budget about it and just go ahead.

Foley: O.K. But in the meantime I think we ought to see the Comptroller General anyway to see how far under the existing law he is willing to let us go.

H.M.Jr: But don't wait on the President, just go ahead.

Anything else?

Foley: No.

Gaston: The British Admiralty, through the Naval Attache in London and the Chief of Operations here, has asked us to leave some men aboard the cutters for a period of six months as ship observers, men who are familiar with the electrical and other installations on the ships. It practically means we would be furnishing part of the crew of these ships.

Waesche is bringing over a memorandum on it. He thinks that of course it would help them, but he thinks that if they went through a period of a couple of weeks training instruction on the installations on the ships before they go out with our men that it ought to be enough. It seems to me a rather dangerous thing to put our men on in the guise of observers to help them operate those ships.

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

Gaston: Shall I bring you - I will bring you a memorandum on it anyway, but I will tell him that we wouldn't do it unless we are ordered from higher authority. I think it is a mistake.

H.M.Jr: I think we oughtn't to do it. If the Navy wants to do it, let them do it. I don't want to do it.

Gaston: I suppose you noticed on the ticker that London gave this thing out this morning.

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

Gaston: That was the British idea. My idea was that we would just let them ooze out one at a time and not make any announcement until we had to, but the British were very anxious to have a White House announcement. Steve Early decided, or the President decided otherwise, and that we wouldn't say anything until the newspapermen actually learned it, but London announced it today, and so the matter is being referred over there. I would like to bring you a letter to Army and Navy on this question of inviting bids or negotiating contracts for narcotic drugs. We have had one incident where the Army went out and

and attempted to buy an excessive quantity of narcotics without consulting us, and then in connection with this Yugoslav list of desired materials, there were inquiries went out for an absurdly large supply of codiane,more than exists in the United States. What I wanted to suggest to everybody is that before anybody attempts to buy narcotic drugs they check with the Commissioner of Narcotics.

H.M.Jr: Why don't you fix me up a letter?

Gaston: I am having Harry Anslinger do that.

H.M.Jr: Good, I will sign it.

Anything else?

Gaston: That is all.

H.M.Jr: O.K.