DIARY

Book 397

May 12 - 14, 1941

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May 12, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Cochran
Mr. Haas
Mr. Foley
Mr. Thompson
Mr. Bell
Mr. Schwarz
Mr. Kuhn
Mr. Graves
Miss Chauncey

H.M.Jr: I haven't come back with much, George. I read your statement on Agriculture, see, and the one thing that I don't understand is, in your tables there you show Government payments to farmers and they differ so much from the Budget figures.

Haas: Oh. The Budget figure, the figure which is in the annual report, includes everything, even including the Executive Department.

H.M.Jr: Includes what?

Haas: Includes everything paid to the --

Bell: Includes administrative expenses of the departments.

Haas: The department is included in that, too.

H.M.Jr: But you see there is such a difference.

Haas: That only accounts for about nine hundred million, I think, what is in the table.

H.M.Jr: Well, take 1939. It shows eight hundred seven million Government payments on the one thing and then the Budget figures show a billion two hundred thirty-five million. Is that the total?

Haas: That is the total, yes, sir.

H.M.Jr: But these benefit payments, eight hundred and seven?

Haas: That is benefits, parity payments, soil conservation payments.

H.M.Jr: Where does the four hundred thirty odd million and the rest of it go to?

Haas: I can't itemize it exactly, but the biggest item in that four hundred is the department, isn't it, Dan?

Bell: It is about a hundred and twenty-five or thirty million dollars for administrative expenses of the Department, including Forest Service.

You have also got the surplus commodity payments in there, which are really purchases of food and delivering for relief, which is not a payment to the farmers, but it is a benefit in price rises.

H.M.Jr: What I was going to ask, George, and you can work in Bell's office, is this. In the first place, I want the breakdown, how do they spend the five hundred million for conservation.

Let's just take whatever the last calendar year is. The big sums, you see.

Haas: Yes, sir.

H.M.Jr: And then, what are the other expenditures. I mean, how much went for subsidizing cotton, purchase of food and food stamps. Who can he work with in your office?

Bell: He can work with Bartelt. They will have to get that from the department because we don't have it broken down.

H.M.Jr: You had better get it today in case I have to go on the Hill. Do you see what I mean?

Haas: Yes, sir.

H.M.Jr: And then Ed O'Neal sent me a letter with his testimony. It seemed that he made - pointed out seven different administrative setups in his testimony which he thought all could be consolidated and I would love to quote Ed O'Neal on how to save money in Agriculture. He sent me his testimony.

As I remember it, there are seven different setups and he said he showed a tremendous waste of administrative expenses, if my memory serves me right. It is in there, anyway, his testimony on overhead.

What?

Haas: Yes, sir, I will get it.

H.M.Jr: And is Cannon friendly or unfriendly to Agriculture?

Bell: You mean Cannon of Missouri?

H.M.Jr: Yes.

Bell: Very friendly.

H.M.Jr: Well, God, his testimony --

Haas: He goes at them there.

Bell: Well, that was the last time that the boys got behind him to maintain the Budget.

H.M.Jr: Well, let me read you this from his testimony.

"In '38 it was necessary to further increase the subsidies from Federal Treasury until they amounted to five and two tenths percent of the farmers' income. The '39 prices of the market were so inadequate that it is now necessary to pay the farmer, and we are paying this farmer eight and three tenths percent of his income from the Federal Treasury. From your figures here, it is apparent that instead of the farmer's condition improving under the present system, the contrary is true. It is less effective each year from 1936 to 1939, so according to this report if the trend continues it will be necessary to have an increase in the subsidies from the Federal Treasury of 1942 still - increase instead of a decrease."

"I agree with your conclusion," says Mr. Appleby. Do you want to read this?

Bell: No.

H.M.Jr: Give Mr. Bell a copy, will you?

Haas: Yes, sir.

Bell: Don't you remember Cannon said at the White House that he was a little sick and tired of hearing about economy and every time we talked about economy it always was to come out of the farmer?

H.M.Jr: Well, the figure I think is the most interesting one that George gave me, which they just can't dispute, and I wish you would run a little explanation on it, the ratio of prices received to prices paid.

You see, you give prices received but not prices paid. You just have the ratio. You ought to have all three on the same page.

Haas: I see.

H.M.Jr: Well, since last March the ratio of prices received to prices paid has gone up from about seventy-seven percent to almost ninety. But you see you have got prices received and you don't have prices paid. Then you could run all three.

Haas: Yes, sir.

H.M.Jr: Then you have got the ratio. Because they might ask me, you see. Do you think that is fair, George?

Haas: Yes, I will get that.

H.M.Jr: But they can't laugh that off. The farmers' condition is so much better.

Haas: They can't laugh off the relationship of farm income to business, either.

H.M.Jr: That is the best one yet. Those are a couple of good charts. You might kind of hang onto this, George.

Well, I am seeing Bill Myers. Then the other thing, you can read this by columns in the Tribune, inflation by legislation, and I wish - I haven't got it but have you got - I know you run the price increases from last September to date, don't you?

Haas: That is one of them.

H.M.Jr: Didn't you run them recently?

Haas: Yes, sir. They will be in your memo that you receive today sometime.

H.M.Jr: Well, I want to see it, because this thing here talks about Mr. Leon Henderson, but I would like to do - if I get up before them and say, "It is always amusing to me when a fellow can't do his own job like Leon Henderson. The prices have gone up thirty, forty, and a hundred percent, and he hasn't been able to control them. He won't admit it, and then he has got to come over and talk about controlling them by increasing the taxes on automobiles. But look at what has happened to food. Leon Henderson has just fallen down on his job, and when it gets hot, he leaves town for two months."

Incidentally, I want the letter Leon wrote me when he left town asking me to look after it while he was gone.

You (Sullivan) had better not let me go up on the stand. I am going to pay my respects to the two Charlie McCarthy's. Charlie Henderson and Charlie Eccles, and the Bergen is Mr. Currie that pulls the strings.

The trouble with Mr. Currie is, I don't know half the time whether he is working for Mr. Roosevelt or T. V. Soong, because half the time he is on one payroll and the rest of the time he is on the other, so is he up there as the great Chinese expert or as the Great Bergen on the taxes.

Sullivan: Are you asking my opinion? (Laughter) I think you had better get laryngitis.

H.M.Jr: The Great Bergen. He has got these two Charlie McCarthy's, Charlie Henderson and Charlie Eccles and I wish that Congress would find out when he is pulling the strings. Is he doing it for Mr. T. V. Soong on whose payroll he went to China or is he doing it for Mr. Roosevelt?

Sullivan: I think we have got more important things to say.

H.M.Jr: All right, I have got another one on Mr. Eccles, too.

Sullivan: Come on, let's try it here. (Laughter)

H.M.Jr: I have got one on Mr. Eccles, too. When I put that one on Mr. Eccles, he has got to leave town. Federal Reserve isn't the only board he is chairman of. I haven't told it to anybody.

Bell: Have you received Jenkins' letter yet? It was published in the paper, I see.

H.M.Jr: Mr. Eccles is chairman of another board on whose payroll he is. He has got a nice, great big fat twelve million dollar War Department contract through that. He is chairman of the board of that company, on their salary rolls. I would like to say when I get up, "When Mr. Eccles is here, is he here as Chairman of the Federal Reserve Board or as Chairman of the XYZ Company with a big contract in the War Department and another one for the

City of New York. Maybe he is Chairman of this other company. If he is chairman of two boards, how do I know who he represents?"

And I am not day dreaming either. I have got the facts cold. How do I know who Currie is working for? Is he working for the Chinese Government or is he working for the United States Government? I am moderately serious. (Laughter)

Sullivan: I don't like moderation.

H.M.Jr: When they take me on, they are taking something on. They can't run their own jobs, they have got to come over and run mine.

Bell: That New York air over the week-end must have been good.

H.M.Jr: It is true. He is chairman of a company that has got a contract with the United States Army and he is chairman of the same company that has got a contract for the City of New York, and they are big ones, running into millions, and he is getting paid for it, too.

Ed, I have asked you a couple of times for that clause in the Federal Reserve, what is the Chairman of the Federal Reserve Board supposed to do, something about devoting his exclusive time? Can I have that before noon?

Foley: Yes.

H.M.Jr: Something about he is supposed to devote all of his time to the public.

Foley: Sure. We have done some work on that before.

H.M.Jr: Well, it is just a little sentence.

Foley: Yes. I know.

H.M.Jr: Now, where was I?

Sullivan: You were pulling the strings.

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

Sullivan: I think it is swell here.

H.M.Jr: I am ready for you (Sullivan) at ten thirty.

Sullivan: Aye, aye, sir.

Thompson: If I can stay a minute, I have some things here.

H.M.Jr: All right. Dan?

Bell: I haven't seen the Jenkins letter, have you?

H.M.Jr: There is Miss Chauncey. Have you seen a letter by Jenkins?

Chauncey: Is that on the Byrd Bill?

Bell: No, that is on Ways and Means.

Chauncey: Yes. I think it is from Jenkins.

H.M.Jr: Incidentally, when I see the Director of the Budget, I have asked him to come over, I don't know whether he will honor me with his presence, at three thirty, I asked you about two months ago to ask him to get this for me about CCC and NYA?

Bell: Do you say you want to tell him that?

H.M.Jr: Yes.

Bell: March 8 was the date. It is the date I did that five year program.

H.M.Jr: But you did ask him?

Bell: I gave him a copy of that statement and I asked him at that time if he could make some investigations. Oh, he did start out on it.

H.M.Jr: Have you got anything from him?

Bell: No, he started out on it and then he had to pull his people off on this Harry Hopkins thing.

H.M.Jr: He is griping all over town about how I embarrass him. One of the things I am going to say when I go up on the Hill, I can't tell him anything about economy because I can find out less from the Bureau of the Budget than the Secretary of State can. If they want me to do anything about economy, let them put the Bureau of the Budget back in the Treasury.

Bell: Well, he did start out to do it.

H.M.Jr: But he didn't do it.

Bell: He called his people off because of this Lease-Lend thing.

H.M.Jr: O.K. It is true. We can get less in the Treasury than the Secretary of State can get out of the Bureau of the Budget.

Bell: Well, I think they will try to cooperate. I agree they fell down on that.

H.M.Jr: Well, he is griping all over town about it.

Bell: They have been pretty good about giving us figures, and I think sometimes they have hesitated to do it.

H.M.Jr: If he comes at three thirty, I want you here. I am going to ask him for some figures.

Anything else?

Bell: Apparently Mr. Tydings wrote --

H.M.Jr: This is the letter from Jenkins. What are we going to do about it?

Bell: I don't know yet.

H.M.Jr: You asked for it, so here it is. Now that I am fifty, I might start by being tough. I have been too soft the first half of my life.

Bell: The first question I think we ought to decide is as to whether we want to reply to a letter from the minority, whether or not we shouldn't take it up with the chairman of the committee.

H.M.Jr: Would you have this ready for me, because I am going to ask you for it.

I would like to sit down with you and go over the appropriations for these various things, non-defense, in the present fiscal year, and then go over the ones in the President's budget, just you and I, if we have got half an hour, and decide what we think could be saved, you see. Just you and I doing it together.

Bell: All right.

H.M.Jr: I mean, the year we are in now, the big items, and the ones that they are proposing to do for the next fiscal year. If you and I had to do it, where would we save a billion? I am beginning to think a billion is too little.

Bell: The Chamber of Commerce said two billion.

H.M.Jr: Will you have that sort of ready?

Bell: Yes.

H.M.Jr: And if you would stay behind a minute, I would like to talk to you about a personal matter.

H.M.Jr: Tydings, I think, wrote several people in the Department. He wrote to John and to me in addition to you, and he wrote to Broughton, and I don't know how many other people. I think probably we ought to get all those letters together and write a letter acknowledging them and saying that we are giving it consideration.

H.M.Jr: Will you do it for my signature?

Bell: Yes.

H.M.Jr: What else?

Bell: That is all.

H.M.Jr: Chick?

Schwarz: Mr. Mayl, because of illness, wishes to be relieved of some of his responsibilities. Until he regains his health, I would like to make a change of status between him and Mr. Stone for the time being.

H.M.Jr: I can't hear a thing.

Schwarz: Mr. Mayl, because of illness, has asked to be relieved of some of his responsibilities, and I would like to make a change of status between him and Mr. Stone while Mayl is--

H.M.Jr: What is the matter with Mayl?

Schwarz: It seems to be a lung condition. He coughs sometimes.

H.M.Jr: You had better have him examined. If he is not right, let's send him away and not have him around here. Has he had an examination?

Schwarz: He hasn't had one for sometime. He is away for this week, and I thought I would see what happens when he comes back.

H.M.Jr: You had better send him to Public Health and have a decent examination. If he is not right, we had better send him where he will be well.

Schwarz: I tried to find out whether he got any gas during the War, and he doesn't like to talk about it.

H.M.Jr: Well, you can get his record from the Veterans' Bureau.

Bell: I think they would have it.

H.M.Jr: Norman Thompson will get you his record. If that man isn't well, let's get him well. I won't have him around half sick for his own sake and everybody else's.

Schwarz: I wanted to put him on about four days a week.

H.M.Jr: That is no good. If a man is not well, let's get him well. We will keep him on the salary and keep him going. Isn't that right?

Thompson: Yes.

H.M.Jr: We didn't take What's-his-name off the salary, did we?

Schwarz: Tietjens.

Foley: No, he is back, and we didn't take Manning off the salary either.

H.M.Jr: If he is not well, let's get the poor fellow well. Public Health will do anything for me.

Schwarz: Swell. Good. That is much better.

H.M.Jr: I don't want a man that is half well around. If you need somebody else while he is gone, hire somebody else.

Schwarz: I have a cartoon here. I don't know whether you wish it or not.

H.M.Jr: And before he goes, let me talk to him. I would like to talk to him before he goes.

What else?

Schwarz: I have a cartoon. I don't know whether you wish it or not.

H.M.Jr: Is it funny?

Schwarz: I thought it was right on the subject.

H.M.Jr: Oh, I love it.

Schwarz:	We haven't had many from Talburt.
H.M.Jr:	Who is he?
Schwarz:	He is the Scripps-Howard principal cartoonist.
H.M.Jr:	I love it. Grand.
Schwarz:	That is all.
H.M.Jr:	George?
Haas:	You asked about how much the volume of purchases of cotton goods was.
H.M.Jr:	Hang on to that.
Haas:	Here is this WPA thing. It dropped from about two million in the middle of February to about a million and a half.
H.M.Jr:	WPA says there are three hundred forty thousand men on their rolls doing defense work. The head of it told me so. Three hundred forty thousand.
Haas:	Do you want to do anything about that?
H.M.Jr:	He called me, and I referred him to you, and you tell him that I don't have any Chinese decipherer that can decipher his statistics and therefore I am going to continue to have yours.
Haas:	Swell. Fine.
H.M.Jr:	Isn't Chinese a good example or have you got to go to the Persians?
Haas:	A Chinaman would have some trouble, I think.

H.M.Jr: I can't make head or tails out of his, and I haven't time. If he doesn't like it, he can jump in the Potomac. Tell him to go out and build some planes instead of making figures.

Haas: Those Allison figures look bad.

H.M.Jr: Tell Meigs to go out and build some planes instead of bothering me.

Are you continuing getting Army statistics?

Haas: Yes, sir.

H.M.Jr: Got anything new?

Haas: Oh, I was thinking of something else. We haven't gone ahead on those other procurement items. I was waiting to see which field you want us to go into. I have a report, though, from--

H.M.Jr: Take the thirty-seven millimeter guns.

Haas: All right.

H.M.Jr: And take the various guns beginning with the smallest of machine guns and working up.

Haas: I have a report from May's office which outlines the progress made in all those items. You might - the first eight pages of the report will give you a good picture of it, but I would be glad to go ahead and make some of those charts.

H.M.Jr: It seems that Colonel Ayres went into Mr. Stimson's office and asked, "Should we really have this," so Stimson took me aside and asked me about it, so I said, "I cleared it with your Undersecretary two weeks ago. I can't help it if he didn't tell you." "Oh," he says, "if you did that, it is all right." So I saw Bob Patterson and I said, "Did Stimson ask you about it?" He says, "Yes, and all I can remember was your calling me two weeks ago. I can't remember what you asked me, but whatever you asked me is O.K." He says, "Sure, it was all right." So it is all right.

Haas: All right.

H.M.Jr: So go after it again. Start in with the guns.

Schwarz: Could I break in with a point I overlooked?

H.M.Jr: I can't hear you, Chick.

Schwarz: I am sorry. I don't see Herbert here, but in line with this checking of funds, I saw a labor friend of mine over the weekend. It might be of interest to everybody. He has just been on the West Coast. He says that whole trouble there is caused by Fritz Weidemann, who is paying lavish sums and his technique is to - his men are on his payroll and they go to the employers and get on their payroll pretending to be company spies, and then they go into the shops as workmen and they are on the company payroll there, too.

H.M.Jr: Can he prove it?

Schwarz: He is up to it right now. He says he is having trouble because these fellows - his men don't understand the particular brand of German, but he is working on that right now. He is the head of the machinists and his local is being torn away from him by Weidemann out there.

H.M.Jr: Well, if he can prove it, can half-way prove it, I would like to see him. I will introduce him to the right man.

Schwarz: He has talked to FBI and others, and they say it is up to the factories.

H.M.Jr: I know. I got that same thing from John Wiley, but I have got a man in the War Department that is really interested in that.

Schwarz: I will put him on the spot to prove it today.

H.M.Jr: Both McCloy and Lovett are very much interested in that.

Schwarz: That is his story. He claims it is there. I am sure he can prove it.

H.M.Jr: Well, I have got this thing, that FBI is taking the position that isn't up to them, it is up to the employer, and the Army is just desperate about it, so if you had something I would send him over to Lovett or McCloy, who are raring to go.

Schwarz: I will get it. This man was formerly Mayor of Alexandria. He is a Virginian. I will get him in.

H.M.Jr: Will you?

Schwarz: Yes, sir.

H.M.Jr: Did you run down that leak?

Schwarz: I talked to Gene Duffield and others. He said, "You can't kick your foot on the ground without scraping up an economic warfare story." He blames Maxwell, but there again he would like to be able to prove it without--

H.M.Jr: Well.

Schwarz: He said it was just a bookman's story.

H.M.Jr: Harold?

Graves: Nothing.

Foley: The Merry-Go-Round has a controversy between Treasury and State this morning.

Kuhn: I have a draft, whenever you are ready to talk about it.

H.M.Jr: We will go on it at ten thirty, and I would like to see you for a second after this meeting.

Kuhn: Right.

Cochran: Gifford picked up in his business last week. He had seven million for two days.

H.M.Jr: How much for the week?

Cochran: I haven't the rest of the week yet. Sir Frederick Phillips sent me a copy of a list which Secretary Jones had requested of him of British direct investments in this country. I think it compares pretty well with our own list. Coyne, Canadian Financial Attache, was in Friday afternoon and gave me some material that we had asked for and expects the rest today or tomorrow, and he thought, also, that Mr. Clark would be down this week.

H.M.Jr: Clark?

Cochran: Yes, sir.

H.M.Jr: But you haven't heard anything from Keynes?

Cochran: No.

H.M.Jr: Don't inquire, just sit tight.

Cochran: I was out and he stopped for lunch Saturday, and he had Hall there, Professor Hall, and--

H.M.Jr: Did he say anything about meeting with me?

Cochran: Said he was trying to get a car and chauffeur so he could get down in time for these important conferences. He seemed quite happy with the way it has been getting on except he has been late for every appointment he has had.

Keynes is having a press conference this morning at the Mayflower Hotel.

Kuhn: Four o'clock, isn't it Merle?

Cochran: I don't remember the hour.

Kuhn: I think it is four this afternoon.

H.M.Jr: They tell me, I don't know whether it is true or not, that this so-called woman secretary he has is really a trained nurse, that he is not at all well.

Cochran: That is all I had, except Ed and I had one little case maybe Ed will want to explain now or later.

H.M.Jr: Which is that?

Foley: That Hawaiian investment.

H.M.Jr: Any hurry about that?

Foley: No. It is all right. There is no hurry about it.

Cochran: I told the man I would call him tomorrow. We can take it up later.

H.M.Jr: All right. I want to talk to Bell a minute and then you (Kuhn).

Foley: I have got a couple of things, Mr. Secretary.

H.M.Jr: All right.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 12, 1941

TO SECRETARY MORGENTHAU

FROM Edward H. Foley, Jr.

The provision of the Federal Reserve Act to which you referred this morning is as follows:

"The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of $15,000, payable monthly, together with actual necessary traveling expenses." (U.S.C. title 12, sec. 241; underscoring supplied).

E.H.F.Jr.

May 12, 1941
10:25 a.m.

H.M.Jr: Hello.

Operator: Senator Bailey of North Carolina.

Senator Bailey: Good morning, Mr. Secretary.

H.M.Jr: Hello, Senator.

B: How are you this morning?

H.M.Jr: Well, I'm alive.

B: Well, I believe I can claim no more.

H.M.Jr: Pardon me?

B: I say I could claim no more.

H.M.Jr: Yeah.

B: Now you had a clerk down here taking a copy of a brief that was filed in the ship seizure bill. I don't know whether you know anything about it or not.

H.M.Jr: What was that, Senator?

B: There was a clerk from the Treasury Department here on Friday or Saturday - Friday - taking a copy of a certain brief filed in behalf of the Danish owners of certain ships in connection with this bill that we have enabling us to seize the ships or to requisition them.

H.M.Jr: I'm not familiar with it.

B: No, but I'd like to find out from the Treasury and of course through you if you desire to be heard or if you desire to answer that brief. That's what I'm driving at.

H.M.Jr: Oh. Well, I'd have to find out. It's all news to me.

B: Well, you let me know. It's a detail but I think it is a courtesy due you. If you wish to have an answer in the record, then we'll put it in the record.

H.M.Jr: Well, that's very kind of you and I appreciate your calling me and if we want to be heard, I'll communicate with you directly.

B: All right.

H.M.Jr: Thank you for the courtesy.

B: All right.

May 12, 1941
10:30 a.m.

RE TAXES

Present: Mr. Foley
Mr. Kades
Mr. O'Donnell
Mr. Blough
Mr. Kuhn
Mr. Tarleau
Mr. Sullivan
Mr. Schwarz

H.M.Jr: All right, Mr. - is Gaston ill today?

Sullivan: He went to New York.

Foley: He is up in New York at that communion business of Harry Durning's.

H.M.Jr: Oh yes.

Sullivan: In accordance with your suggestions Friday afternoon, we went to work to see how much we would have to increase the corporate rate to give us the same amount of revenue as we are now getting from excess profits, together with our proposed change, and the figures Mr. O'Donnell gave me this morning show that if the present corporate rate of twenty-four percent is increased fourteen and seven tenths percent to --

H.M.Jr: Fourteen and how much?

Sullivan: And seven tenths percent.

H.M.Jr: Call it fifteen.

Sullivan: Making a total of thirty-nine percent, we will get as much from corporations as we would get with our proposal on excess profits.

H.M.Jr: Now let me get that. If the tax was increased by how much?

Sullivan: Fifteen percent.

H.M.Jr: Fifteen percent. It can't be that. That is close enough. We would get the same amount from the --

Sullivan: From the corporations. And repeal excess profits.

H.M.Jr: In what year?

O'Donnell: That is calendar year 1941, Mr. Secretary.

H.M.Jr: As though we were --

Sullivan: As though we kept excess profits and strengthened it by the proposal we brought in.

H.M.Jr: In other words, how much would we get from corporations altogether? What is the figure?

O'Donnell: The total figure from corporations under the proposal John has made would be four billion nine hundred million.

H.M.Jr: How much?

O'Donnell: We would be getting four billion nine hundred million dollars in fiscal year '41. And we would be getting from individuals three billion six hundred two point six millions. The total income tax is eight billion five hundred two point seven millions.

H.M.Jr: Corporations how much?

O'Donnell: Four billion nine hundred million.

H.M.Jr: Yes.

O'Donnell: Individuals, three billion six hundred three.

H.M.Jr: Six hundred million?

O'Donnell: Yes, sir. The total is eight billion, five hundred three.

H.M.Jr: Eight billion five.

O'Donnell: Yes. Would you like to have the present liabilities under the present law so that you can get the comparison?

H.M.Jr: Yes.

O'Donnell: From individuals we expect in calendar year 1941 liabilities, two billion two hundred twenty-three million.

H.M.Jr: Two billion --

O'Donnell: Two hundred twenty-three million, and from corporations --

H.M.Jr: Two billion how much?

O'Donnell: Two billion two hundred twenty-three million.

H.M.Jr: That is under what law?

O'Donnell: That is under the present law. And from corporations we expect to get under the present normal tax, two billion nine hundred thirty-nine million.

H.M.Jr: How much?

O'Donnell: Two billion nine hundred thirty-nine million. From the excess profits tax, one billion and twenty-six million.

H.M.Jr: Excess profits how much?

O'Donnell: One billion and twenty-six million.

H.M.Jr: One billion --

O'Donnell: Twenty-six million. Making a total from corporations of three billion nine hundred sixty-seven million.

H.M.Jr: Wait a minute, wait a minute. From corporations how much?

O'Donnell: Three billion nine hundred sixty-six million.

H.M.Jr: And then what?

O'Donnell: Total corporation income taxes, six billion one hundred eighty-nine million.

Sullivan: Total income tax?

O'Donnell: Total income taxes.

H.M.Jr: I have got to write these down again. Two billion two hundred twenty-three, is that right?

O'Donnell: That is correct.

H.M.Jr: And that totals how much?

O'Donnell: Six billion one hundred eighty-nine million, so that the increase in total under the proposal is two billion three hundred fourteen millions.

H.M.Jr: That is the increase. Well, that is just about a third, isn't it? You are adding a third to the program.

Sullivan: That is right.

H.M.Jr: And am I correct - I didn't read it very carefully - that Henderson and Eccles aren't satisfied, they want still more.

Sullivan: No, they wanted more from excess profits. They didn't say --

H.M.Jr: Well, that is more from the corporations.

Sullivan: That is right.

H.M.Jr: And less from the individuals? Do they want more than eight and a half billion from both?

Sullivan: No, I think what they meant was that the increase in excess profits should pick up what we lost by knocking off excises, that they disapproved it.

Foley: That is right.

H.M.Jr: Did they say that in just so many words?

Foley: Yes. Do you want to get Henderson's testimony?

H.M.Jr: Yes.

Kuhn: I have got it in my room. I will read it.

H.M.Jr: Which one is a clear statement?

Foley: Henderson's. It is a good statement.

H.M.Jr: It is a good statement?

Foley: Yes, sir. He did a good job.

H.M.Jr: Who wrote it for him?

Foley: I haven't any idea. I should imagine there was a good deal of thought put on it.

Sullivan: He has quite a crew working on taxes.

Foley: I wouldn't be surprised to find that Randolph Paul might have had something to do with that. It is a darn good statement.

Sullivan: I would be surprised.

Foley: Well, I have nothing to base it on at all, but I have the impression that those fellows all got together, Henderson and Lauch and Eccles and Jerry Frank and Randolph Paul, because these views are the views of that group.

H.M.Jr: Did we see Henderson's statement before he gave it?

Sullivan: No.

H.M.Jr: Did we see Eccles' statement before he gave it?

Sullivan: No.

H.M.Jr: Didn't see either of them?

Sullivan: No.

H.M.Jr: Did they try to give us the benefit of their studies?

Sullivan: No. Leon gave me his outline the afternoon before, but he said he was still working on it.

H.M.Jr: Supposing I called either or both of them down, they can't say, "Well, we gave the Treasury the opportunity but they wouldn't use it"?

Sullivan: To use their studies?

H.M.Jr: Yes.

Sullivan: Oh no. We have never had their studies.

H.M.Jr: Supposing I said, "Why the hell weren't you a sportsman and let us have the benefit of your studies?"

Sullivan: They would say, "Well, we gave you our conclusions."

H.M.Jr: When did they give the conclusions, before I went on the Hill?

Sullivan: No, I think it was after you went on the Hill that Marriner wrote you and enclosed a tax program which was not the one he gave on the Hill, particularly on excess profits.

H.M.Jr: It was not?

Sullivan: Not on excess profits. The rest of it was.

H.M.Jr: Did Henderson ever give us anything?

Sullivan: Henderson talked with me two or three times.

H.M.Jr: Well, John, you say you have got to increase that from twenty-four to thirty-nine?

Sullivan: Yes. I think you would want to call it an even forty. It would give you about a hundred and forty-eight million more.

H.M.Jr: Well, after sleeping on it, what do you think?

Sullivan: Well --

H.M.Jr: Have you got some examples?

Sullivan: Yes, we have. Mr. Tarleau and Mr. Blough and Mr. O'Donnell and I all feel that this is the most clean cut way of handling the situation. You dispose of more - it is the fairest way of handling it.

H.M.Jr: Which is?

Sullivan: This way.

Now, in the minds of all of us there is this query, which has to be decided by you and the President, I presume, and that is, whether or not when there has been so much talk about excess profits we can throw it out the window.

H.M.Jr: Well, have you got something for me to back up using the straight corporation tax?

Sullivan: Yes, sir. Here is a schedule here. Have you got some to pass around, Roy?

Blough: Yes, I have three copies in addition.

H.M.Jr: This is twenty-four and thirty. You will have to explain this.

Sullivan: Go ahead, Roy.

Blough: The - at the left you have the number of companies, as you see, and in the first column is the net income before taxes in 1940. This comes from the published statements of the corporations and is subject to error, of course.

Now, what we were trying to do in this first page is to see how much the combined normal and excess profits tax of a corporation constituted of its net income, because that percent would be the percent of tax on the net income, like our present corporate tax or like the forty percent Mr. Sullivan has just mentioned. So we took the excess profits tax combined with the ordinary income tax under the proposal which Mr. Sullivan made last week; namely, to shift these credits around and thus give some increase in tax from that source.

Now, you have a heading here, "Twenty-four percent income tax" and a heading, "Thirty percent income tax." Now, take the heading, "Thirty percent income tax," for example. This is the proposal which Mr. Sullivan made. The increase in the tax on corporations to thirty percent, a shift in the method of taking the deductions of normal and excess profits taxes, and we have the total income and excess profits taxes which these various companies would pay.

H.M.Jr: I have been all over this once. I haven't got the time. I take it Mr. Sullivan isn't recommending this any more.

Sullivan: No, I think what he means is that by comparing these figures with the forty percent you see which ones go up and which ones go down.

H.M.Jr: Let's do that.

Blough: Then in the last column you see which ones go up and which go down. In the case of American Car and Foundry --

H.M.Jr: But wait a minute. The last column says thirty percent, it doesn't say forty.

Blough: American Car and Foundry under Mr. Sullivan's proposal would pay thirty. If the forty were put in, it would pay ten percent more.

H.M.Jr: You have still got your excess profits, it says so.

Sullivan: Excuse me. He is now saying how much the tax will be increased over what I submitted to you this morning.

H.M.Jr: This is the plan - we go back to the original plan. This is the plan that we started from.

Sullivan: Yes.

Blough: Now, suppose we ditched that and said instead, let us have a flat forty percent income tax, now what would happen?

H.M.Jr: Yes.

Blough: Well, in American Car and Foundry, the original plan would have meant thirty percent; so a flat forty percent would mean an increase from thirty to forty.

H.M.Jr: Yes, but you have got your excess profits in here.

Blough: But it would not be in a plan of the flat forty percent. Excess profits would not be in.

Sullivan: In each case --

H.M.Jr: May I interrupt? Let's call it the Sullivan Plan. American Car and Foundry would pay a million nine hundred seventy-four thousand dollars, right?

Blough: Right.

H.M.Jr: Now, flat forty percent, how much would they pay?

Blough: A million nine hundred seventy-four plus six hundred fifty-eight thousand dollars, or two million six, approximately.

H.M.Jr: I don't think you are right. The million nine hundred seventy-four includes thirty percent and excess profits.

Now, you can't just add ten percent to the American Car and Foundry.

Blough: What I added was ten percent of the net income before taxes.

H.M.Jr: Well, you have got to take forty percent of that.

Blough: Well, let's take forty percent of it.

H.M.Jr: Then you are getting it. Your mathematics are incorrect.

Blough: Forty percent of six million five hundred seventy-nine will be two million six or two million seven.

H.M.Jr: But you haven't got that for me?

Blough: That figure is not on the page, no. We put it in terms of percents. We thought it would be easier for you to follow. I am sorry.

H.M.Jr: You haven't even got in in percents.

Blough: If you will take this last column and put beside it forty percent, forty percent, forty percent all the way down, you will have it in percents. The Sullivan Plan for American Car and Foundry is thirty percent. This flat plan is forty percent.

H.M.Jr: But isn't it forty percent of six and a half, six, five, seven, nine?

Blough: That is correct.

H.M.Jr: And the million nine seventy-four is thirty percent plus --

Blough: But in the case of American Car and Foundry there would be no excess profits.

H.M.Jr: How much would they pay?

Blough: About two million six hundred thousand, or about six hundred sixty thousand more.

H.M.Jr: You haven't got that worked out exactly for each of these companies on this page.

Blough: The figures in terms of dollars are not there.

Foley: In terms of percents they are there, Mr. Secretary. Wherever it is more than forty percent under John's plan, they would pay less if you increased it to forty percent. Wherever it is less, they pay more.

H.M.Jr: How do you know?

Foley: As I see it, American Car and Foundry would pay under John's plan, thirty percent. If you made it a flat rate of forty percent, they would pay ten percent more.

Blough: That is correct.

Foley: In so far as Coca-Cola is concerned, they are going to pay forty percent under John's plan and under the flat plan, they would pay exactly the same. There would be no difference.

Blough: That is right.

Sullivan: If you turn over to the next page, there is a detailed statement on American Car and Foundry and at the bottom of the page the rate is figured out at different percentages.

The bottom figure in the first column on the left is forty percent, and it shows the tax to be two billion six.

Foley: That is all right. I think if you stick to the first page, it is perfectly clear.

H.M.Jr: How can you?

Foley: Well look, Mr. Secretary, he has got the percentages in the last column. Don't look at amounts, just look at the percentages.

H.M.Jr: All right.

Foley: Now under John's plan, by shifting the credits American Car and Foundry would pay thirty percent. If you increase the rate to forty percent as he is suggesting now, they would have to pay ten percent more. The next one is Coca-Cola. Under John's plan by shifting the credits they would pay forty percent of their income in income taxes. If you made it a flat forty percent, it wouldn't change it a bit, it would be exactly the same.

The next is Continental Can. Under John's original proposal they would pay thirty-seven point nine. Under the new proposal they would pay forty percent, which is two point one more.

H.M.Jr: Is that correct?

Blough: That is correct.

Foley: If you go right on down, Chrysler, thirty-nine point two. Under the suggestion now of making a forty percent flat corporate tax, they would pay eight tenths of a percent more in taxes.

Now you take Curtiss-Wright, sixty-two point one and you would have to drop them. Under the original proposal they would pay sixty-two percent taxes and now they would only pay forty percent taxes, so they would drop eighteen percent.

And so right straight down. DuPont would drop eight percent.

H.M.Jr: I see.

Foley: And my point, Mr. Secretary, is that this shows that the companies that we thought weren't paying enough under the shifting of credits scheme that John proposed last week aren't going to pay as much as they would under that scheme if you make this a flat forty percent, because you take your companies right there, Curtiss-Wright, DuPont, General Motors, International Paper, New York Shipbuilding, United Aircraft, Binks Manufacturing, and Indiana Steel Products, and they would all pay less.

Sullivan: That is true. Some will pay more and some will pay less, there is no doubt about that.

O'Donnell: The reason for that is quite clear. You spread the burden over all corporations.

Foley: Sure, and you are hitting the little fellow and not these big guys.

O'Donnell: You are hitting them big and little.

Foley: It seems to me it is retrogressive and it is not --

H.M.Jr: Well, General Motors, you have forty-three.

Foley: So you would tax them less.

H.M.Jr: Yes.

Newport News, fifty-nine percent.

Foley: And you would drop nineteen percent off them.

H.M.Jr: New York Shipbuilding, sixty.

Foley: You would drop twenty percent off of them.

H.M.Jr: I can subtract. Who is Binks?

Blough: The last four are just small companies who are put in to indicate what this does to them. Binks is nothing.

H.M.Jr: Let me see, American Car and Foundry is what you would call a high capitalization, isn't it?

Blough: That is correct.

H.M.Jr: It raises that. Where is another high capital company?

Sullivan: United States Steel.

H.M.Jr:	You raise that a trifle. What else?
O'Donnell:	Standard Oil of New Jersey.
H.M.Jr:	You raise that, too. Well, this throws another light on it, doesn't it?
Foley:	Sure.
H.M.Jr:	Well, have you changed your mind after seeing this?
Foley:	No, I haven't changed my mind. This is worse.
H.M.Jr:	Which is worse?
Foley:	Forty percent flat corporate tax.
H.M.Jr:	Is worse?
Foley:	Worse than shifting the credits.
H.M.Jr:	Why is it worse?
Foley:	Because it favors the companies that we thought were being favored by the other thing.
H.M.Jr:	Which one does it favor?
Foley:	Well, General Motors, Curtiss-Wright, Newport News Shipbuilding, New York Shipbuilding, these fellows that have a high rate of return.
Sullivan:	Well, Mr. Secretary, Ed is absolutely right in so far as those particular companies are concerned.
	Now, it all depends on which particular companies you are out to increase the tax on. The hue and cry on the Hill is on

United States Steel and American Car and Foundry.

Now, I have an idea which I haven't gone over with my boys, which may solve both of those problems and that is the minimum corporate tax of forty percent --

H.M.Jr: That was going through my mind.

Sullivan: Now, I don't know how long it would take Mr. O'Donnell to get an estimate on that.

H.M.Jr: You took the words out of my mind. I had the same idea. At the Government's option.

Sullivan: No, it would mean that they pay the higher. If their total corporate and excess profits was less than forty percent, they would pay forty percent minimum anyway.

H.M.Jr: I think you have got something there.

Sullivan: Well, I don't know. I want to think that through.

Blough: Well, that is the Canadian plan.

H.M.Jr: Is it?

Blough: Yes. They have an eighteen --

Sullivan: Of course by the same token, Ed, you can see by this thing that we really are taking a slice under the proposal out of the companies you were worried about, sixty percent, fifty-eight percent.

Foley: Sure, and to that extent I say that what you proposed last week is better than this thing.

Sullivan: That is right.

Foley: But I don't see what is the matter with the Treasury proposal last summer.

H.M.Jr: The Canadian plan is what?

Blough: In Canada there is a flat corporate rate and then there is an excess profits tax of twelve percent, corporate tax, or computed excess profits tax, whichever is higher. In other words, their minimum - the minimum tax which they call excess profits is twelve percent of the corporate income.

What you suggested here would be a minimum of ten percent additional tax, or the excess profits tax, whichever is higher.

H.M.Jr: Well, to put it simpler --

Blough: It would be thirty on everybody.

H.M.Jr: Forty on everybody.

Tarleau: Forty on everybody.

O'Donnell: Of course you get a lot more money, Mr. Secretary, than you had anticipated under that plan. Maybe you would want to drop the forty to something less than forty.

H.M.Jr: No, that is all right. You can drop some of the taxes on - I didn't want to increase the taxes on liquor or on tobacco. You could drop some of them there and save that for another day. That is all passed on to the consumer. I think we have got something now. I mean, to - do I oversimplify it if I simply say that if under this plan it doesn't come up to forty, we apply the forty percent tax but everybody has to pay up to forty?

Because the only trouble with this thing is this. The more I study the excess profits plan, I think it is a lousy plan. I am correct that General Motors and Standard Oil of New Jersey, their returns are not in?

Sullivan: I think you are, but we will check.

Tarleau: The Standard Oil man told me, I think - I had lunch with him Friday - I am pretty sure his return is not in, but he did tell me that he is an invested capital company.

H.M.Jr: You say you get a lot more money this way?

O'Donnell: Yes. Because in the case of those companies that Ed pointed out that would have taxes reduced, there would be no reduction for those companies. They would pay, in the case of DuPont, sixty-eight percent.

Foley: Forty-eight.

H.M.Jr: What is the matter with this?

Blough: Nothing particularly the matter with it. It means that the forty percent will apply to everybody, whether they are making big profits or little, whether they are making more or less.

H.M.Jr: Well, they have got to make forty percent.

Blough: Suppose they were making a million dollars, or three percent on their capital, to make a bad case, in '36 to '39 --

H.M.Jr: Oh, don't bring up the '36 to '39. I have got no use for it. That is a phoney just like the Department of Agriculture. (Laughter)

And then when they don't get the right price for cotton, they shift it. That is just a phoney.

Sullivan, can I talk to you a minute?

(Discussion off the record.)

Now, where were we?

Sullivan: Mr. O'Donnell just checked to see how long it would take him to get the additional revenues by combining the two plans, and he said he couldn't have it this afternoon. It would take until about this time tomorrow.

O'Donnell: I should think some time tomorrow morning, but they will work right through tonight until they get it.

H.M.Jr: I will tell you what I would like to do. I would like to have Foley, Sullivan and Kuhn just stay here with me a few minutes, will you? All you others, stay on tap. There are too many people around here.

Combined income and excess profits taxes as percent of net income

Computed approximate 1940 income and excess profits taxes for selected corporations under terms of proposed shift in tax deduction 1/

(Amounts in thousands of dollars)

Name of Company	Net income before taxes 1940	Combined income and excess profits taxes under proposal 2/			
		24 percent income tax		30 percent income tax	
		Amount	Percent of net income	Amount	Percent of net income
American Car & Foundry	6,579	1,579	24.0	1,974	30.0
Coca-Cola	43,878	15,307	34.9	17,552	40.0
Continental Can	12,254	3,983	32.6	4,634	37.9
Chrysler	64,606	21,266	32.9	25,330	39.2
Curtiss Wright	45,070	25,651	56.9	27,984	62.1
Dupont	112,629	50,144	44.6	55,079	48.9
General Motors	335,748	128,140	38.2	144,530	43.0
International Paper & Power	23,104	9,334	40.5	10,427	45.0
J. C. Penney	21,759	6,417	29.5	7,627	35.1
Liggett & Myers Tobacco	27,157	7,529	27.7	9,077	33.4
Newport News Shipbuilding	9,546	5,285	55.3	5,620	58.9
New York Shipbuilding	4,434	2,535	57.1	2,686	60.5
Standard Oil (N. J.)	202,210	60,282	29.8	68,105	33.7
United Aircraft	33,765	18,728	55.5	19,912	59.0
U. S. Steel	155,820	49,669	31.9	58,060	37.5
Binks Manufacturing	148	56.9	38.4	64.1	43.3
Dexter Company	87	25.4	29.2	30.3	34.8
General Alloys	67	18.7	27.9	22.6	33.7
Indiana Steel Products	111	39.6	35.7	45.2	40.7

Treasury Department, Division of Tax Research — May 12, 1941

1/ Data from published financial reports and accordingly subject to error for tax computation purposes.

2/ The proposal is that income tax be not deducted in computing excess profits tax, but that excess profits tax be deducted in computing income tax; excess profits tax law otherwise unchanged (inclusion of new capital at additional 25 percent not considered in these computations).

RO:mh
5/12/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

American Car and Foundry - 1940

(Amounts in thousands of dollars)

	Present law	Proposal		
		24% income tax	30% income tax	50% income tax
Assuming all income distributed				
Income tax	1,579	1,579	1,974	3,290
Excess-profits tax (method)	-	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	1,579	1,579	1,974	3,290
Assuming dividend distributions same as 1940				
Income tax	1,579	1,579	1,974	3,290
Excess-profits tax (method)	-	-	-	-
Undistributed profits tax (50%)	-	2,500	2,303	1,645
Total	1,579	4,079	4,277	4,935
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	1,579	1,579	1,974	3,290
Excess-profits tax (method)	-	-	-	-
Undistributed profits tax (50%)	-	2,500	2,500	2,500
Total	1,579	4,079	4,474	5,790

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	1,579	45%	2,961
30%	1,974	50%	3,290
35%	2,303	55%	3,618
40%	2,632	60%	3,947

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $6,579,000. There were no dividend distributions.

5/11/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Chrysler - 1940

(Amounts in thousands of dollars)

	Present law	Proposed: 24% normal income tax	Proposed: 30% normal income tax	Proposed: 50% normal income tax
Assuming all income distributed				
Income tax	15,953	15,953	19,442	32,403
Excess-profits tax (average earnings method)	3,721	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	19,674	15,953	19,442	32,403
Assuming dividend distributions same as 1940				
Income tax	15,953	15,953	19,442	32,403
Excess-profits tax (average earnings method)	3,721	-	-	-
Undistributed profits tax (50%)	-	12,261	10,717	4,236
Total	19,674	28,214	30,159	36,639
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	15,953	15,953	19,442	32,403
Excess-profits tax (average earnings method)	3,721	-	-	-
Undistributed profits tax (50%)	-	10,801	10,801	10,801
Total	19,674	26,754	30,243	43,204

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	15,953	45%	29,165
30	19,542	50	32,403
35	22,682	55	35,6[illegible]
40	25,982	60	38,8[illegible]

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $64,656,000 and dividend distributions amounted to $83,931,000.

5/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution)1/

Coca-Cola - 1940

(Amounts in thousands of dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
Assuming all income distributed				
Income tax	10,530	10,530	13,163	21,938
Excess profits tax (Average earnings method)	3,534	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	14,064	10,530	13,163	21,938
Assuming dividend distributions same as 1940				
Income tax	10,530	10,530	13,163	21,938
Excess profits tax (Average earnings method)	3,534	-	-	-
Undistributed profits tax (50%)	-	5,793	4,477	89
Total	14,064	16,323	17,640	22,027
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	10,530	10,530	13,163	21,938
Excess-profits tax (Average earnings method)	3,534	-	-	-
Undistributed profits tax (50%)	-	4,031	4,031	4,031
Total	14,064	14,561	17,194	25,969

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	10,530	45%	19,744
30	13,163	50	21,938
35	15,357	55	24,132
40	17,550	60	26,326

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $43,876,000 and dividend distributions amounted to $21,760,000.

/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution)1/

Continental Can Co. - 1940

(Amounts in thousands of dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
Assuming all income distributed				
Income tax	2,937	2,937	3,671	6,118
Excess profits tax (Invested capital method)	168	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	3,105	2,937	3,671	6,118
Assuming dividend distributions same as 1940				
Income tax	2,937	2,937	3,671	6,118
Excess-profits tax (Invested capital method)	168	-	-	-
Undistributed profits tax (50%)	-	1,346	979	2/
Total	3,105	4,283	4,650	6,118
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	2,937	2,937	3,671	6,118
Excess-profits tax (Invested capital method)	168	-	-	-
Undistributed profits tax (50%)	-	1,263	1,263	1,263
Total	3,105	4,200	4,934	7,381

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	2,937	45%	5,506
30	3,671	50	6,118
35	4,283	55	6,730
40	4,894	60	7,342

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $12,236,000 and dividend distributions amounted to $6,607,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds net income for 1940.

/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Curtiss Wright - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	10,817	10,817	13,521	22,535
Excess profits tax (Average earnings method)	15,565	-	-	-
Undistributed profits tax (80%)	-	-	-	-
Total	26,382	10,817	13,521	22,535
Assuming dividend distributions same as 1940				
Income tax	10,817	10,817	13,521	22,535
Excess profits tax (Average earnings method)	15,565	-	-	-
Undistributed profits tax (80%)	-	14,111	12,759	8,252
Total	26,382	24,928	26,280	30,787
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	10,817	10,817	13,521	22,535
Excess profits tax (Average earnings method)	15,565	-	-	-
Undistributed profits tax (80%)	-	6,328	6,328	6,328
Total	26,382	17,145	19,849	28,863

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	10,817	45%	20,282
30	13,521	50	22,535
35	15,775	55	24,789
40	18,028	60	27,042

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 80 percent. Net income for 1940 amounted to $45,070,000 and dividend distributions amounted to $6,032,000.

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Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Dupont - 1940

(Amounts in thousands of dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
<u>Assuming all income distributed</u>				
Income tax	27,007	27,007	33,759	56,265
Excess profits tax (Average earnings method)	16,954	-	-	-
Undistributed profits tax (80%)	-	-	-	-
Total	43,961	27,007	33,759	56,265
<u>Assuming dividend distributions same as 1940</u>				
Income tax	27,007	27,007	33,759	56,265
Excess-profits tax (Average earnings method)	16,954	-	-	-
Undistributed profits tax (80%)	-	16,246	12,870	1,617
Total	43,961	43,253	46,629	57,882
<u>Assuming changes in amounts of tax affect only dividend distributions</u>				
Income tax	27,007	27,007	33,759	56,265
Excess-profits tax (Average earnings method)	16,954	-	-	-
Undistributed profits tax (80%)	-	7,769	7,769	7,769
Total	43,961	34,776	41,528	64,034

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	27,007	45%	50,638
30%	33,759	50%	56,265
35%	39,386	55%	61,891
40%	45,012	60%	67,517

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 before the credit for dividends received amounted to $144,404,000 and dividend distributions amounted to $94,905,000. Dividends received from General Motors Corp. amounted to $37,800,000.

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

General Motors - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	80.579	80.579	100.724	167.874
Excess-profits tax (average earnings method)	39.137	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	119.716	80.579	100.724	167.874
Assuming dividend distributions same as 1940				
Income tax	80.579	80.579	100.724	167.874
Excess-profits tax (average earnings method)	39.137	-	-	-
Undistributed profits tax (50%)	-	42,063	31,991	2/
Total	119.716	122.642	132.715	167.874
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	80.579	80.579	100.724	167.874
Excess-profits tax (average earnings method)	39.137	-	-	-
Undistributed profits tax (50%)	-	22,495	22,495	22,495
Total	119.716	103.074	123.219	190,369

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	80.579	45%	151,067
30	100.724	50	167.874
35	117.518	55	184,681
40	134.299	60	201,449

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $335,746,000 and dividend distributions amounted to $171,043,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds the net income for 1940.

5/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

International Paper - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
<u>Assuming all income distributed</u>				
Income tax	5,564	5,564	6,955	11,592
Excess profits tax (Invested capital method)	2,179	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	7,743	5,564	6,955	11,592
<u>Assuming dividend distributions same as 1940</u>				
Income tax	5,564	5,564	6,955	11,592
Excess-profits tax (Invested capital method)	2,179	-	-	-
Undistributed profits tax (50%)	-	5,912	5,216	2,898
Total	7,743	11,476	12,171	14,490
<u>Assuming changes in amounts of tax affect only dividend distributions</u>				
Income tax	5,564	5,564	6,955	11,592
Excess profits tax (Invested capital method)	2,179	-	-	-
Undistributed profits tax (50%)	-	4,822	4,822	4,822
Total	7,743	10,386	11,777	16,414

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	5,564	45%	10,433
30	6,955	50	11,592
35	8,114	55	12,751
40	9,274	60	13,910

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $23,184,000 and dividend distributions amounted to $5,797,000.

6/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Liggett & Myers Tobacco Co. - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	6,513	6,513	8,141	13,569
Excess profits tax (Average earnings method)	38	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	6,551	6,513	8,141	13,569
Assuming dividend distributions same as 1940				
Income tax	6,513	6,513	8,141	13,569
Excess-profits tax (Average earnings method)	38	-	-	-
Undistributed profits tax (50%)	-	1,739	925	2/
Total	6,551	8,252	9,066	13,569
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	6,513	6,513	8,141	13,569
Excess-profits tax (Average earnings method)	38	-	-	-
Undistributed profits tax (50%)	-	1,740	1,740	1,740
Total	6,551	8,253	9,881	15,309

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	6,513	45%	12,212
30	8,141	50	13,569
35	9,498	55	14,926
40	10,855	60	16,282

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $27,137,000 and dividend distributions amounted to $17,146,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds net income for 1940.

/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Newport News Shipbuilding - 1940

(Amounts in thousands of dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
Assuming all income distributed				
Income tax	2,292	2,292	2,864	4,774
Excess-profits tax (average earnings method)	2,924	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	5,216	2,292	2,864	4,774
Assuming dividend distributions same as 1940				
Income tax	2,292	2,292	2,864	4,774
Excess-profits tax (average earnings method)	2,924	-	-	-
Undistributed profits tax (50%)	-	2,830	2,544	1,589
Total	5,216	5,122	5,408	6,363
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	2,292	2,292	2,864	4,774
Excess-profits tax (average earnings method)	2,924	-	-	-
Undistributed profits tax (50%)	-	1,368	1,368	1,368
Total	5,216	3,660	4,232	6,142

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	2,292	45%	4,297
30	2,864	50	4,774
35	3,342	55	5,251
40	3,819	60	5,729

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $9,548,000 and dividend distributions amounted to $1,597,000.
5/11/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

New York Shipbuilding Company - 1940

(Amounts in thousands of dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
Assuming all income distributed				
Income tax	1,064	1,064	1,330	2,217
Excess profits tax (invested capital method)	1,401	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	2,465	1,064	1,330	2,217
Assuming dividend distributions same as 1940				
Income tax	1,064	1,064	1,330	2,217
Excess-profits tax (invested capital method)	1,401	-	-	-
Undistributed profits tax (50%)	-	1,201	1,068	624
Total	2,465	2,265	2,398	2,841
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	1,064	1,064	1,330	2,217
Excess-profits tax (invested capital method)	1,401	-	-	-
Undistributed profits tax (50%)	-	500	500	500
Total	2,465	1,564	1,830	2,717

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	1,064	45%	1,995
30	1,330	50	2,217
35	1,552	55	2,439
40	1,774	60	2,660

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $4,434,000 and dividend distributions amounted to $1,401,000.

5/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

J. C. Penney - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	5,222	5,222	6,528	10,880
Excess profits tax (Average earnings method)	450	-	-	-
Undistributed profits tax (30%)	-	-	-	-
Total	5,672	5,222	6,528	10,880
Assuming dividend distributions same as 1940				
Income tax	5,222	5,222	6,528	10,880
Excess-profits tax (Average earnings method)	450	-	-	-
Undistributed profits tax (30%)	-	1,559	906	2/
Total	5,672	6,781	7,434	10,880
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	5,222	5,222	6,528	10,880
Excess-profits tax (Average earnings method)	450	-	-	-
Undistributed profits tax (30%)	-	1,334	1,334	1,334
Total	5,672	6,556	7,862	12,214

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	5,222	45%	9,792
30%	6,528	50%	10,880
35%	7,616	55%	11,967
40%	8,704	60%	13,056

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $21,760,000 and dividend distributions amounted to $12,420,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds net income for 1940.

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Standard Oil (New Jersey) - 1940

(Amounts in thousands of dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
Assuming all income distributed				
Income tax	47,368	47,368	59,210	98,684
Excess-profits tax (invested capital method)	6,896	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	54,264	47,368	59,210	98,684
Assuming dividend distribution same as 1940				
Income tax	47,368	47,368	59,210	98,684
Excess-profits tax (invested capital method)	6,896	-	-	-
Undistributed profits tax (50%)	-	51,129	45,208	25,471
Total	54,264	98,497	104,418	124,155
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	47,368	47,368	59,210	98,684
Excess-profits tax (invested capital method)	6,896	-	-	-
Undistributed profits tax (50%)	-	47,681	47,681	47,681
Total	54,264	95,049	106,891	146,365

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	47,368	45%	88,816
30	59,210	50	98,684
35	69,079	55	108,552
40	78,947	60	118,421

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $197,368,000 and dividend distributions amounted to $47,742,000.

5/11/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

United Aircraft - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	8,103	8,103	10,129	16,882
Excess-profits tax (average earnings method)	10,390	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	18,493	8,103	10,129	16,882
Assuming dividend distributions same as 1940				
Income tax	8,103	8,103	10,129	16,882
Excess-profits tax (average earnings method)	10,390	-	-	-
Undistributed profits tax (50%)	-	8,166	7,153	3,777
Total	18,493	16,269	17,282	20,659
Assuming changes in amounts of tax affect only dividend distribution				
Income tax	8,103	8,103	10,129	16,882
Excess-profits tax (average earnings method)	10,390	-	-	-
Undistributed profits tax (50%)	-	2,971	2,971	2,971
Total	18,493	11,074	13,100	19,853

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	8,103	45%	15,193
30	10,129	50	16,882
35	11,817	55	18,570
40	13,505	60	20,258

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $33,763,000 and dividend distributions amounted to $9,328,000.

5/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

U. S. Steel - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	37,399	37,399	46,749	77,915
Excess profits tax (Invested capital method)	-	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	37,399	37,399	46,749	77,915
Assuming dividend distributions same as 1940				
Income tax	37,399	37,399	46,749	77,915
Excess profits tax (Invested capital method)	-	-	-	-
	-	-		
Undistributed profits tax (50%)	-	29,199	24,524	8,941
Total	37,399	66,598	71,273	86,856
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	37,399	37,399	46,749	77,915
Excess profits tax (Invested capital method)	-	-	-	-
Undistributed profits tax (50%)	-	29,199	29,199	29,199
Total	37,399	66,598	75,948	107,114

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	37,399	45%	70,124
30%	46,749	50%	77,915
35%	54,541	55%	85,707
40%	62,332	60%	93,498

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $155,830,000 and dividend distributions amounted to $60,033,000.

/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Binks Manufacturing Co. - 1940

(Amounts in dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	35,419	35,419	44,274	73,790
Excess profits tax (Invested capital method)	15,922	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	51,341	35,419	44,274	73,790
Assuming dividend distributions same as 1940				
Income tax	35,419	35,419	44,274	73,790
Excess profits tax (Invested capital method)	15,922	-	-	-
Undistributed profits tax (50%)	-	20,828	16,398	1,640
Total	51,341	56,248	60,672	75,430
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	35,419	35,419	44,274	73,790
Excess profits tax (Invested capital method)	15,922	-	-	-
Undistributed profits tax (50%)	-	12,865	12,865	12,865
Total	51,341	48,284	57,139	86,655

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	35,419	45%	66,411
30	44,274	50	73,790
35	51,653	55	81,169
40	59,032	60	88,548

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Net income for 1940 amounted to $147,580 and dividend distributions amounted to $70,810.

4/1/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Dexter Company - 1940

(Amounts in dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
Assuming all income distributed				
Income tax	20,868	20,868	26,085	43,476
Excess-profits tax (invested capital method)	614	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	21,482	20,868	26,085	43,476
Assuming dividend distributions same as 1940				
Income tax	20,868	20,868	26,085	43,476
Excess-profits tax (invested capital method)	614	-	-	-
Undistributed profits tax (50%)	-	3,042	433	2/
Total	21,482	23,910	26,518	43,476
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	20,868	20,868	26,085	43,476
Excess-profits tax (invested capital method)	614	-	-	-
Undistributed profits tax (50%)	-	2,735	2,735	2,735
Total	21,482	23,603	28,820	46,211

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	20,868	45%	39,128
30	26,085	50	43,476
35	30,433	55	47,823
40	34,780	60	52,171

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Net income for 1940 amounted to $86,951 and dividend distributions amounted to $60,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds net income for 1940.

5/11/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution)1/

General Alloys - 1940

(Amounts in dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
Assuming all income distributed				
Income tax	16,037	16,037	20,046	33,411
Excess-profits tax (average earnings method)	1,474	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	17,511	16,037	20,046	33,411
Assuming dividend distributions same as 1940				
Income tax	16,037	16,037	20,046	33,411
Excess-profits tax (average earnings method)	1,474	-	-	-
Undistributed profits tax (50%)	-	25,392	23,388	16,705
Total	17,511	41,429	43,434	50,116
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	16,037	16,037	20,046	33,411
Excess-profits tax (average earnings method)	1,474	-	-	-
Undistributed profits tax (50%)	-	24,655	24,655	24,655
Total	17,511	40,692	44,701	58,066

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	16,037	45%	30,069
30	20,046	50	33,411
35	23,387	55	36,752
40	26,728	60	40,093

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Net income for 1940 amounted to $66,821. There were no dividend distributions.

5/11/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Indiana Steel Products - 1940

(Amounts in dollars)

	Present law	Proposed: 24% income tax	Proposed: 30% income tax	Proposed: 50% income tax
Assuming all income distributed				
Income tax	26,573	26,573	33,217	55,361
Excess-profits tax (invested capital method)	8,761	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	35,334	26,573	33,217	55,361
Assuming dividend distributions same as 1940				
Income tax	26,573	26,573	33,217	55,361
Excess-profits tax (invested capital method)	8,761	-	-	-
Undistributed profits tax (50%)	-	32,168	28,846	17,774
Total	35,334	58,741	62,063	73,135
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	26,573	26,573	33,217	55,361
Excess-profits tax (invested capital method)	8,761	-	-	-
Undistributed profits tax (50%)	-	27,788	27,788	27,788
Total	35,334	54,361	61,005	83,149

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	26,573	45%	49,825
30	33,217	50	55,361
35	38,753	55	60,897
40	44,289	60	66,433

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Net income for 1940 amounted to $110,722 and dividend distributions amounted to $19,813.

5/11/41

May 12, 1941

MEMORANDUM

To: The Secretary

From: Mr. Sullivan

The number of those employed, as of the most recent dates are estimated as follows:

Civil non-agricultural employment, March 15, 1941	37,218,000
Agricultural employment, April 1, 1941	9,714,000
Military and naval employment, March 15, 1941	1,343,000
Total	48,275,000

It is estimated that in the calendar year 1941 approximately 16,000,000 Federal individual income tax returns will be filed on 1940 incomes, of which approximately 7,680,000 will be taxable.

The number of individual income taxpayers is small in comparison with the number of those employed because large proportions of the population receive incomes no greater than the exemptions and credits allowed under the income tax. In 1935-36, for instance, 79 percent of the families and

45 percent of single individuals had aggregate incomes not in excess of the present $2,000 and $800 personal exemptions. That year only 8 percent of the families had incomes in excess of $3,000, the approximate exemption allowed a married wage earner with two dependents.

The vast majority of the employed fall in the lower income groups and, therefore, pay most of their taxes on the basis of consumption rather than income. In 1938-39, for instance, those with incomes under $500 were estimated to have paid 21.9 percent of their incomes in Federal, State, and local taxes.

May 12, 1941
2:35 p.m.

RE TAXES

Present: Mr. Sullivan
Mr. Foley
Mr. Kuhn

Sullivan: Before we start on taxes, there is one thing we would like to clear up with Senator Brown.

Foley: Senator Brown called Stephens, or the Clerk of the Committee called Stephens, last week and wanted to know whether we wanted to be heard on Jesse's bill, and Brown is calling John to find out. Now, the thing that we talked about with Jesse, in so far as immunizing the RFC bonds from federal taxation is concerned, has been taken care of. We have checked with the Clerk and it will all be satisfactory. The only question that remains is whether or not you want to make any objection to the language of the bill which would immunize from state sales and use taxes transactions of the RFC or corporations created by the RFC.

Now, it is the same problem we had up with the Army and their decision was that there would be no federal legislation. Now, here you would be having federal legislation which would run counter to the result of our meeting with the War Department and with the

Navy.

Now, John and I both agree that we ought not to make a formal appearance before the Committee. If we are going to do anything at all, we ought merely to write a letter to the Committee and send a copy of it to Jesse just to keep our records straight so that we are playing the same game with the RFC.

H.M.Jr: I have got a better suggestion.

Foley: That we played with the Army and Navy.

H.M.Jr: Address my letter to Jesse and ask him please to take care of it.

Foley: All right. Well, I have got it the other way around. You see, what I have got here is a letter to the Chairman of the Committee for your signature, saying I am sending a copy of the letter and so forth. I can rewrite this stating the objections that we have and have it all addressed--

H.M.Jr: Simply say, "My dear Jesse: This is the position of the Treasury and if you agree I would appreciate your having this thing taken care of, this part of the bill eliminated."

Foley: All right. And then enclose the memorandum stating the position of the Treasury.

H.M.Jr: Yes, and would you - I wouldn't even say forward this to the Chairman. I mean, I would put the burden on him, "Would you please take care of this for us?"

Foley: All right.

H.M.Jr: See what I mean?

Foley: Right.

H.M.Jr: Let's try it that way. He doesn't want us to come up there.

Foley: Then we can call the Committee and tell the Committee that we don't want to make an appearance and we have stated our position to Jesse. Right?

Sullivan: And you are not going to send a copy of Jesse's letter to Senator Brown?

H.M.Jr: I want to ask Jesse Jones to do this.

Sullivan: Then when I call Senator Brown back, I will tell him that we have made our objections to Secretary Jones and he will take care of it.

H.M.Jr: We have asked him to take care of it.

Sullivan: Yes.

H.M.Jr: We hope he will take care of it.

Kuhn: Would you like to send this picture portfolio in connection with the purchase of savings stamps to your father or should the Defense Savings people send it? They got it ready for his anniversary but the anniversary is by.

H.M.Jr: I would love to send it. He said he had eleven photographers. He couldn't understand. Everybody was there but PM.

Kuhn: Well, there are some clippings and pictures in the back, you see.

H.M.Jr: Grand.

Kuhn: O.K.

H.M.Jr: I want to put this on Jesse, now.

Foley: Can I read it to the Committee now?

H.M.Jr: You two fellows get together after you leave this office, but this is my psychology. I am sure Jesse doesn't want me to go up.

"Dear Jesse: Will you please take care of this thing for me."

Sullivan: Or else.

H.M.Jr: Or else.

I think I am right because I never got such service in my life as I did the other day from Jesse.

Foley: That is right. This thing doesn't mean enough to Jesse for him to want a scrap on it. The other thing means everything, the power to make the loans against the British collateral, and he will rise above principle in order to get that.

H.M.Jr: I don't know why it means so much to him, but it means an awful lot to him.

Foley: Well, it bring him more into the picture.

H.M.Jr: Just what is eating his heart out is that he isn't a member of the War Cabinet. Maybe he thinks he can get through that.

Foley: Yes, and also this will give him a chance to put representatives on the boards of these corporations and all that stuff. I mean, this is the old Jesse game, to make these loans. It spreads out his power.

H.M.Jr: Yes. God, I would think he would have enough.

Sullivan: Two empires.

Foley: The other thing is the call you got from Senator Bailey in regard to the shipping bill.

H.M.Jr: Yes.

Foley: That Admiral Land is handling.

H.M.Jr: Yes.

Foley: He, as a matter of courtesy, called because one of our lawyers asked for a copy of a brief that counsel for--

H.M.Jr: Listen, do you or don't you want to?

Foley: I don't want to.

H.M.Jr: Can you take care of it?

Foley: I will take care of it, and you forget it.

H.M.Jr: All right. Let's go on with the taxes.

Foley: I just wanted to - it is all taken care of.

H.M.Jr: That is all I want.

Foley: We are not--

H.M.Jr: Now, where are we now? I will say this much. I read this thing. Certainly Eccles was a great deal more courteous toward the Treasury than Mr. Henderson was.

Foley: Well, I thought that Leon tried to be courteous.

H.M.Jr: Oh, no, no. It is acting as though we were - as though I was Secretary of the Treasury of Canada.

Sullivan: Bill McReynolds was just in the office--

H.M.Jr: Of Canada or France.

Sullivan: .... and Bill is fighting mad over this. He is worked up as much as anybody.

H.M.Jr: Who is Bill McReynolds?

Sullivan: Used to be here.

H.M.Jr: Oh, you mean William McReynolds. Well, that is bringing in his own personal fight.

Foley: He doesn't like Leon because he thinks that Leon leaked all that stuff about his family being on the payrolls.

H.M.Jr: I read the thing.

In this thing Eccles argued one thing and another but was very courteous.

Sullivan: You remember I told you that when I talked with both of them the afternoon before they testified I thought I had made a great deal more progress with Eccles than I had with Leon.

H.M.Jr: I have forgotten.

Sullivan: Well, I thought that.

Kuhn: Didn't you find the substance of both pretty good? I mean, trying to do the same thing that you are trying to do?

H.M.Jr: No.

Kuhn: No?

H.M.Jr: No. But don't let's go into it now. It makes our position almost impossible. But that is water over the dam. Nothing has weakened the Treasury's prestige as much as that has. But I will live long enough to take care of that. It is one of the rattiest things that has ever been done to me. When you think of this fellow Henderson down and out, flat on his back and not a friend in town, and then he does that.

Foley: Well, the way I look at it is that we let ourselves in for it. I think--

H.M.Jr: Hell, I told these people when they came in I didn't want an increase on liquor, I didn't want an increase on tobacco. I wanted it on the things which interfered with defense.

Foley: Sure, that were competing with products that were necessary for defense.

H.M.Jr: I told them that.

Foley: That is why I say it is hard to disagree with anything that Henderson says because it is sense.

Ferdie and I went over to hear Menzies. He is the best speaker I have heard in a long time. He sold the Australian and British cause better than could have been done by anybody else. He is a better talker than Churchill because he has got more presence and more personality than Churchill, and he gives you the impression of being a real man and having a great deal of force behind what he says.

Kuhn: He did a great deal--

Foley: He did it beautifully. They asked him questions and he walked right away from the danger without giving anybody the idea that he was afraid of the question. He handled himself very, very well. I haven't seen anybody in a long time who could stand up and talk the way he can. He did it entirely without a note. All on the record, too. He said he didn't want to be off the record.

He said he was a man of full maturity, and he assumed he was talking to people of similar maturity and he wasn't asking for any favors.

H.M.Jr: I have got several invitations to meet him, but I couldn't be there.

Foley: You will like him. He is a real guy.

H.M.Jr: I was invited several times and couldn't go.

Foley: He is a great big fellow. He is as big as you are. He is six feet two.

H.M.Jr: Does he bring any cheer?

Kuhn: Oh, sure, because his chin was up and - certainly. The effect of that was cheering, when a fellow talks that way.

Foley: Yes.

Kuhn: And he shook them all up, too, which was badly needed.

H.M.Jr: All right. What are we doing here now? Where are we?

Sullivan: I suppose we ought to decide on a modus operandi this evening. I have just been thinking it over and offhand it seems to me that perhaps a good approach is to outline the obvious criticisms of the present, the fact that almost anything we have rigged up is going to be inequitable to somebody, and there seemed to be different ways of doing this thing. There is the - going back to the old system we advocated last year, there is what you call the Sullivan proposal, then there is possibly throwing them both out the window and upping the normal tax rate to forty percent.

H.M.Jr: Well, thirty percent with the shift, but making it a floor of forty.

Sullivan: Yes.

H.M.Jr: Do you think you will know tonight how much that would produce?

Sullivan: No, we won't know tonight. O'Donnell said he hoped to be able to call me a little after three, but he was afraid it looked like a job that would take much more than a couple of days.

H.M.Jr: To put the floor under it?

Sullivan: Yes.

H.M.Jr: And then don't, for God's sake, forget there is an exemption on that for the little fellows, I mean little up to half a million dollars.

Sullivan: That is right.

H.M.Jr: I had lunch with Frank Knox, and he was talking and I got one idea. You can make a note of this because I am not what I should be. Supposing we increased the twenty-four to forty. That is sixteen percent, isn't it?

Sullivan: Yes, sir.

H.M.Jr: How about giving that sixteen percent the name of defense tax?

Sullivan: Defense surtax.

H.M.Jr: Defense surtax?

Sullivan: Sure. I thought of that this morning when you were discussing it.

H.M.Jr: Hello, Roosevelt. (Laughter) John Roosevelt Sullivan.

Sullivan: I dreamed it. I was going to mention it to you.

H.M.Jr: That is the first time I have laughed today.

Sullivan: Sure.

H.M.Jr: Because Frank Knox was saying something about, "If you could only keep your figure of twenty-four and feel there is some hope of going back sometime to normal, and then what you are asking extra is in connection with defense, and if you can call it defense surtax, I think it would taste better, especially if they figured it separately."

Sullivan: They wouldn't--

H.M.Jr: Couldn't you figure twenty-four, then on a separate line figure sixteen?

Sullivan: If you are going up to the forty without your excess profits tax, yes. If you are going up to a forty percent minimum corporate tax, plus excess profits, then they would have to figure it on a thirty percent plus ten.

H.M.Jr: But the ten percent could be called a--

Sullivan: Sure, and the other six is a surtax and the other ten is a defense surtax.

H.M.Jr: Can't you call the six something? Can't you call the six the defense tax and the ten super defense?

Sullivan: Well, we can figure that out.

H.M.Jr: One is defense and the other is super defense. What?

Sullivan: "Over 'de fence."

H.M.Jr: I am serious. When you get above twenty-four, you begin to call it defense. In about ten days maybe it can be called offense.

I will tell you what I think we can do, gents. You two men are coming to help me tonight. Supposing you get there right around seven, you see, and we can sit down and have a little thing, and if you know that Connally is coming, I wish you would--

Sullivan: I will call your house.

H.M.Jr: Yes, and you had better just tell Stephens if he would give them a list of who is coming to the house, you see, so that they would know. I have ordered food for four.

Sullivan: If Connally comes, do you want him to bring Brown or one of the other fellows in?

H.M.Jr: Who is tending to it, George?

Sullivan: Yes.

H.M.Jr: What I would do if you don't mind, is this. When you call up George, if Connally can't come, then if he says, "Can I bring somebody else in place of him?" you would say "Yes," but otherwise I don't think I would. Do you? Do you think it is useful?

Sullivan: I think any of those fellows would be useful.

H.M.Jr: All right. I have ordered the food. Mrs. Morgenthau is not here.

Foley: Who is going to be there, Mr. Secretary?

H.M.Jr: Well, you have got Doughton and Jere Cooper and George.

Sullivan: And McCormack is coming in after supper.

H.M.Jr: You will have Tarleau and Blough come at 8:30 and Stam, if he wants to.

Sullivan: All right.

H.M.Jr: What was the matter with the Speaker?

Sullivan: He is talking at a dinner tonight, B'Nai B'Rith.

H.M.Jr: Oh, wonderful. I am a member. I have been a member for about 25 years.

Sullivan: What does it mean?

H.M.Jr: I don't know whether it means anything. It used to be a secret Jewish fraternal organization. Now it is just a service club. The nearest thing I can think of to it is the Knights of Columbus. They are always doing something, some big drive or something like that. It is now in very much the same status - it used to be secret but no longer. That is an enormous function with an enormous membership, but I would say very much on the order of the Knights of Columbus. Practically the same. I don't knlw anything else that would correspond as much.

Well, I think it is all right, and I think this, that when we put these various things up to them, and as I say, have as many examples as possible, I think that makes the hit. Simply show that the companies that have been in business a year or two, some of them are going to be hit for sixty percent. On the other hand, those that have been in business a long time with a high capitalization and haven't made any money aren't going to pay hardly any taxes, that the thing is very, very uneven.

Have you had any reverberations from the Henderson-Eccles thing, as to - going to make it impossible to collect the money on the alcohol or on the tobacco?

Sullivan: No, but they have written tobacco off the list up there.

H.M.Jr: In view of that or in view of those fellows coming up?

Sullivan: No, the fellows who came up, they all came up to the Senate last year and it was the combination of the two. Of course, their coming in the day afterward - and that was rigged too. When it was arranged that they were to come up, they knew what Leon was going to say on tobacco.

H.M.Jr: They did?

Sullivan: Sure. It was arranged for the next day.

H.M.Jr: How about the automobiles and that?

Sullivan: Dingell from Detroit wanted to know if Leon was set on 20 percent, and Leon said no, he might make it 25, and I understand Dingell nearly fainted. I don't know, of course--

H.M.Jr: Because I still feel - I read the thing fairly thoroughly - that these fellows that are riding hobbies, I don't know any two men that ride hobby-horses any more than they do, and where it used to be excess reserves, nature has taken its course and it is going down.

Now, they can't do their own job. Henderson, on the question of prices, is a complete flop. So he has got to jump in on the tax business. It is always that way. It has always been that way in Washington. When the fellows can't make a success of their own, they have always got to start on somebody else's.

Sullivan: Of course, the thing that Leon and Marriner lost sight of is that when you put a high tax on automobiles, to that extent, you limit consumption of automobiles. That is not necessarily true. People are going to have automobiles, and they are going to have that much less to spend for other things.

H.M.Jr: Well, old Knudsen put it very briefly and to the point. He says, "If you want to slow them up on buying automobiles, just make the paper one or two months longer," meaning that they have got to put up that much more cash. Just make them put up a little bit more cash. I mean, I don't know what the down payment is now.

Foley: Well, they have already taken that step.

H.M.Jr: Have they?

Foley: I think so. But that recommendation of Leon's in so far as the automobiles is concerned makes sense to me. If you are going to make, say, four and a half million automobiles next year instead of six, there is going to be a greater demand than there is a supply, and, therefore, they are going to be able to put up the price a little bit and it seems to me that if the Government gets that instead of General Motors we are only being alert to a situation that we know is going to exist.

H.M.Jr: Well, I will tell you, Ed, the thing that I am not going to let myself get in to is automobiles, I suppose, is one, to put it moderately, of a hundred different commodities. You might control automobiles and something else runs away. You can not - I mean, you can take a great deal of money out of consumption by using it for consumption through taxes. When you say you want to hit automobiles or bathtubs or refrigerators, I think you are just being silly. Because you can say, "Well, there is so much money and we want to take three or four million dollars away from the people who get extra earnings and give it to the Government and spend it for defense so that they won't do the thing." That makes sense to me. But when you begin to point to the particular article, I don't think you can do it. I think you have just got to - if you don't want - if he wants twenty percent less automobiles, all right. Get the manufacturers to agree to it and freeze the prices. Then you get the thing. But the thing that bothers me the most on this thing, if we don't do it, is that if we don't get the money, labor is going to get it, and then with the higher wages and the more spending power, you have got the spiral going, and you never can stop it. I mean, if the people get up to fifteen and eighteen dollars a day, you go back to the era of silk shirts and all the rest of that, and it is just a race as to who is going to get it first, labor or us, and labor isn't going to profit very long because the cost of living is going to be so high and the cost of rents that it is just going to take it away from them.

Sullivan: That is right.

H.M.Jr: And then the whole thing spirals.

Kuhn: If there are 10 come out of these articles that compete most with defense, doesn't that alter your idea? There are 10, rubber, tools, iceboxes.

H.M.Jr: I said that to John. When they came in here they didn't have a list, and I said, "Gentlemen, go out and bring me back a list, and I want a tax on everything that competes with defense." Didn't I say that?

Sullivan: Yes, and the one the President raised his eyebrows on was refrigerators, and we explained why it was in there.

H.M.Jr: But I asked them to do that.

Sullivan: Sure, for the very reason that Leon gave.

H.M.Jr: I said, "Don't go back to the World War."

There was something I wanted to ask you people. Well, I will see you two gentlemen (Sullivan and Foley) at seven.

And you will let the house know?

Sullivan: I will, sir.

Foley: What are we going to do tonight, Mr. Secretary, just give them examples of the inequalities and askfor help?

H.M.Jr: No, I am just going to talk. I am going to say, "Gentlemen, we have gone this far and so many of the returns have come in, and I am bothered because the thing gets so uneven, and it isn't fair, and I think before we go any further we have simply got to find some way of raising the three and a half billion, but doing it in a way that doesn't hit so many companies on an uneven basis, and I want to show you what we have got, and I have asked you to come here to help me. Now, I don't know what the answer is."

Foley: And we don't have to suggest any formula tonight?

H.M.Jr: No. We can say, if we want to, "There are two or three ways of doing it. I don't know that they are any better, but we have got two or three different suggestions of how to do this thing."

Foley: Because I think of all the suggestions that have been made so far, the best one is the one that we made last summer, and it seems to me that it would be easiest for us to go back there.

H.M.Jr: You couldn't do it tonight.

Foley: Yes. Well, that is why I wouldn't like to freeze the thing tonight on this combination of forty percent and an excess profits tax.

H.M.Jr: What this is going to do is this. I say this. I am perfectly willing to go up to the Hill and, if we have got to make a radically new suggestion, it is up to me to do it, but if it is examples and so forth and so on, it is much better for John to do it. In the first place he has got the technical training and in the second place, I am trying always to be honest, for the next day or two I don't want to go up there and have that fellow from Ohio, Jenkins, point his finger at me and say, "What about those savings?"because I haven't had a chance to see the President, but if it is a question of an entirely new suggestion, I am going up. If it is just a question of saying,"Well, now, gentlemen, we want to tell you how far we have gone, see." You (Sullivan) would be perfectly willing to do that, wouldn't you?

Sullivan: Certainly.

Kuhn: If you go up, would you go up during these hearings or would you wait until the hearings are about over and then go at the end?

Sullivan: No, you have got to give the other fellows, the public who is interested in excess profits, a chance to testify after the Treasury has made its recommendations.

H.M.Jr: But I am not keen to go in the next day or two, if I could help myself.

Sullivan: I don't think we could go if we wanted to.

H.M.Jr: I think it is a mistake for me to go in the next day or two with Jenkins and all the Republicans ready to pounce down on me because I would have to get more specific, and I haven't any authority. I would rather wait until Harry gets back from this trip, too. I think we are getting along. "O.K., gents, we will just kind of mosey along. Here are our troubles. What have you got? We have got no cure-all. Have you got one?"

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 12, 1941

TO Secretary Morgenthau

FROM Herbert Merillat

HEARINGS OF WAYS AND MEANS COMMITTEE
Monday, May 12, 1941

The Republican side and Disney showed considerable interest in proposals made today by representatives of various "growing" corporations. These proposals were for changes in the excess profits tax law: (1) to permit corporations whose earnings increased during the base period to project forward, in computing their average earnings credit, their rates of growth during the base period, and (2) to eliminate the present ceiling on the average base period net income. These spokesmen argued that the present law was unfair to "growing" corporations. Apart from Disney, none of the Democratic members appeared to be interested.

Bank checks

Doughton seemed to like a proposal to drop the proposed tax on bank checks. Other members on both sides were skeptical, however, of arguments for eliminating the tax.

Non-defense Spending

With regard to a suggestion that the W. P. A. appropriation could be cut if discrimination against negro workers in defense industries ceased, Dingell remarked that the suggestion could more properly be made to the Appropriations Committee. Disney disagreed and stated that he would not vote for a tax bill to raise 3½ billions unless cuts in appropriations were made at the same time.

Combined income and excess profits taxes as percent of net income

Computed approximate 1940 income and excess profits taxes for selected corporations under terms of proposed shift in tax deduction 1/

(Amounts in thousands of dollars)

Name of Company	Net income before taxes 1940	Combined income and excess profits taxes under proposal 2/			
		24 percent income tax		30 percent income tax	
		Amount	Percent of net income	Amount	Percent of net income
American Car & Foundry	6,579	1,579	24.0	1,974	30.0
Coca-Cola	43,876	15,307	34.9	17,562	40.0
Continental Can	12,236	3,983	32.6	4,634	37.9
Chrysler	64,806	21,266	32.8	25,388	39.2
Curtiss Wright	45,070	26,531	58.9	27,994	62.1
Dupont	112,529	50,144	44.6	55,079	48.9
General Motors	335,748	128,140	38.2	144,530	43.0
International Paper & Power	23,184	9,334	40.3	10,427	45.0
J. C. Penney	21,759	6,417	29.5	7,627	35.1
Liggett & Myers Tobacco	27,137	7,529	27.7	9,077	33.4
Newport News Shipbuilding	9,546	5,283	55.3	5,620	58.9
New York Shipbuilding	4,434	2,533	57.1	2,684	60.5
Standard Oil (N. J.)	202,210	60,282	29.8	68,105	33.7
United Aircraft	33,763	18,725	55.5	19,912	59.0
U. S. Steel	155,830	49,669	31.9	58,050	37.3
Binks Manufacturing	148	56.9	38.4	64.1	43.3
Dexter Company	87	25.4	29.2	30.3	34.8
General Alloys	67	18.7	27.9	22.6	33.7
Indiana Steel Products	111	39.6	35.7	45.2	40.7

Treasury Department, Division of Tax Research — May 12, 1941

1/ Data from published financial reports and accordingly subject to error for tax computation purposes.

2/ The proposal is that income tax be not deducted in computing excess profits tax, but that excess profits tax be deducted in computing income tax; excess profits tax law otherwise unchanged (inclusion of new capital at additional 25 percent not considered in these computations).

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

American Car and Foundry - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	1,579	1,579	1,974	3,290
Excess-profits tax (method	-	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	1,579	1,579	1,974	3,290
Assuming dividend distributions same as 1940				
Income tax	1,579	1,579	1,974	3,290
Excess-profits tax (method)	-	-	-	-
Undistributed profits tax (50%)	-	2,500	2,303	1,645
Total	1,579	4,079	4,277	4,935
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	1,579	1,579	1,974	3,290
Excess-profits tax (method)	-	-	-	-
Undistributed profits tax (50%)	-	2,500	2,500	2,500
Total	1,579	4,079	4,474	5,790

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	1,579	45%	2,961
30%	1,974	50%	3,290
35%	2,303	55%	3,618
40%	2,632	60%	3,947

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $6,579,000. There were no dividend distributions.

5/11/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Chrysler - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	15,553	15,553	19,442	32,403
Excess-profits tax (average earnings method)	3,721	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	19,274	15,553	19,442	32,403
Assuming dividend distributions same as 1940				
Income tax	15,553	15,553	19,442	32,403
Excess-profits tax (average earnings method)	3,721	-	-	-
Undistributed profits tax (50%)	-	12,661	10,717	4,236
Total	19,274	28,214	30,159	36,639
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	15,553	15,553	19,442	32,403
Excess-profits tax (average earnings method)	3,721	-	-	-
Undistributed profits tax (50%)	-	10,801	10,801	10,801
Total	19,274	26,354	30,243	43,204

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	15,553	45%	29,163
30	19,442	50	32,403
35	22,682	55	35,643
40	25,922	60	38,884

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $64,806,000 and dividend distributions amounted to $23,931,000.

5/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution)1/

Coca-Cola - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	10,530	10,530	13,163	21,938
Excess profits tax (Average earnings method)	3,524	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	14,054	10,530	13,163	21,938
Assuming dividend distributions same as 1940				
Income tax	10,530	10,530	13,163	21,938
Excess profits tax (Average earnings method)	3,524	-	-	-
Undistributed profits tax (50%)	-	5,793	4,477	89
Total	14,054	16,323	17,640	22,027
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	10,530	10,530	13,163	21,938
Excess-profits tax (Average earnings method)	3,524	-	-	-
Undistributed profits tax (50%)	-	4,031	4,031	4,031
Total	14,054	14,561	17,194	25,969

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	10,530	45%	19,744
30	13,163	50	21,938
35	15,357	55	24,132
40	17,550	60	26,326

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $43,876,000 and dividend distributions amounted to $21,760,000.

5/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution)1/

Continental Can Co. - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	2,937	2,937	3,671	6,118
Excess profits tax (Invested capital method)	166	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	3,103	2,937	3,671	6,118
Assuming dividend distributions same as 1940				
Income tax	2,937	2,937	3,671	6,118
Excess-profits tax (Invested capital method)	166	-	-	-
Undistributed profits tax (50%)	-	1,346	979	2/
Total	3,103	4,283	4,650	6,118
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	2,937	2,937	3,671	6,118
Excess-profits tax (Invested capital method)	166	-	-	-
Undistributed profits tax (50%)	-	1,263	1,263	1,263
Total	3,103	4,200	4,934	7,381

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	2,937	45%	5,506
30	3,671	50	6,118
35	4,283	55	6,730
40	4,894	60	7,342

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $12,236,000 and dividend distributions amounted to $6,607,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds net income for 1940.

5/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Curtiss Wright - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	10,817	10,817	13,521	22,535
Excess profits tax (Average earnings method)	15,565	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	26,382	10,817	13,521	22,535
Assuming dividend distributions same as 1940				
Income tax	10,817	10,817	13,521	22,535
Excess profits tax (Average earnings method)	15,565	-	-	-
Undistributed profits tax (50%)	-	14,111	12,759	8,252
Total	26,382	24,928	26,280	30,787
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	10,817	10,817	13,521	22,535
Excess profits tax (Average earnings method)	15,565	-	-	-
Undistributed profits tax (50%)	-	6,328	6,328	6,328
Total	26,382	17,145	19,849	28,863

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	10,817	45%	20,282
30	13,521	50	22,535
35	15,775	55	24,789
40	18,028	60	27,049

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $45,070,000 and dividend distributions amounted to $6,032,000.

5/14/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Dupont - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	27,007	27,007	33,759	56,265
Excess profits tax (Average earnings method)	16,954	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	43,961	27,007	33,759	56,265
Assuming dividend distributions same as 1940				
Income tax	27,007	27,007	33,759	56,265
Excess-profits tax (Average earnings method)	16,954	-	-	-
Undistributed profits tax (50%)	-	16,246	12,870	1,617
Total	43,961	43,253	46,629	57,882
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	27,007	27,007	33,759	56,265
Excess-profits tax (Average earnings method)	16,954	-	-	-
Undistributed profits tax (50%)	-	7,769	7,769	7,769
Total	43,961	34,776	41,526	64,034

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	27,007	45%	50,638
30%	33,759	50%	56,265
35%	39,385	55%	61,891
40%	45,012	60%	67,517

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 before the credit for dividends received amounted to $144,404,000 and dividend distributions amounted to $84,905,000. Dividends received from General Motors Corp. amounted to $37,500,000.

5/11/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

General Motors - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	80,579	80,579	100,724	167,874
Excess-profits tax (average earnings method)	39,137	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	119,716	80,579	100,724	167,874
Assuming dividend distributions same as 1940				
Income tax	80,579	80,579	100,724	167,874
Excess-profits tax (average earnings method)	39,137	-	-	-
Undistributed profits tax (50%)	-	42,063	31,991	2/
Total	119,716	122,642	132,715	167,874
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	80,579	80,579	100,724	167,874
Excess-profits tax (average earnings method)	39,137	-	-	-
Undistributed profits tax (50%)	-	22,495	22,495	22,495
Total	119,716	103,074	123,219	190,369

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	80,579	45%	151,087
30	100,724	50	167,874
35	117,512	55	184,661
40	134,299	60	201,449

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $335,748,000 and dividend distributions amounted to $171,043,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds the net income for 1940.

5/11/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

International Paper - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	5,564	5,564	6,955	11,592
Excess profits tax (Invested capital method)	2,179	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	7,743	5,564	6,955	11,592
Assuming dividend distributions same as 1940				
Income tax	5,564	5,564	6,955	11,592
Excess-profits tax (Invested capital method)	2,179	-	-	-
Undistributed profits tax (50%)	-	5,912	5,216	2,898
Total	7,743	11,476	12,171	14,490
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	5,564	5,564	6,955	11,592
Excess profits tax (Invested capital method)	2,179	-	-	-
Undistributed profits tax (50%)	-	4,822	4,822	4,822
Total	7,743	10,386	11,777	16,414

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	5,564	45%	10,433
30	6,955	50	11,592
35	8,114	55	12,751
40	9,274	60	13,910

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $23,184,000 and dividend distributions amounted to $5,797,000.

5/-41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Liggett & Myers Tobacco Co. - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	6,513	6,513	8,141	13,569
Excess profits tax (Average earnings method)	38	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	6,551	6,513	8,141	13,569
Assuming dividend distributions same as 1940				
Income tax	6,513	6,513	8,141	13,569
Excess-profits tax (Average earnings method)	38	-	-	-
Undistributed profits tax (50%)	-	1,739	925	2/
Total	6,551	8,252	9,066	13,569
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	6,513	6,513	8,141	13,569
Excess-profits tax (Average earnings method)	38	-	-	-
Undistributed profits tax (50%)	-	3,440	3,440	3,440
Total	6,551	8,233	9,861	15,289

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	6,513	45%	12,212
30	8,141	50	13,569
35	9,498	55	14,925
40	10,855	60	16,282

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $27,137,000 and dividend distributions amounted to $17,146,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds net income for 1940.

5/4/41

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Newport News Shipbuilding - 1940

(Amounts in thousands of dollars)

	Present law	Proposal		
		24% income tax	30% income tax	50% income tax
Assuming all income distributed				
Income tax	2,292	2,292	2,864	4,774
Excess-profits tax (average earnings method)	2,924	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	5,216	2,292	2,864	4,774
Assuming dividend distributions same as 1940				
Income tax	2,292	2,292	2,864	4,774
Excess-profits tax (average earnings method)	2,924	-	-	-
Undistributed profits tax (50%)	-	2,830	2,544	1,589
Total	5,216	5,122	5,408	6,363
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	2,292	2,292	2,864	4,774
Excess-profits tax (average earnings method)	2,924	-	-	-
Undistributed profits tax (50%)	-	1,368	1,368	1,368
Total	5,216	3,660	4,232	6,142

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	2,292	45%	4,297
30	2,864	50	4,774
35	3,342	55	5,251
40	3,819	60	5,729

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $9,548,000 and dividend distributions amounted to $1,597,000.

5/11/41

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

New York Shipbuilding Company - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	1,064	1,064	1,330	2,217
Excess profits tax (invested capital method)	1,401	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	2,465	1,064	1,330	2,217
Assuming dividend distributions same as 1940				
Income tax	1,064	1,064	1,330	2,217
Excess-profits tax (invested capital method)	1,401	-	-	-
Undistributed profits tax (50%)	-	1,201	1,068	624
Total	2,465	2,265	2,398	2,841
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	1,064	1,064	1,330	2,217
Excess-profits tax (invested capital method)	1,401	-	-	-
Undistributed profits tax (50%)	-	500	500	500
Total	2,465	1,564	1,830	2,717

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	1,064	45%	1,995
30	1,330	50	2,217
35	1,552	55	2,439
40	1,774	60	2,660

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $4,434,000 and dividend distributions amounted to $1,401,000.

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

J. C. Penney - 1940

(Amounts in thousands of dollars)

	Present law	Proposal		
		24% income tax	30% income tax	50% income tax
Assuming all income distributed				
Income tax	5,222	5,222	6,528	10,880
Excess profits tax (Average earnings method)	450	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	5,672	5,222	6,528	10,880
Assuming dividend distributions same as 1940				
Income tax	5,222	5,222	6,528	10,880
Excess-profits tax (Average earnings method)	450	-	-	-
Undistributed profits tax (50%)	-	1,559	906	2/
Total	5,672	6,781	7,434	10,880
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	5,222	5,222	6,528	10,880
Excess-profits tax (Average earnings method)	450	-	-	-
Undistributed profits tax (50%)	-	1,334	1,334	1,334
Total	5,672	6,556	7,862	12,214

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	5,222	45%	9,792
30%	6,528	50%	10,880
35%	7,616	55%	11,967
40%	8,704	60%	13,055

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $21,759,000 and dividend distributions amounted to $13,420,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds net income for 1940.

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Standard Oil (New Jersey) - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	47,368	47,368	59,210	98,684
Excess-profits tax (invested capital method)	6,896	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	54,264	47,368	59,210	98,684
Assuming dividend distribution same as 1940				
Income tax	47,368	47,368	59,210	98,684
Excess-profits tax (invested capital method)	6,896	-	-	-
Undistributed profits tax (50%)	-	51,129	45,208	25,471
Total	54,264	98,497	104,418	124,155
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	47,368	47,368	59,210	98,684
Excess-profits tax (invested capital method)	6,896	-	-	-
Undistributed profits tax (50%)	-	47,681	47,681	47,681
Total	54,264	95,049	106,891	146,365

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	47,368	45%	88,816
30	59,210	50	98,684
35	69,079	55	108,552
40	78,947	60	118,421

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $197,368,000 and dividend distributions amounted to $47,742,000.

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

United Aircraft - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	8,103	8,103	10,129	16,882
Excess-profits tax (average earnings method)	10,390	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	18,493	8,103	10,129	16,882
Assuming dividend distributions same as 1940				
Income tax	8,103	8,103	10,129	16,882
Excess-profits tax (average earnings method)	10,390	-	-	-
Undistributed profits tax (50%)	-	8,166	7,153	3,777
Total	18,493	16,269	17,282	20,659
Assuming changes in amounts of tax affect only dividend distribution				
Income tax	8,103	8,103	10,129	16,882
Excess-profits tax (average earnings method)	10,390	-	-	-
Undistributed profits tax (50%)	-	2,971	2,971	2,971
Total	18,493	11,074	13,100	19,853

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	8,103	45%	15,193
30	10,129	50	16,882
35	11,817	55	18,570
40	13,505	60	20,258

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess-profits tax computed at the rate of 50%. Net income for 1940 amounted to $33,763,000 and dividend distributions amounted to $9,328,000.

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

U. S. Steel - 1940

(Amounts in thousands of dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	37,399	37,399	46,749	77,915
Excess profits tax (Invested capital method)	-	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	37,399	37,399	46,749	77,915
Assuming dividend distributions same as 1940				
Income tax	37,399	37,399	46,749	77,915
Excess profits tax (Invested capital method)	-	-	-	-
Undistributed profits tax (50%)	-	29,199	24,524	8,941
Total	37,399	66,598	71,273	86,856
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	37,399	37,399	46,749	77,915
Excess profits tax (Invested capital method)	-	-	-	-
Undistributed profits tax (50%)	-	29,199	29,199	29,199
Total	37,399	66,598	75,948	107,114

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	37,399	45%	70,124
30%	46,749	50%	77,915
35%	54,541	55%	85,707
40%	62,332	60%	93,498

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Excess profits tax computed at the rate of 50 percent. Net income for 1940 amounted to $155,830,000 and dividend distributions amounted to $60,033,000.

Comparison of (a) present income and excess profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Binks Manufacturing Co. - 1940

(Amounts in dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	35,419	35,419	44,274	73,790
Excess profits tax (Invested capital method)	15,922	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	51,341	35,419	44,274	73,790
Assuming dividend distributions same as 1940				
Income tax	35,419	35,419	44,274	73,790
Excess profits tax (Invested capital method)	15,922	-	-	-
Undistributed profits tax (50%)	-	20,826	16,398	1,640
Total	51,341	56,245	60,672	75,430
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	35,419	35,419	44,274	73,790
Excess profits tax (Invested capital method)	15,922	-	-	-
Undistributed profits tax (50%)	-	12,865	12,865	12,865
Total	51,341	48,284	57,139	86,655

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	35,419	45%	66,411
30	44,274	50	73,790
35	51,653	55	81,169
40	59,032	60	88,548

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Net income for 1940 amounted to $147,580 and dividend distributions amounted to $70,510.

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Dexter Company - 1940

(Amounts in dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	20,868	20,868	26,085	43,476
Excess-profits tax (invested capital method)	614	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	21,482	20,868	26,085	43,476
Assuming dividend distributions same as 1940				
Income tax	20,868	20,868	26,085	43,476
Excess-profits tax (invested capital method)	614	-	-	-
Undistributed profits tax (50%)	-	3,042	433	2/
Total	21,482	23,910	26,518	43,476
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	20,868	20,868	26,085	43,476
Excess-profits tax (invested capital method)	614	-	-	-
Undistributed profits tax (50%)	-	2,735	2,735	2,735
Total	21,482	23,603	28,820	46,211

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	20,868	45%	39,128
30	26,085	50	43,476
35	30,433	55	47,823
40	34,780	60	52,171

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Net income for 1940 amounted to $86,951 and dividend distributions amounted to $60,000.

2/ The total of proposed income tax and actual dividends paid in 1940 exceeds net income for 1940.

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution)1/

General Alloys - 1940

(Amounts in dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	16,037	16,037	20,046	33,411
Excess-profits tax (average earnings method)	1,474	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	17,511	16,037	20,046	33,411
Assuming dividend distributions same as 1940				
Income tax	16,037	16,037	20,046	33,411
Excess-profits tax (average earnings method)	1,474	-	-	-
Undistributed profits tax (50%)	-	25,392	23,388	16,705
Total	17,511	41,429	43,434	50,116
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	16,037	16,037	20,046	33,411
Excess-profits tax (average earnings method)	1,474	-	-	-
Undistributed profits tax (50%)	-	24,655	24,655	24,655
Total	17,511	40,692	44,701	58,066

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	16,037	45%	30,069
30	20,046	50	33,411
35	23,387	55	36,752
40	26,728	60	40,093

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Net income for 1940 amounted to $66,821. There were no dividend distributions.

Comparison of (a) present income and excess-profits taxes and (b) proposed income and undistributed profits taxes (under various normal tax rates and assumptions as to dividend distribution) 1/

Indiana Steel Products - 1940

(Amounts in dollars)

	Present law	Proposal: 24% income tax	Proposal: 30% income tax	Proposal: 50% income tax
Assuming all income distributed				
Income tax	26,573	26,573	33,217	55,361
Excess-profits tax (invested capital method)	8,761	-	-	-
Undistributed profits tax (50%)	-	-	-	-
Total	35,334	26,573	33,217	55,361
Assuming dividend distributions same as 1940				
Income tax	26,573	26,573	33,217	55,361
Excess-profits tax (invested capital method)	8,761	-	-	-
Undistributed profits tax (50%)	-	32,168	28,846	17,774
Total	35,334	58,741	62,063	73,135
Assuming changes in amounts of tax affect only dividend distributions				
Income tax	26,573	26,573	33,217	55,361
Excess-profits tax (invested capital method)	8,761	-	-	-
Undistributed profits tax (50%)	-	27,788	27,788	27,788
Total	35,334	54,361	61,005	83,149

INCOME TAX AT VARIOUS RATES

Rate	Amount of tax	Rate	Amount of tax
24%	26,573	45%	49,825
30	33,217	50	55,361
35	38,753	55	60,897
40	44,289	60	66,433

1/ Tax computations are based on data from published financial reports and are accordingly subject to substantial errors. Net income for 1940 amounted to $110,722 and dividend distributions amounted to $19,813.

5/14/41

MEMORANDUM

TO: The Secretary

FROM: Mr. Sullivan

The following have accepted the invitation to have supper with you this evening at 7:30:

Senator George,
Congressman Doughton,
Congressman Cooper,

Sullivan
Foley
Gaston

I am still trying to get in touch with Senator Barkley. Congressman McCormack will be at the house at 8:15 but is unable to come for supper. Speaker Rayburn is giving an address and will be unable to attend.

JLS

5/12/41

For dinner:—

Senator George
" Connally
Cong. Doughton
" Cooper
Mr. Foley
" Sullivan.

After dinner:
Cong. McCormack
Mr. Tarleau
Mr. Blough.

MEMORANDUM

May 12, 1941.

TO: The Secretary

FROM: Mr. Sullivan

I talked with Senator George, who said he would like to have Senator Connally at the supper this evening. He is trying to get in touch with Senator Connally and will call my office as soon as he hears from him. I will then immediately notify you.

JLS

May 12, 1941

Files

Mr. Cochran

At noon on May 8 Mr. White gave me the attached drafts of cablegrams to Dr. Kung and Mr. Chen, with the suggestion that I might care to submit them to the Secretary for approval if I had opportunity to see him that evening. I did not see the Secretary. On Friday morning, Under Secretary Bell was present as I handed the file to him before we entered the 9:30 Staff meeting. Mr. White was with me and we explained the situation. Following the 9:30 meeting Mr. Bell asked that I consolidate the two cablegrams into one, for transmission to the State Department in the usual manner, and return it to him so that he might submit it to the Secretary at his 11 o'clock appointment. At 1 o'clock I received back from Mr. Bell's office the consolidated cablegram with the notation thereon "Disapproved by the Secretary. D.W.B. 5/9". It is understood, therefore, that the Secretary desires that no invitation be issued Mr. Chen to come to the United States at this time.

HMC:lap-5/12/41

COPY

CABLE TO BE SENT BY STATE DEPARTMENT ON BEHALF OF THE TREASURY TO DR. H. H. KUNG.

DR. H. H. KUNG
MINISTER OF FINANCE
THE EXECUTIVE YUAN
CHUNGKING, CHINA

WE THINK IT WOULD BE DESIRABLE IF MR. K. P. CHEN COULD MAKE A VISIT TO THE UNITED STATES IN THE IMMEDIATE FUTURE FOR THE PURPOSE OF DISCUSSING WITH US MATTERS IN CONNECTION WITH THE OPERATION OF THE NEWLY CREATED STABILIZATION ARRANGEMENT stop THESE DISCUSSIONS SHOULD NOT TAKE VERY LONG stop PLEASE ADVISE WHETHER MR. CHEN CAN BE SPARED FOR THIS PURPOSE AT THIS TIME. CORDIALLY,

HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY

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COPY

CABLE TO BE SENT BY STATE DEPARTMENT ON BEHALF OF THE TREASURY TO MR. K. P. CHEN

MR. K. P. CHEN
C/o MINISTRY OF FINANCE, EXECUTIVE YUAN,
CHUNGKING, CHINA.

WE HAVE CABLED DR. KUNG AS FOLLOWS quote WE THINK IT WOULD BE DESIRABLE IF MR. K. P. CHEN COULD MAKE A VISIT TO THE UNITED STATES IN THE IMMEDIATE FUTURE FOR THE PURPOSE OF DISCUSSING WITH US MATTERS IN CONNECTION WITH THE OPERATION OF THE NEWLY CREATED STABILIZATION ARRANGEMENT stop THESE DISCUSSIONS SHOULD NOT TAKE VERY LONG stop PLEASE ADVISE WHETHER MR. CHEN CAN BE SPARED FOR THIS PURPOSE AT THIS TIME. CORDIALLY unquote I HOPE YOU WILL BE ABLE TO MAKE THE SUGGESTED VISIT.

HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY

lmo

May 9, 1941

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram, the subject of which I understand the Far Eastern Division of the Department of State has approved:

"American Embassy,

Chungking, China.

Secretary of Treasury would appreciate following message being communicated to Minister of Finance Kung:

'I think it would be desirable if Mr. K. P. Chen could visit Washington in immediate future to discuss the new stabilization agreement. Such discussion should not take long. I hope this suggestion may meet with your approval and be agreeable to Mr. Chen and that he may be spared for this purpose at this time. Please inform me as to your decision. Cordial greetings.'"

HMC:lap-5/9/41

May 12, 1941

Files

Mr. Cochran

At 10:15 this morning Mr. Archie Lochhead telephoned me from New York to inquire whether the Treasury was asking Mr. Chen to visit the United States shortly. I replied in the negative. Mr. Lochhead was unhappy over this decision, since he felt that Mr. Soong had created great difficulties for the operation of the Universal Trading Corporation, and he, Lochhead, would like to talk over the whole situation with Mr. Chen. I appreciated Lochhead's viewpoint, but gave some reasons which I considered plausible to support the Treasury's position.

I told Lochhead that difficulties between Soong and Chen as to how they should handle their business on this side could better be worked out between them than by having the Treasury endeavor to intervene in a situation which is already definitely established. I did not minimize, however, our interest in the Universal Trading Corporation and our sympathy with Mr. Lochhead's position. Furthermore, we were not entirely convinced here that it would be a proper move for the Treasury to summon Mr. Chen here for consultation in present circumstances. We had asked the Chinese Government to make him chairman of the Stabilization Board. Now that two members, the American and British, are here in the United States, would it look just right if we summoned Chen to join them here before the Fund machinery starts working? This would give opportunity for the accusation that the United States was endeavoring to dictate the policies upon which the Fund should commence to operate. It might also place certain responsibilities upon us for the conduct of the Fund which we do not desire to assume. Mr. Lochhead understood this reasoning, but is still unhappy that Chen is not coming.

HMC:dm:5.12.41

MAY 12 1941

Dear Dr. Soong:

I am in receipt of your letter of May 6, and deeply appreciate the message which Generalissimo Chiang Kai-Shek was good enough to send through Ambassador Hu Shi and yourself. The cooperation of the United States Treasury can always be counted on in the maintenance and promotion of friendship between China and the United States.

I should like to take this opportunity to thank you personally for the part you have played in facilitating the monetary negotiations between our two countries which were consummated in the stabilization agreement.

Yours faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Dr. T. V. Soong,
2001 - 19th Street, N.W.,
Washington, D. C.

File to Mr. Thompson

HDW:dlm
5/9/41.

2001 19th Street, N.W.
Washington, D. C.

May 6, 1941

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

My dear Mr. Secretary:

Generalissimo Chiang Kai-shek has telegraphed Ambassador Hu Shih and myself requesting us to convey to you personally his deep appreciation for the conclusion of the currency stabilization loan agreement which, he states, constitutes not only an important factor in stabilizing the relationship between the currencies concerned but is further concrete evidence of the friendship and support which the United States Government has given China in her struggle for national survival.

Dr. Hu has had occasion to convey to you verbally this message from the Generalissimo, and I wish to take this opportunity to express once again my personal gratitude for your continued assistance in support of our currency, without which I doubt it would have been possible for us to carry on the war for so many years.

With highest respects,

Yours faithfully,

(signed) T. V. Soong

Original in Famous Signature folder.

OFFICE OF
THE SECRETARY OF THE TREASURY

May 12, 1941.

TO: Mr. Lochhead

FROM: Mrs. H. S. Klotz

I would appreciate it if you would transmit the enclosed letter to Dr. H. H. Kung.

MAY 12 1941

My dear Dr. Kung:

I wish to express my sincere thanks and appreciation to you for the excellent collection of coins from Ancient and Modern China you sent to me. These coins serve to remind us that China was rich in monetary experience when this country in its youthful enthusiasm was encountering its first real monetary problems.

The collection is so remarkable that I am turning it over to the Treasury where it will be suitably displayed for public exhibition.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Dr. H. H. Kung,
Vice President and Minister of Finance,
The Executive Yuan,
Chungking,
China.

(Sent to Mr. Lochhead for transmittal)

File to Mr. Thompson

[illegible]
5/1/41

May 12, 1941

Files

Mr. Cochran

Since Mr. Batchelder had let me know, through Mr. Dietrich, that he would like to hear from the State Department with respect to our letter of March 15, 1941, on the subject of taxes applicable to our newly acquired bases, I telephoned Mr. Hickerson in the Department of State at 11:45 today. Mr. Hickerson recalled that there had been a meeting of a group in the State Department which had taken note of the Treasury's letter of March 15 and had decided definitely that we should not pay the taxes in question. Mr. Hickerson was not aware as to whether word to this effect had been sent to us, but promised to check the correspondence file.

I told Mr. Hickerson that it might prevent some considerable difficulties if the State Department would give us a copy of the recently consummated agreement between the United States and Great Britain with respect to bases, or at least the financial section thereof. Mr. Hickerson promised to send me a copy of this agreement today.

While on the telephone, Mr. Hickerson thought that he ought to warn us personally and confidentially that the attitude of the officials and bankers in Bermuda has not been at all good. He was a little concerned about the coming visit to the Treasury of the Bermuda bankers. He could not understand why this currency question was arising in Bermuda and not in any of the other bases. He said that the British Government had been obliged to sit on the Bermudians heavily as a result of their attempts to profit from the new base arrangement, and that in spite of such pressure the Bermudians were still trying to rob us. Hickerson added that Bermuda felt unaware that there was a war. I told Hickerson that we had been in touch since the beginning with the banks at the prospective bases which hoped to serve as depositaries for Treasury funds, and that the coming visit of the men from Bermuda was confined to this question.

HMC:dm:5.12.41

May 12, 1941

Mr. Pehle

Mr. Cochran

Referring to your memorandum of May 7, I attach hereto copies of my memoranda of January 7 and 16, respectively, 1941, on the subject of French gold at Martinique.

I have no new comment to add, except that I am against exercising pressure on any country to place its gold with us under our present control system.

H.M.C.

HMC:lap-5/12/41

January 7, 1941.

Secretary Morgenthau

Mr. Cochran

By appointment I received Mr. Alphand, Financial Counselor of the French Embassy, at 4:50 this afternoon. He told me that he had mentioned to Mr. Pehle that his Ambassador had discussed with Under Secretary of State Welles the question of disposing of certain amounts of gold from the French stock at Martinique for the purpose of obtaining funds to pay for goods to be shipped from this hemisphere to Northern Africa. Pehle had let him know, in turn, that Ray Atherton had telephoned from the State Department seeking an indication as to the Treasury's position on the subject. Alphand had come to me since he felt that there was a gold question involved, as well as a Control question.

Alphand explained his ideas in some detail. He hoped it would be possible to ship from the Martinique gold stock certain small amounts, the first quantity to be $10,000,000, to some port in the United States, or preferably to Puerto Rico. Against this gold he hoped that the Treasury would make available to the French Government free dollars which could be used to finance exports to Martinique or via Martinique to Northern Africa. I told Alphand that the Treasury would not accept gold for earmark or for purchase delivered in Puerto Rico or in any American port other than New York or San Francisco. He argued that it should be possible for us to let the gold be deposited in Puerto Rico, then send someone there to verify the quantity, and extend a credit to France against this gold. I told him definitely that we had no facilities in Puerto Rico for assaying and taking care of such gold and that it would be necessary in any circumstances to have such gold delivered to our Assay Office in New York before it could either be sold to the Treasury or added to the earmarked gold account of the French Government or Bank of France with the Federal Reserve Bank of New York. Alphand indicated no preference as to selling the gold and then having the proceeds placed in a free account, or in adding the gold to the earmarked stock of the Bank of France in New York and obtaining from us a liberation of a corresponding amount of dollars from the blocked account of France.

Alphand stressed the need for petroleum products in Northern Africa. He said it was particularly important that these be available for the harvesting and threshing of the grain crops of that area, since he said this was all done mechanically and fuel is lacking. He pictured the distress and starvation that might result from inability to harvest the vitally important cereal crops of French Northern Africa.

In our conversation Alphand reiterated his desire that we correct the December allotment of funds for French West Indies, it being very important that the full allotment be given during this busy sugar season. He regretted the decision which the said Foreign Funds Control had taken with respect to an application for the transfer of certain private French blocked dollar accounts on this market to the Federal Reserve Bank against the payment of francs to the French concerns involved.

Alphand told me that he was seeing Atherton tomorrow at 12:00 and asked if I would not speak with Atherton before that time. I called Atherton while Alphand was here, but was not able to reach him until after Alphand's departure. Atherton briefly summarized the State Department's position. He said there was the question as to whether we should facilitate the utilization of Martinique as an entrepot for shipments of merchandise from the Western Hemisphere to Northern Africa. The suggestion had been made that gold be taken from the Martinique stock and be disposed of for this purpose. I told Atherton of my technical talk with Alphand, and Atherton assured me that his Department had emphasized to the French that the gold in question would have to be delivered at New York, rather than in Puerto Rico, if a plan might be consummated. It was the understanding of both Alphand and Atherton that it would not be a question of moving the whole French gold stock from Martinique at one time, but merely the utilization of such amounts as could be utilized for making exports, with British approved navicerts therefor, from this hemisphere to Northern Africa. Alphand had added that the question might later be raised of shipping wheat and corn directly to continental France, but he realized that the question of obtaining navicerts for this purpose might be difficult.

Atherton told me that he was to receive Alphand at 12:00 tomorrow, but would like very much to have an expression of Treasury opinion before that hour, and if possible, in time for him to discuss the question again with Mr. Welles before receiving Alphand. When I asked Atherton if the State Department favored our taking care of the gold problem along the lines set forth by Alphand, he replied that the State Department would view favorably a very much controlled trade between Martinique and Africa. He stated furthermore that the State Department does not object to the use of gold from the Martinique stock for this purpose, rather than see France move toward the exhaustion of her other credits on this market. He thought it was in our interest to see the gold expended in the United States and the purchases made therefrom rather than the trade diverted to Latin America. He feels that if some arrangement is not made to permit the French to utilize their gold through operations on this market, it will eventually send it to some other market and we will lose the trade which it might finance. I told Atherton that I would have to take this matter up with the Secretary, but that I would try to do so tomorrow morning and let Atherton hear from me before noon. After this conversation, I telephoned Alphand at the French Embassy. I simply let him know that I had spoken with Atherton who had posed the problem much as Alphand had done, and that I had promised to see if I could submit the technical question to Secretary Morgenthau tomorrow morning.

HMC:lmp 1-7-41

Copy:alm 5-12-41

January 16, 1941

Secretary Morgenthau

Mr. Cochran

The French Embassy has raised the question of the disposition of part of the French gold stock (totaling around $245,000,000) at Martinique. I have told the French that the Treasury could not accept the idea of receiving this gold under earmark or purchasing it in Puerto Rico. I have let them understand that New York is the only port on our Atlantic seaboard at which we earmark or purchase foreign gold. The French idea is to ship from Martinique small amounts, the first quantity to be $10,000,000. The Treasury is asked to give the assurance that it will either purchase such gold or earmark it for the French Government with the Federal Reserve Bank at New York. The French request that in such event either the proceeds of the gold sale or an amount of dollars in their blocked account equivalent to the gold that is earmarked be placed in a free account available to pay for the purchase of goods to be exported to Martinique or via Martinique to Northern Africa.

The French stress the need for petroleum products in Northern Africa for use in harvesting and threshing grain. They picture the distress and starvation that might result from inability to harvest the vitally important cereal crops of French Northern Africa.

The French undertake not to attempt to ship any goods from this hemisphere with the proceeds of their Martinique gold unless the British give navicerts therefor. The French have intimated that the question may later be raised of shipping wheat and corn directly to continental France, but they realize that the question of obtaining navicerts for this purpose may still be difficult.

The Treasury certainly should not hesitate to buy all or any part of the French gold at Martinique which may be offered for delivery at New York. It will be simple for the Treasury Department to work out arrangements for the utilization of the gold or its dollar proceeds provided the Department of State agrees with us in permitting the use of the dollars for certain exports, to be made under our surveillance and subject to British navicert rules. The alternative might be that the French would endeavor to ship gold from Martinique to Latin America, dispose of it there, and obtain goods in Latin America for Martinique and Northern Africa.

HMC:lmp 1-16-41

Copy:alm 5-12-41

C
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PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, RIO DE JANEIRO

TO : Secretary of State, Washington.

DATED: May 12, 1941 - 3:45 p.m.

NO. : 454

STRICTLY CONFIDENTIAL

The Bank of Brazil this morning had a bought, i.e., a long position in clearing account sterling of 3,606,698 pounds, a figure which includes, however, heavy holdings of future sterling exchange, with the result that the London bankers who are serving as fiscal agents for Brazilian bond issues continue to have difficulty in obtaining for debt service spot sterling from the Bank of England.

The Governor of the Bank of Canada has not yet approached the Director of Exchange of the Bank of Brazil in the sense of the Department's telegram no. 236 of May 9. Although the Director would wish to help the British, otherwise he would not want to accept area sterling for Brazilian exports to Canada (at the insistence of the British themselves, Canada was specifically excluded from the area covered by the clearing agreement). The question, for example, would be raised whether payments could be made through the clearing accounts subject to their limitations to Canada; now because Canada is not covered by the clearing agreement, dividends of the large light and power company are being freely transferred in dollars.

CAFFERY

Copy:bj:5-22-41

126

Mr. Coe gave the Secretary a memo on this at the 9:30 meeting on May 14th.

May 12, 1941

MEMORANDUM TO: MR. COE

FROM: THE SECRETARY

Since the first of April, have we exported any copper to any other countries besides China and the United Kingdom?

C
O
P
Y

DEPARTMENT OF STATE
WASHINGTON

reply refer to
560H.51/1036

May 12, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 416 dated May 6, 1941 from the American Embassy at Rio de Janeiro, regarding Yugoslav funds which are on deposit in the Bank of Brazil.

Enclosure:

No. 416, May 6,
from Rio de Janeiro.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro.

DATE: May 6, 1941, 11 a.m.

NO. : 416

This telegram is confidential for the Under Secretary.

Reference is made to the Embassy's 373 of April 29, 2 p.m.

Reply has been made to the Bank of Brazil by the Federal Reserve Bank of New York to the effect that the Federal Reserve Bank of New York does not possess the technical authority to accept the funds of Yugoslavia under the conditions which were outlined.

It was added by the Federal Reserve Bank of New York that it, as well as the Bank of Brazil, is now unable to contact the National Bank of Yugoslavia which made the deposit (as was reported by this Embassy in its no. 174 of March 15, noon).

CAFFERY

EA:MSG

Copy:bj:5-13-41

C
O
P
Y

LS

PLAIN

OTTAWA

Dated May 12, 1941

Rec'd 9:23 a.m.

Secretary of State

Washington

100, twelfth.

The Canadian Government has announced its decision to drop from the budget the withholding tax on interest of Canadian bonds held by nonresidents whenever under the terms of issue the interest is payable in a foreign currency.

MOFFAT

HTM

Copy:bj:5-14-41

Treasury Department
Division of Monetary Research

Date May 12 19

To: Secretary Morgenthau

From: V. F. Coe VC

Subject: State Wants Mexican Discussions to Begin

State called to say that they expected a formal letter to go in the next few days to the Secretary of the Treasury asking the Treasury to begin financial discussions with Mexico. State is asking Mexico to send a man up here.

The oil negotiations, we understand, are not going well and the negotiations about water are also not going well. It is State's idea that the time has come to discuss with Mexico what we may give to her so that the discussions concerning what we want from Mexico can be expedited.

LS

PLAIN

LONDON

Dated May 12, 1941

Rec'd 11 a.m.

Secretary of State

Washington

1878, twelfth.

FOR TREASURY.

A Treasury order has been issued excluding Iraq from the sterling area as from May 6. The Bank of England notified banks that the proceeds of checks, et cetera, drawn prior to that date in favor of residents of Iraq may be credited to their account without formality. Until further notice all applications for financial transactions with Iraq must be referred to the Bank of England.

WINANT

NPL

Finnish Debt Bill

THE SENATE PASSED AND SENT TO THE HOUSE A RESOLUTION WHICH WOULD GRANT THE REPUBLIC OF FINLAND PERMISSION TO POSTPONE PAYMENTS ON ITS POSTWAR DEBTS TO THE UNITED STATES.

THE MEASURE, PASSED WITHOUT OBJECTION OR DEBATE, WAS INTRODUCED BY SENATOR VANDENBERG. IT WOULD AUTHORIZE FINLAND TO PAY ITS DEBT IN 40 SEMIANNUAL INSTALLMENTS BEGINNING JAN. 1, 1945.

VANDENBERG TOLD THE SENATE THAT THE MEASURE HAD THE "UNQUALIFIED SUPPORT" OF SECRETARY OF STATE CORDELL HULL AND SECRETARY OF TREASURY HENRY MORGENTHAU AND THAT THE SENATE FINANCE COMMITTEE HAD APPROVED IT UNANIMOUSLY.

AN INSTALLMENT OF THE FINNISH DEBT WILL BE DUE JUNE 15 IF THE LEGISLATION DOES NOT RECEIVE FINAL APPROVAL.

5/12--GE452P

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 12, 1941

TO Secretary Morgenthau

FROM Mr. Wiley.

Mr. Gaston told me of your interest in the appointment of General John F. O'Ryan to the post of Director of Civil Defense activities for the State of New York, in anticipation of a Federal home defense program.

I queried Stanley Hornbeck on the subject of the General's junket to the Orient last year. Hornbeck told me that the General received a $15,000 fee and expenses from the Japanese. He was accompanied by two young economists and made some sort of an economic and financial survey in Manchuria, North China, Shanghai and Japan on behalf of his employers. Before embarking on this voyage, General O'Ryan cleared the matter with the President who did not discourage him from making the trip. He also visited the State Department where he informed Mr. Hamilton, Chief of the Far Eastern Division, that he could and should have asked $50,000 of the Japanese, but that he did not wish anyone to be in a position to say that he had been influenced by mercenary motives. The $15,000, he intimated, was for him only a bagatelle. On his return from the Far East, he reported to the Secretary of State. So far as is known his trip was largely innocuous. Hornbeck added that the propriety and good taste of his having undertaken the voyage on behalf of the Japanese Government was an entirely different question.

Before the General left, he registered himself as having a foreign government as his principal, and subsequent to his return he "unregistered" himself.

Hornbeck said that Mr. Berle knew a good deal about his antecedents in New York State. I passed this on to Mr. Gaston who said he would get in touch with Mr. Berle.

FBI has very little on the General except newspaper cuttings on the subject of his Far Eastern junket; likewise ONI. FBI, however, did have information to the effect that one Mrs. Ganna Mahrt Syrc-Boiarsky went with the General on the trip as his secretary. She is apparently an American citizen of German-Japanese descent and FBI has a detailed report on her activities and is still investigating her. She apparently has worked extensively for the Japanese Intelligence Service in China. She once spent about a year in Washington.

FBI added that G-2 has many references to the General and that they would go over the files Monday.

JCW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 12, 1941

STRICTLY CONFIDENTIAL

TO Secretary Morgenthau

FROM Mr. Wiley

FBI reports:

May 9. As of April 25, 1941, Soviet balances at the Chase in New York were $27,242,922.18.

Reports have been coming in showing that there are large-scale efforts on the water front in the interests of the Nazis and the Communists to prevent all kinds of Scandinavian, Dutch, Chinese, etc. seamen shipping to British ports.

JW

furnished 5/12/41

May 12, 1941

MEMORANDUM FOR MR. SULLIVAN.

FROM THE SECRETARY.

What is the answer to this: that there are 37,000,000 people on the payrolls of the country today and, I believe, less than 5,000,000 taxpayers. (My figure of 5,000,000 may not be right.) How does one answer that criticism?

I would like the answer tonight.

May 14, 1941

Mr. Bell reported at 9:30 meeting this morning that it was impossible for him to get this information for the Secretary until Friday.

This plan was submitted to the Secretary at his financing meeting on May 20th.

May 12, 1941

TO: MR. BELL

FROM: THE SECRETARY

I would like a report tomorrow on some kind of a certificate for pre-payment of taxes falling due on quarterly tax dates.

May 12, 1941.

Dear Jesse:

I am enclosing a memorandum which states the Treasury's position in regard to language in Section 3 of S. 1488 which would immunize transactions with the Reconstruction Finance Corporation and other corporations created by the Reconstruction Finance Corporation from state sales and use taxes.

If you agree, I wish you would present the Treasury's views to the Senate Banking and Currency Committee.

Sincerely yours,

(Signed) Henry

Honorable Jesse H. Jones
Secretary of Commerce
Washington, D. C.

P.S. I am also enclosing a copy of my letter to Senator Wagner.

Enclosure

Copy to Mr. Thompson

(Sent by hand from Mr. Foley's office)
9 20 5/13

EHFJr/fm
Typed 5/12'41

May 12, 1941

M E M O R A N D U M

The Senate Committee on Banking and Currency has requested the opinion of the Treasury Department on S. 1438, a bill "To extend the operations of the Disaster Loan Corporation and the Electric Home and Farm Authority, to provide for increasing the lending authority of the Reconstruction Finance Corporation, and for other purposes."

Section 3 of the bill would, among other things, immunize transactions with the Reconstruction Finance Corporation, the Defense Plant Corporation, the Defense Supplies Corporation, and other corporations created or organized by the Reconstruction Finance Corporation, from sales taxes and use taxes. The language in question is the parenthetical clause:

> "(which shall, for all purposes, be deemed to include sales taxes and use taxes)"

To the extent that this provision exempts sales from Federal taxation, it is unnecessary. On February 18, 1941, the Commissioner of Internal Revenue issued a ruling to the Defense Plant Corporation that sales of automobile trucks and automotive equipment by manufacturers to the

Defense Plant Corporation for use in the construction of an airport plant were exempt from the manufacturer's excise tax. This ruling would be of general application so far as sales for the use of the United States or its agencies are concerned.

To the extent that this provision exempts transactions from state sales and use taxes, it is unwise.

In the first place, it fails to take into consideration the broader aspects of the inter-governmental immunity problem. This Department has been disturbed for some time by the overlapping of Federal, state and municipal taxation and by the inequalities resulting from the doctrine of reciprocal immunity, and has been trying to clarify this situation in Congress and in the courts.

In the second place, if Section 8 as now drafted is enacted into law, it would place the Treasury in the untenable position of trying to collect taxes on all private income, even if it is derived from a state or municipal government, while at the same time preventing the states from taxing in a nondiscriminatory manner purchases made by corporate instrumentalities of the Federal Government.

In the third place, even though the expenses of the Government might be lessened if the exemption were granted, this is not an adequate basis for tax immunity. The taxes in question are not discriminatory. They are state sales taxes, gasoline taxes and the like which apply equally to all taxpayers. Any burden on any agency of the Federal Government resulting from such taxes is a normal incident of the organization within the same territory of two governments, each possessed of the taxing power.

Finally, the proposed exemption from state sales and use taxes would also prevent the states and municipalities from deriving additional revenue from Federal defense activities to pay for expenses incurred as a result of these activities.

It is concluded, therefore, that since the language quoted is surplusage from the viewpoint of Federal taxation and contrary to a sound tax policy from the viewpoint of state taxation, it should be eliminated from the bill.

May 12, 1941.

Dear Jesse:

I am enclosing a memorandum which states the Treasury's position in regard to language in Section 3 of S. 1438 which would immunize transactions with the Reconstruction Finance Corporation and other corporations created by the Reconstruction Finance Corporation from state sales and use taxes.

If you agree, I wish you would present the Treasury's views to the Senate Banking and Currency Committee.

Sincerely yours,

(Signed) Henry

Honorable Jesse H. Jones
Secretary of Commerce
Washington, D. C.

P.S. I am also enclosing a copy of my letter to Senator Wagner.

Enclosure

Copy to Mr. Thompson

(Sent by hand from Mr. Foley's office)
9:30 am 5/13

HMJr/fm
Typed 5/12'41

May 12, 1941

M E M O R A N D U M

The Senate Committee on Banking and Currency has requested the opinion of the Treasury Department on S. 1486, a bill "To extend the operations of the Disaster Loan Corporation and the Electric Home and Farm Authority, to provide for increasing the lending authority of the Reconstruction Finance Corporation, and for other purposes."

Section 3 of the bill would, among other things, immunize transactions with the Reconstruction Finance Corporation, the Defense Plant Corporation, the Defense Supplies Corporation, and other corporations created or organized by the Reconstruction Finance Corporation, from sales taxes and use taxes. The language in question is the parenthetical clause:

> "(which shall, for all purposes, be deemed to include sales taxes and use taxes)"

To the extent that this provision exempts sales from Federal taxation, it is unnecessary. On February 13, 1941, the Commissioner of Internal Revenue issued a ruling to the Defense Plant Corporation that sales of automobile trucks and automotive equipment by manufacturers to the

Defense Plant Corporation for use in the construction of an airport plant were exempt from the manufacturer's excise tax. This ruling would be of general application so far as sales for the use of the United States or its agencies are concerned.

To the extent that this provision exempts transactions from state sales and use taxes, it is unwise.

In the first place, it fails to take into consideration the broader aspects of the inter-governmental immunity problem. This Department has been disturbed for some time by the overlapping of Federal, state and municipal taxation and by the inequalities resulting from the doctrine of reciprocal immunity, and has been trying to clarify this situation in Congress and in the courts.

In the second place, if Section 3 as now drafted is enacted into law, it would place the Treasury in the untenable position of trying to collect taxes on all private income, even if it is derived from a state or municipal government, while at the same time preventing the states from taxing in a nondiscriminatory manner purchases made by corporate instrumentalities of the Federal Government.

In the third place, even though the expenses of the Government might be lessened if the exemption were granted, this is not an adequate basis for tax immunity. The taxes in question are not discriminatory. They are state sales taxes, gasoline taxes and the like which apply equally to all taxpayers. Any burden on any agency of the Federal Government resulting from such taxes is a normal incident of the organization within the same territory of two governments, each possessed of the taxing power.

Finally, the proposed exemption from state sales and use taxes would also prevent the states and municipalities from deriving additional revenue from Federal defense activities to pay for expenses incurred as a result of these activities.

It is concluded, therefore, that since the language quoted is surplusage from the viewpoint of Federal taxation and contrary to a sound tax policy from the viewpoint of state taxation, it should be eliminated from the bill.

May 12, 1941.

Dear Mr. Chairman:

Further reference is made to your letter of May 3, 1941, enclosing copy of a bill, S. 1428, "To extend the operations of the Disaster Loan Corporation and the Electric Home and Farm Authority, to provide for increasing the lending authority of the Reconstruction Finance Corporation, and for other purposes." The Treasury Department has today transmitted to Federal Loan Administrator Jones its views on the provisions of the bill which relate to exemptions from sales and use taxes. If Mr. Jones agrees with our views in this connection, he will present them to your Committee.

In these circumstances, the Treasury will not make any formal report on the bill, it being satisfied to let the matter rest in Mr. Jones' hands.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Robert F. Wagner, Chairman
Committee on Banking and Currency
United States Senate

Copy to Mr. Thompson
(Sent by hand 5/13/41 from Foley's office)

LJB/fm
5/12/41

TO: 148

MISS CHAUNCEY:

The original was taken to the Secretary on May 13, 1941.

MR. FOLEY

MAY 12 1941

Secretary Morgenthau

Mr. Foley

The attached letter of May 9, 1941, to Merle Cochran involves the following proposal:

The controlling shares of American companies in Hawaii are owned by British nationals. The Hawaiian companies are engaged in the merchandise business, sugar plantations, sugar refining and the iron business. The profitable operation of the companies depends on the continued association as at present.

All the British-owned shares will be turned over to a trustee who will pledge the shares and also give a mortgage on the assets of one of the companies. In this way it is expected to be able to raise $1,350,000 by borrowing and in addition $650,000 will be advanced by two of the Hawaiian companies. The deal will involve no change of ownership and the loan will be repaid by the dividends on the shares. It is expected that it will take 20 years to pay off the loans.

The proposal is somewhat similar to the RFC loan in the Brown and Williamson transaction. Assuming that the Brown and Williamson pattern is to be followed, I see no objection to the proposal.

(Initialed) H.M.C.

(Initialed) E. H. F., Jr.

Attach.

BB:nrd - 5/12/41.

c
o
p
y

May 9, 1941

Mr. H. Merle Cochran
Technical Assistant to
The Secretary of the Treasury
Washington, D. C.

Dear Mr. Cochran:

I am digesting here the plan that I have in mind which will enable us to release certain shares of American companies in Hawaii owned by members of the Davies Family and their associates in England from control of the British Treasury.

I list here what I believe to be the shares involved but there may be a few less in each case:

Theo. H. Davies & Co., Ltd.	48-1/2	13,000	Shares	Common
	66.38	4,338	"	Preferred
Honolulu Iron Works Co.	34.39	9,864	"	
Waiakea Mill Co.	54.18	4,063	"	
Laupahoehoe Sugar Co.	98	9,800	"	
Hamakua Mill Co.	45.36	6,431	"	
Kukaiau Ranche Co.	16.66	250		

A brief description of each company follows:

<u>T. H. Davies & Co., Ltd.</u> operates a merchandise business in <u>Hawaii and Manila and</u> manages Sugar Plantations and Ranches in both places. It also acts as fiscal agent of Honolulu Iron Works Co.

Davies & Co. own a majority of the shares of Kukaiau Ranche Co. and a minority interest in Honolulu Iron Works and Hamakua Mill Co. which combined with the holdings of the Davies Family gives control of both companies to the Davies interests. Davies & Co. own no part of Laupahoehoe Sugar Co. or Waiakea Mill Co. which are controlled by the Davies Family holdings.

Honolulu Iron Works Co. operates a large merchandise business as wholesalers of Iron ware and plumbing supplies in Hawaii and in the Philippine Islands. Shops are maintained in Honolulu, Hilo, and Manila. The Company also controls a small shop in Sagua La Grande, Cuba.

Waiakea Mill Co. operates a sugar plantation and mill adjacent to Hilo on the Island of Hawaii. Their annual production is approximately 17,000 tons.

Laupahoehoe Sugar Co. operates a sugar plantation and mill on the Island of Hawaii and has an annual production of perhaps 20,000 tons.

Hamakua Mill Co. operates a sugar plantation and mill on the Island of Hawaii with an annual production of approximately 14,000 tons.

Kukaiau Ranche Co. This is a small but profitable ranch on the Island of Hawaii with a herd of about 5,200 head of beef cattle.

The fact that the parent Company, Theo. Davies & Co., Ltd. control the management of the o ther companies listed results in a large amount of merchandise, insurance and commission business to Davies & Co. The association of all the units as at present is mutually beneficial to all the companies but is absolutely essential to the profitable operation of the parent Company.

It is my purpose to release all the shares listed for the largest sum I can arrange to raise; at the moment the outside figure is two million dollars.

I propose to raise this in a capacity as Agent under full powers of attorney, or as Trustee for all the English shareholders concerned -- they have agreed to this plan, and Sir Edward Peacock is also sympathetically aware of it.

Actually, I propose to obtain the money by pledging all the shares mentioned, together with a mortgage of the lands and properties of the Laupahoehoe Sugar Co. In this way it may be possible to raise $1,350,000 and the other $650,000 will be furnished by advances from Theo. H. Davies & Co. and the Honolulu Iron Works Co.

All the above shares will then be held by Laupahoehoe, or Honolulu Iron Works, or by Davies & Co. -- that detail has not yet been worked out, but the point is that after the deal is completed there will in fact be no change of ownership, for the Trustee or Agent will really represent the original ownerships. The difference will be in the fact that these securities will be held as collateral for a loan of two million dollars, which will be served and repaid by all of the dividends which remain after American income taxes to non-resident aliens have been withheld. We figure that it will take the English shareholders almost twenty years to pay off the debt and in this period they will get no income at all from their American investments. They will, however, be building up an equity in America and the protection thus afforded is sufficient warrant for their entering the deal.

I have worked earnestly to raise as much money as possible. The highest loan value obtained has been $1,350,000, but we have added to that by committing the two companies to furnishing 650 to 700 thousand, as indicated previously.

The question is: will the Secretary of the Treasury look with favor on the transaction as outlined. I understand that it is not very different from the loan recently made by R.F.C. to the owners of Brown & Williamson Tobacco Co.

I am deeply obliged to you for permitting me to see you yesterday and for the privilege of arranging today's meeting for me.

Sincerely,

Copied:vls - 5/14/41

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

MONDAY, MAY 12

Time: 12:00 - 12:15 P.M.

Station: WJSV, Washington, D. C., and Columbia Broadcasting System Network.

Program: Proctor & Gamble Company "Life Can Be Beautiful".

Time: 7:00 - 7:30 P.M.

Station: WRC, Washington, D. C., and National Broadcasting Company Red Network.

Program: Telephone hour.

THESE RADIO PROGRAMS PROMOTE DEFENSE BONDS AND STAMPS

DEPOSITS IN TREASURER'S ACCOUNT FROM SALE OF UNITED STATES SAVINGS BONDS (ALL SERIES)

(In Thousands of Dollars)

(Based on Telegraphic Reports)

	MAY 1	MAY 2	MAY 3	MAY 5	MAY 6	MAY 7	MAY 8	MAY 9	MAY 10	TOTAL TO DATE
Treasury	58	27	36	31	30	65	16	39	33	335
Boston	23	177	37	2,127	1,959	238	1,367	2,246	369	8,543
New York	511	2,128	683	1,336	1,292	1,842	1,604	2,634	1,203	13,233
Philadelphia	201	182	216	246	1,121	1,146	801	581	1,000	5,494
Cleveland	955	246	942	1,158	2,467	1,444	823	1,013	934	9,982
Richmond	163	234	289	292	1,021	1,166	423	459	997	5,044
Atlanta	121	305	174	1,317	523	298	291	570	389	3,988
Chicago	457	634	740	1,233	585	983	1,246	2,142	1,901	9,921
St. Louis	534	804	1,822	1,538	505	981	834	1,031	768	8,817
Minneapolis	150	567	73	238	569	242	319	57	385	2,600
Kansas City	695	876	388	863	827	843	689	575	208	5,964
Dallas	271	157	429	271	824	585	343	696	730	4,306
San Francisco	312	572	534	687	259	1,333	761	682	503	5,643
TOTAL - - - -	4,451	6,909	6,363	11,337	11,982	11,166	9,517	12,725	9,420	
Cumulative Total	4,451	11,360	17,723	29,060	41,042	52,208	61,725	74,450	83,870	

Office of the Under Secretary
May 12, 1941.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 12, 1941

TO Secretary Morgenthau

FROM Mr. Kuhn

I told you some time ago that Collier's Magazine and the New York Times Magazine want to publish personality articles about you, and you said you were willing to help in each of these cases. Mr. Elliott Bell = lunched with Dan + Rankin 5/13. has been assigned to do the job for the New York Times Magazine, and will be in Washington tomorrow (Tuesday) for this purpose. Could you arrange to see him for fifteen minutes tomorrow? If so, Chic Schwarz and Herbert Gaston and I will do the rest, to see that he does a good job.

It will, of course, be immensely helpful to the savings program if the magazines can begin publishing articles about you and your ideas.

F.K.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION CONFIDENTIAL

DATE May 12, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending May 10, 1941.

Summary

(1) Business activity is moving higher as steel operations, automobile production and freight carloadings recover from recent strikes in the coal and automobile industries. By the week ended May 3 the New York Times index of business activity had recovered all but a fraction of its April decline.

(2) Commodity prices continue to rise under various inflationary influences. The weekly BLS all-commodity index has reached 83.2, as compared with a low of 76.9 last August. The price index of 28 basic commodities has risen 35 percent since August.

(3) Futures prices of domestic agricultural products surged upward last week under heavy speculative buying, with only a brief hesitation after a warning from the Commodity Exchange Administration against speculative excesses. The volume of futures trading increased sharply to the highest weekly total since May 1940. Spot prices of lard and cottonseed oil rose 10 percent in the week. With the prospect of an increase in crop loans to at least 75 percent of "parity", the Commodity Credit Corporation has requested an increase of $1 billion in borrowing power.

(4) Increased consumer purchasing, largely resulting from the defense program, is having a strong impact on sales of department stores, automobiles, household equipment, and residential building. The increase in consumer purchasing power, which is mostly concentrated in the hands of factory workers, offers a major threat to price stability.

(5) Steel operations are recovering somewhat more rapidly than expected from the effects of the recent coal strike. Railroad equipment manufacturers are reported to be unable to obtain adequate supplies of steel for freight car building, due to the heavy requirements of plates and shapes for shipbuilding.

- - - - -

Business activity recovering from strike losses

Business activity is again moving higher, as industry strives to make up for the ground lost during the recent strikes in the coal and automobile industries. Steel operations have been stepped up faster than some observers had expected, while automobile production has advanced to a new high for the year as the Ford Motor Company again attained volume production. Freight car loadings also have reached a new high for the year as coal shipments have begun to recover and iron ore has moved in record volume.

Largely as a result of the rise in automobile production and freight carloadings, the New York Times index of business activity rose 3.3 points to 123.7 during the week ended May 3, thus recovering to within 0.6 of the record high reached in the last week of March. Meanwhile, consumer buying has been unusually heavy, with April sales of such large concerns as Sears Roebuck and General Motors showing gains of no less than 34 percent and 49 percent, respectively, over year-earlier levels.

General price rise under way

Responding to various inflationary developments associated with the defense program, to proposed agricultural legislation of an inflationary nature, to increased costs of imported materials, and to an expansion in speculative buying, commodity prices in recent weeks have begun to rise with greater rapidity.

The broad BLS all-commodity index in the week ended May 3 reached 83.2, which compares with a low of 76.9 last August. (See Chart 1, upper section.) The cost of living so far has risen but slightly, but will doubtless soon reflect recent increases for foods and other products.

The rise in prices of basic materials has been much more rapid. The BLS price index of 28 basic commodities (lower section of chart) has shown a gain of 35 percent since the August low, of which more than half has occurred since early February.

Futures prices for domestic agricultural products steeply higher

A broad speculative movement carried commodity prices upward with a rush last week. The volume of trading in the futures markets rose sharply to a larger total than in any week since May 1940. (See Chart 2.) Industrial consumers with future commitments for delivery of finished goods were important buyers, with the intention of protecting themselves against further advances in prices of raw materials. Uncertainty about shipping space for future imports, and prospective legislation to raise loan rates on agricultural staples, were outstanding bullish influences.

Futures prices of domestic farm products advanced steeply. (See Chart 3.) Speculative activity in some of these products has increased noticeably in recent weeks. For the month of April, the volume of futures trading in cottonseed oil was 17 percent above March; in lard, the volume was 27 percent above March. The Commodity Exchange Administration last week issued a warning against excessive speculation with special reference to cottonseed oil, while the New York Produce Exchange stepped up minimum margin requirements. After merely hesitating on the warning, however, the futures prices of fats, oils, and grain proceeded upward with renewed vigor.

Spot prices of both imported and domestic products showed considerable advance. (See Chart 4, upper section.) Lard and cottonseed oil prices each rose about 10 percent in a single week. (See lower section of chart.) In addition to the bullish influences previously mentioned, heavy Government purchases of refined lard and pork products, and further contraction in imports of foreign edible oils and oil seeds, have been influences in the direction of higher prices for fats and oils.

High crop loans an inflationary factor

The approval by the Senate Agriculture Committee of crop loans at 85 percent of "parity" continues to have a bullish influence on such commodities as cotton and wheat. (See Chart 4, lower section.) In the week ended last Friday, wheat spot prices advanced 4.3 percent, and cotton prices 6.8 percent. With a view to the financing requirements for crop loans this year, even if loans are not increased beyond the first proposal of 75 percent of "parity", a request has been submitted to the House Banking and Currency Committee that the Commodity Credit Corporation be made a permanent agency with borrowing power increased from $1,400 millions to $2,400 millions. This would be inflationary in a twofold manner: the loans themselves would raise prices directly, and the new money (bank deposits) created by the sale of Commodity Credit securities to banks would also be a distinctly inflationary influence.

Rising incomes a threat to price stability

It is becoming more clearly apparent that the large amount of purchasing power accumulating in the hands of wage earners throughout the country offers a threat to price stability that will be difficult to control. Income payments to the labor groups have shown the largest percentage increase, and represent the largest increase in dollar totals. Salaries and wages in the commodity-producing industries (about 60 percent of which represents factory payrolls) have shown the largest percentage advance in the past year, the March figure showing an increase of 29 percent above March 1940. (See Chart 5.) Factory payrolls alone have increased 31 percent. No other major segment of national income approaches this percentage increase, the nearest being dividend and interest payments with an increase of 13 percent.

The portion of the increase in income going to labor bulks very large in dollar totals, a fact which is significant in the problem of defense financing as well as in the problem of price control. National income payments in March, totalling $6,785 millions, were $798 millions higher than a year earlier. Of this increase, $580 millions, or 73 percent, represented increased salaries and wages. In contrast, only 13 percent of the increase has been in dividends and interest, and 15 percent has represented cash withdrawals from non-corporate enterprises, including farm income.

The relatively moderate increase in dividend and interest payments reflects partly the fact that corporate profits have not increased quite as rapidly as business activity. While the FRB index of industrial production in the first quarter of this year was 21 percent higher than a year earlier, reported net profits of 295 industrial corporations as tabulated by the National City Bank were 18 percent higher.

Consumer demand expanding

The impact of the increasing purchasing power of wage earners is shown in various industries:

(1) Department store sales have been running substantially higher than last year. (See Chart 6.) In the latest week (ended May 3) the unadjusted weekly index was 15 percent higher than a year earlier.

(2) Residential building continues to expand. FHA mortgages selected for appraisal (see Chart 7) are substantially exceeding those of the previous year, in dollar totals as well as in number. In the week ended May 3, despite a downturn in that week, the total was 10 percent higher than in the corresponding week of 1940.

(3) Retail automobile sales (discussed more fully on page 7) are running nearly 50 percent above those of 1940.

(4) Sales of household equipment have greatly expanded, as shown by the following figures on sales of certain electrical equipment in March:

	March 1940 (number)	March 1941 (number)	Percentage increase
Electric ranges	39,643	61,647	55.5
Electric refrigerators	298,238	423,010	41.8
Vacuum cleaners, floor type	147,120	178,045	21.0

Unbalanced income distribution may affect Government financing

The fact that the new purchasing power created by the defense program has been centered largely in the labor group, while the purchasing power of the security-buying classes has shown a much more moderate increase and will be further depleted by heavy taxes, emphasizes the need of concentrating heavily on the sales campaign for the new Treasury savings bonds in order to divert an effective proportion of the increase in wages away from consumer goods markets. The enlistment of union organizations in the savings bond campaign was a move in the right direction.

To the extent that the deficit is financed by sale of Treasury securities to banks, the increase in bank credit will intensify a credit expansion that is already under way as a result of a marked increase in commercial loans. (See Chart 8.) "Commercial, industrial and agricultural loans, plus open market paper" of weekly reporting member banks have increased by $1,151,000,000, or 24 percent, since a year ago.

Such loans in the past have been largely identified with the purchase of commodities, chiefly industrial raw materials and supplies of semi-finished and finished goods. Furthermore, since they result in a dollar-for-dollar expansion of bank deposits, they have a doubly inflationary influence on commodity prices.

New orders at high level despite decline

Our index of new orders declined further to 194.8 in the week ended May 3, as compared with 199.2 in the previous week, a decline shared by all components. (See Chart 9.) The current level is still very high, especially in view of the fact that steel and textile companies, and probably many others, already have a large volume of unfilled orders. With the sale of print cloth and related items last week equalling about 3 times the current weekly output of mills, unfilled orders for textiles are said to be high enough to maintain the highest rate of operations in history through the third quarter.

Steel industry hard pressed despite recovery from coal strike

Although steel operations are recovering from the effects of the coal strike more rapidly than generally expected, the heavy demand for steel has continued to exert great pressure on the industry's productive facilities. The right of way given to heavy orders for plates and shapes used in the shipbuilding industry, for example, is reported to be slowing up steel deliveries to freight car builders, who have large orders on hand and a very heavy volume of business in prospect.

Just recently, the Association of American Railroads recommended the purchase of 270,000 freight cars for service in 1942 and 1943. It now appears that even that imposing figure was an understatement, since it did not include an estimated 80,000 cars which will be needed to supplant cars retired from service in ordinary course during the next two years. The Iron Age now reports that two freight car building shops are not operating due to lack of steel, and that three more shops may have to shut down within a month unless steel can be obtained. At the same time, the Chief of the Navy Bureau of Ships stated recently that shipyards are using materials as fast as they get them and that steel "is going to be rationed like aluminum." At the end of the week, it was reported that the recently formed defense committee of the steel industry and the OPM were investigating reports that lack of steel was holding up freight car production, with a view to taking corrective steps if conditions were found to be as represented.

No signs of any substantial abatement in new orders for steel have thus far appeared. New orders received by the U. S. Steel Corporation during the week ended May 1 declined very slightly but still amounted to 159 percent of capacity. Steel operations during the past week rose to 96.8 percent of capacity from 94.3 percent in the previous week. During the current week, operations are scheduled at 99.2 percent of capacity.

Steel and iron production lower in April

Due to the effects of the coal strike, which forced 20 blast furnaces out of operation, daily average pig iron production in April dropped 8 percent below the previous month. During the same period, steel ingot production dropped to 97.6 percent of capacity from 99.7 percent in March. In contrast with the decline in iron ore consumption in April resulting from lower blast furnace operations, the movement of iron ore down the Great Lakes broke all previous records for the month by a very wide margin. Nearly 7,000,000 tons of ore were shipped, as compared with less than 500,000 tons in April 1940.

Automobile sales booming

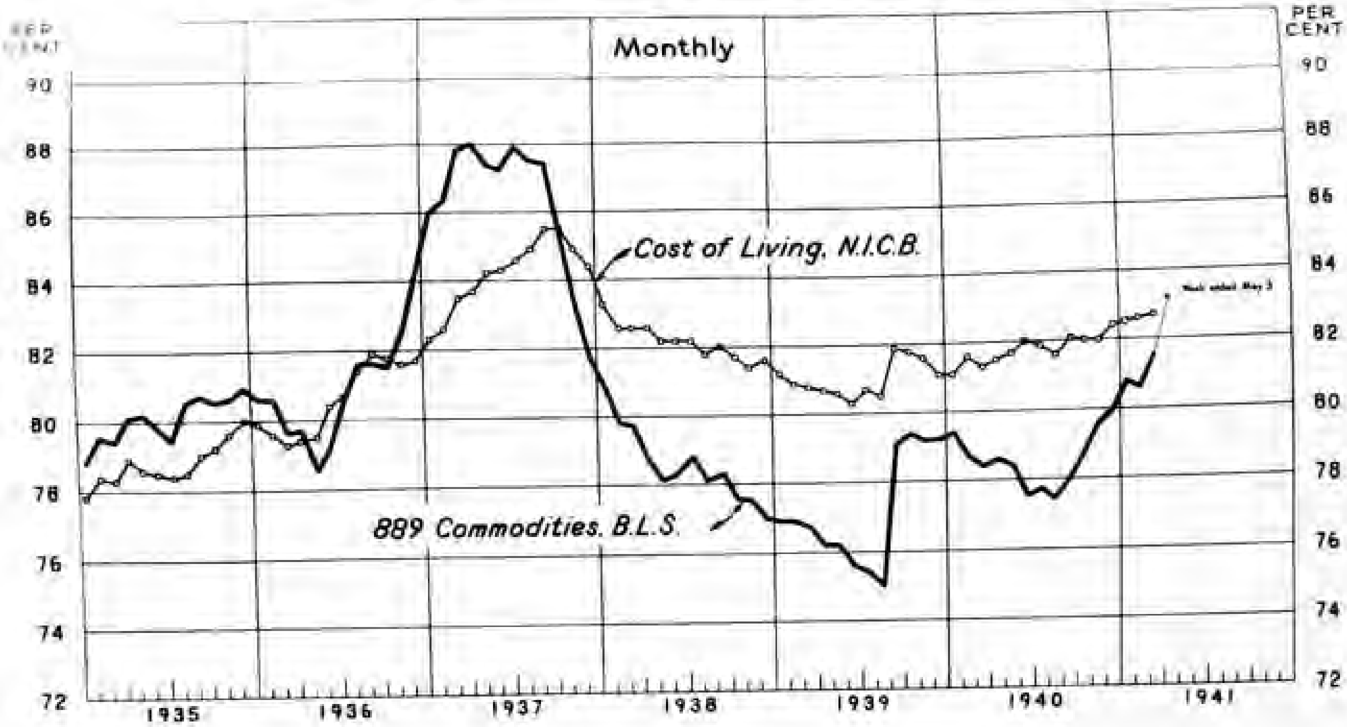
In addition to the heavy steel demand coming from shipbuilders, railroad equipment manufacturers, and other sources, automobile producers also continue to exert heavy pressure on the steel industry. Unusually heavy retail sales of automobiles have been a primary factor in the automotive industry's demand for steel. Thus, after making a very strong showing ever since the 1941 models were introduced, General Motors' new car sales to consumers in April rose to the highest monthly level on record. The April total of 273,000 units was 8 percent above the previous month and 49 percent above April 1940 (see Chart 10.) In addition to the stimulating effect of rising employment and payrolls, increased public awareness of future production curtailments and probable price increases doubtless contributed to the sales gain.

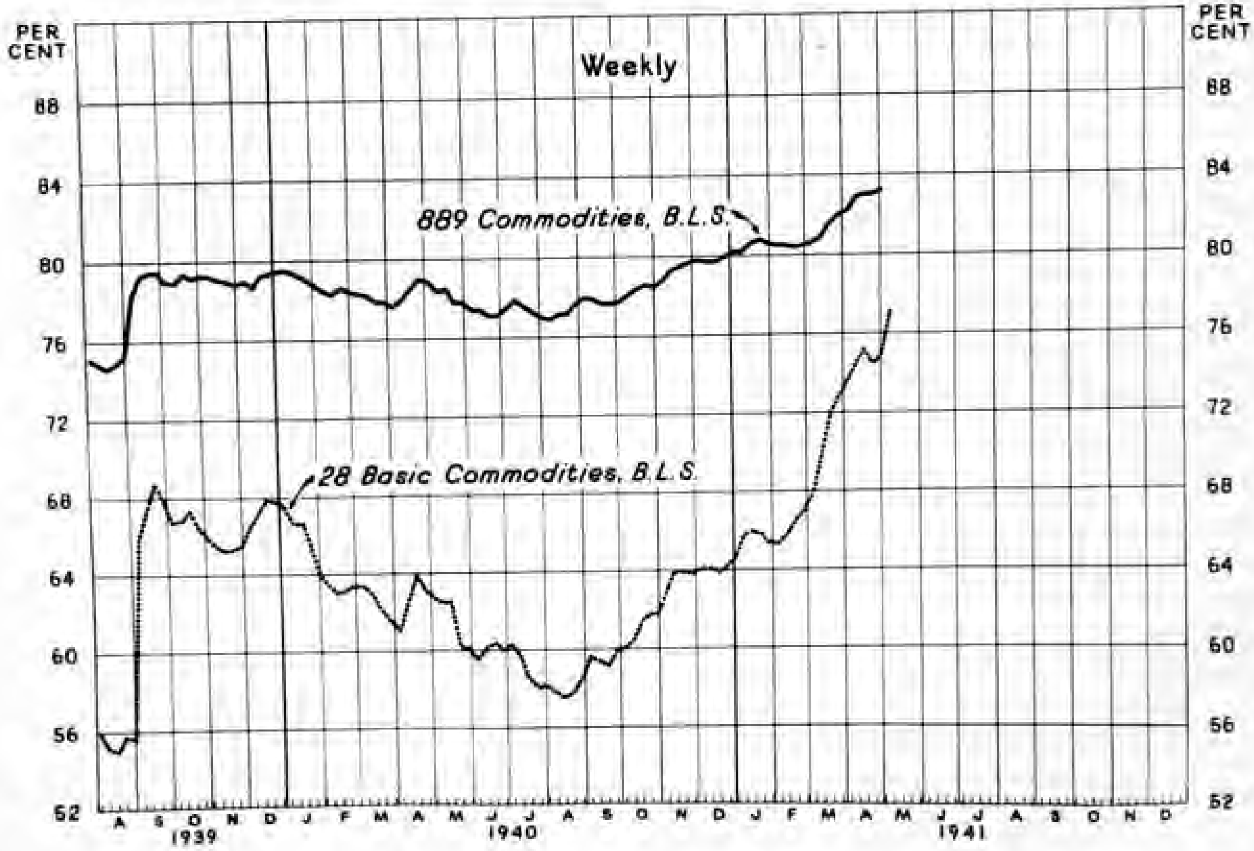
The OPM recently fixed the number of motor vehicles to be manufactured in the model year beginning August 1, 1941, at 4,200,000 -- a reduction of 20 percent from estimated current model production. However, trade opinion is skeptical of the ability of the industry to obtain the materials necessary to produce that number of vehicles, and a much greater curtailment is being mentioned.

Meanwhile, automobile output last week rose to the highest level of the year at more than 132,000 units -- a gain of 34 percent over the corresponding week of 1940. Furthermore, it now appears that large-scale production of 1941 model cars will not taper off as soon as had been expected some time ago. Ward's Reports now expects production to hold in its present range for at least the remainder of this month.

COMMODITY PRICES AND COST OF LIVING

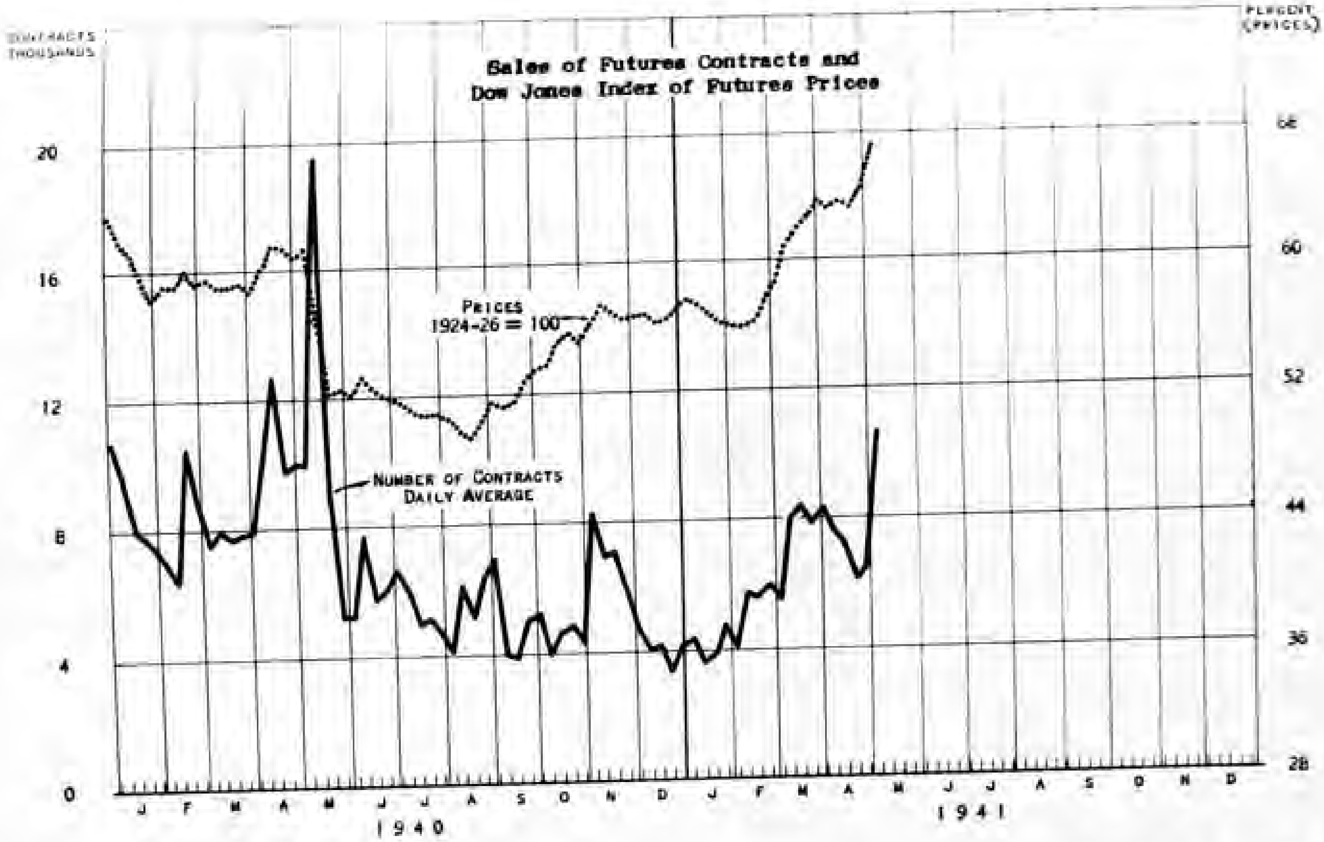
1926 = 100

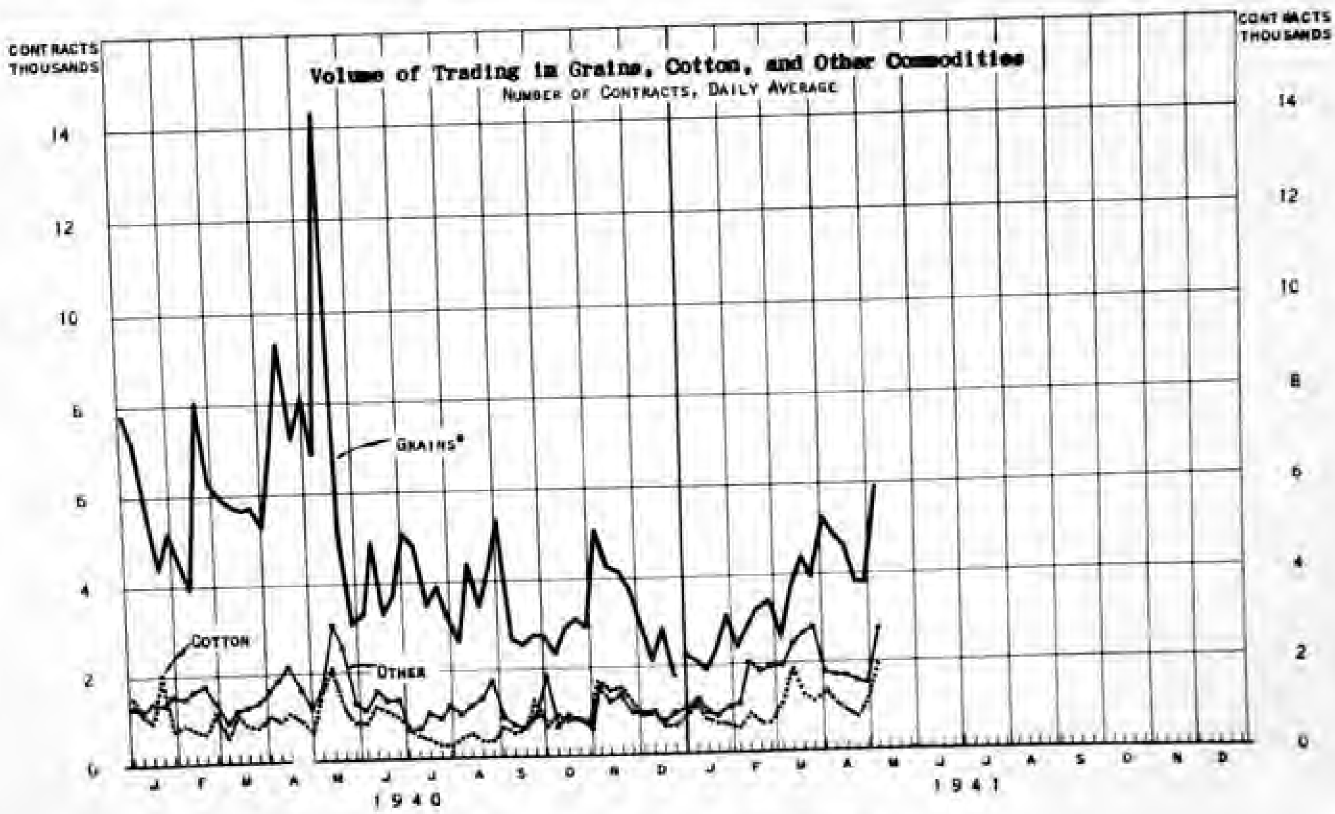




*30 Commodities Prior to January 1940

163

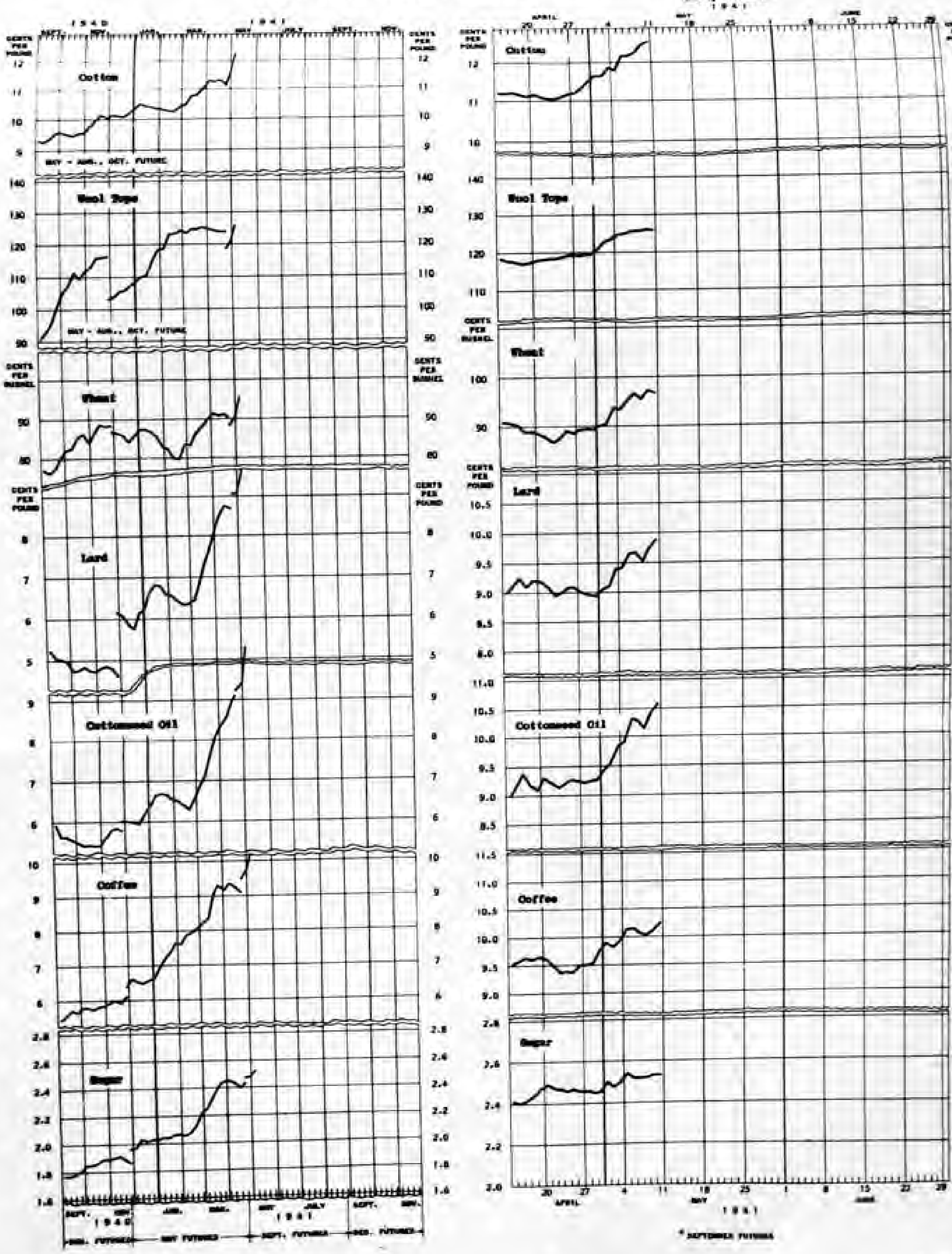




* BEGINNING JANUARY 1941 INCLUDES SOYBEANS

PRICES OF SELECTED AGRICULTURAL COMMODITIES

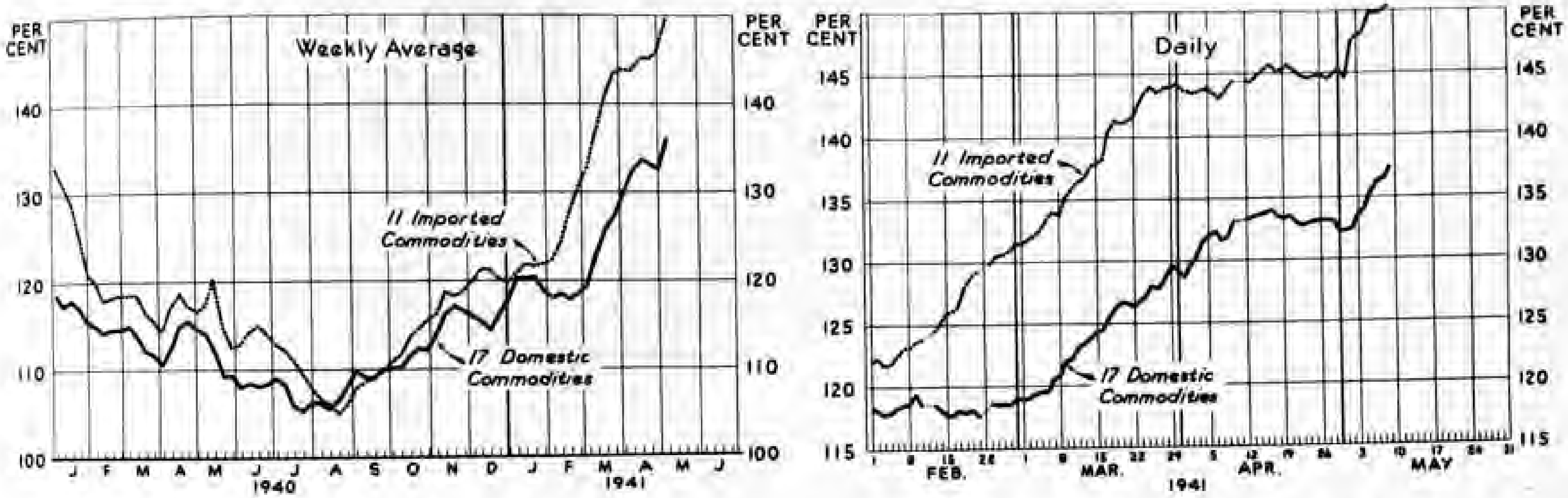
Daily Futures*
1941



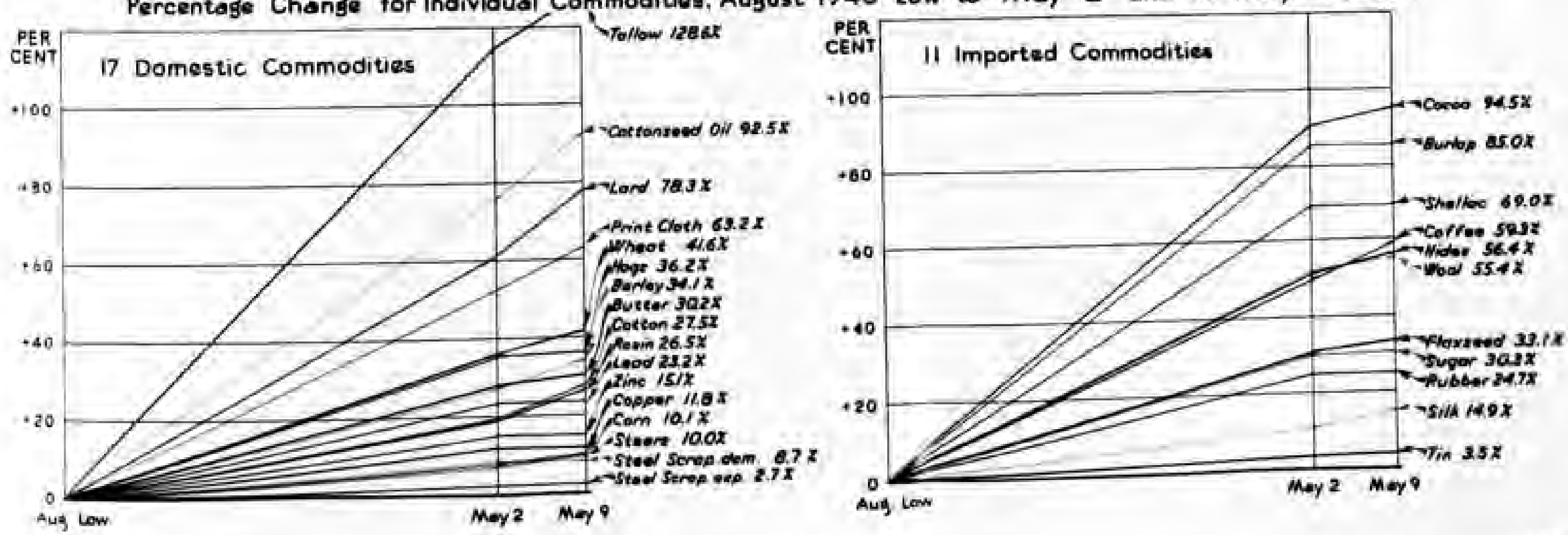
Office of the Secretary of the Treasury
Division of Research and Statistics

P. - 190 - 15

MOVEMENT OF BASIC COMMODITY PRICES
Domestic and Imported
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to May 2 and to May 9, 1941

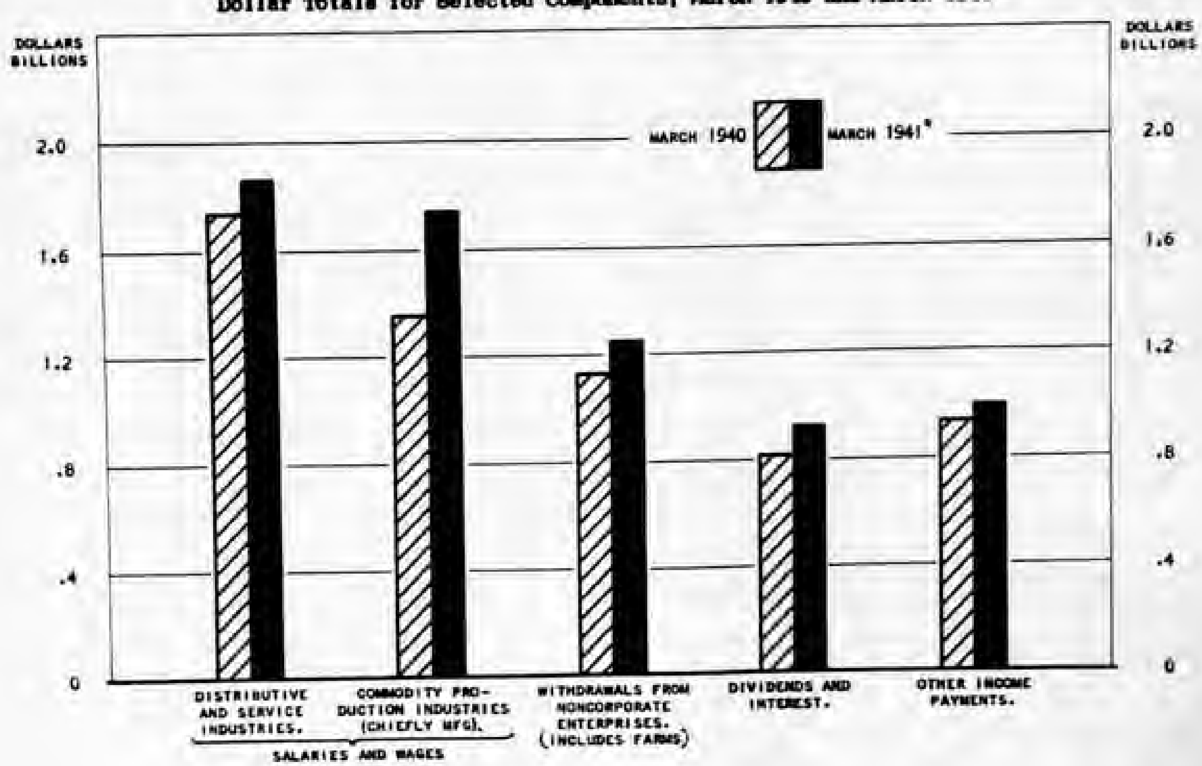


P-199-33

NATIONAL INCOME PAYMENTS AND SELECTED COMPONENTS

Percentage Change March 1940 to March 1941 *

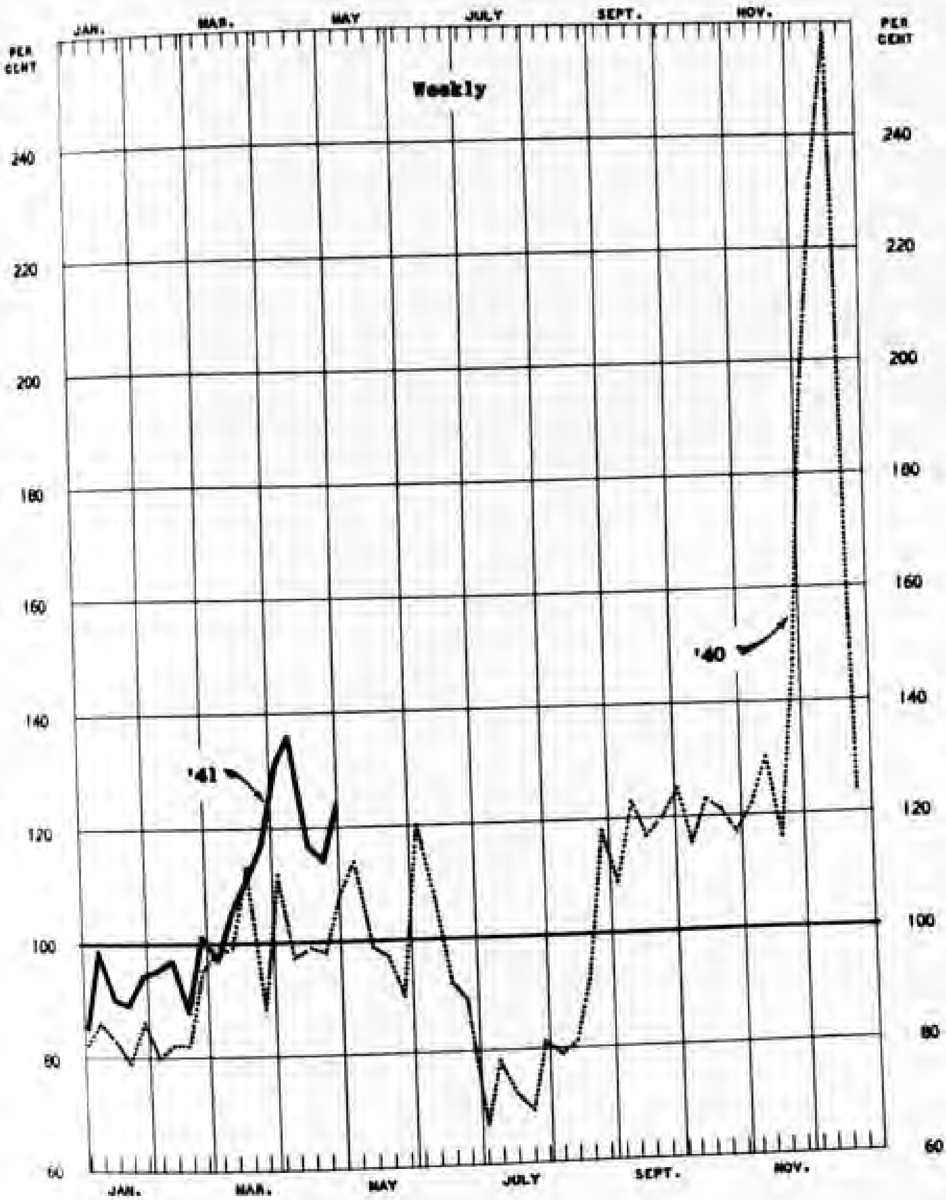
Dollar Totals for Selected Components, March 1940 and March 1941 *



* MARCH 1941 DATA ARE PRELIMINARY
SOURCE: DEPARTMENT OF COMMERCE

DEPARTMENT STORE SALES

1935 - '39 = 100, UNADJUSTED



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

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MORTGAGES SELECTED FOR APPRAISAL, F.H.A.
Weekly

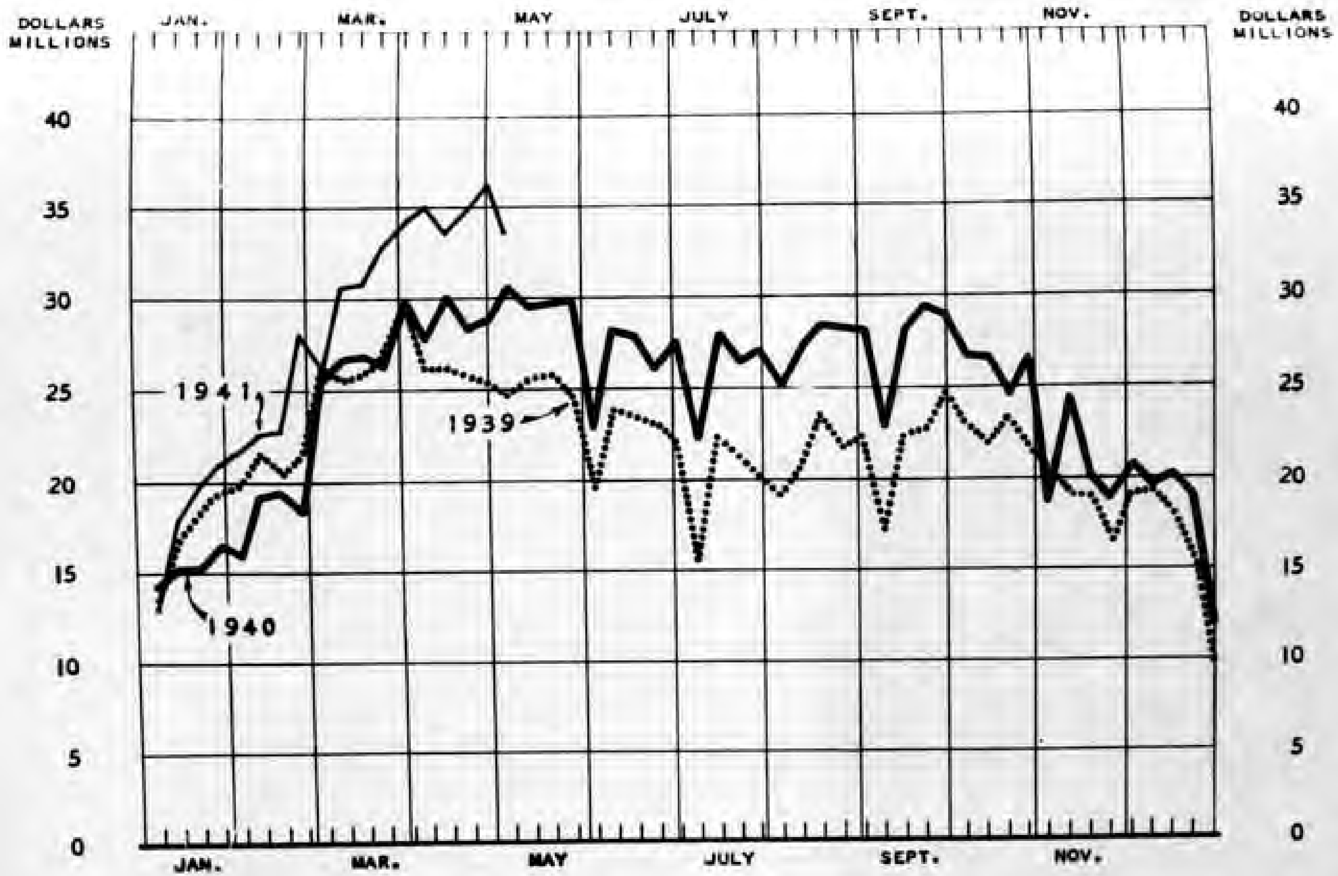

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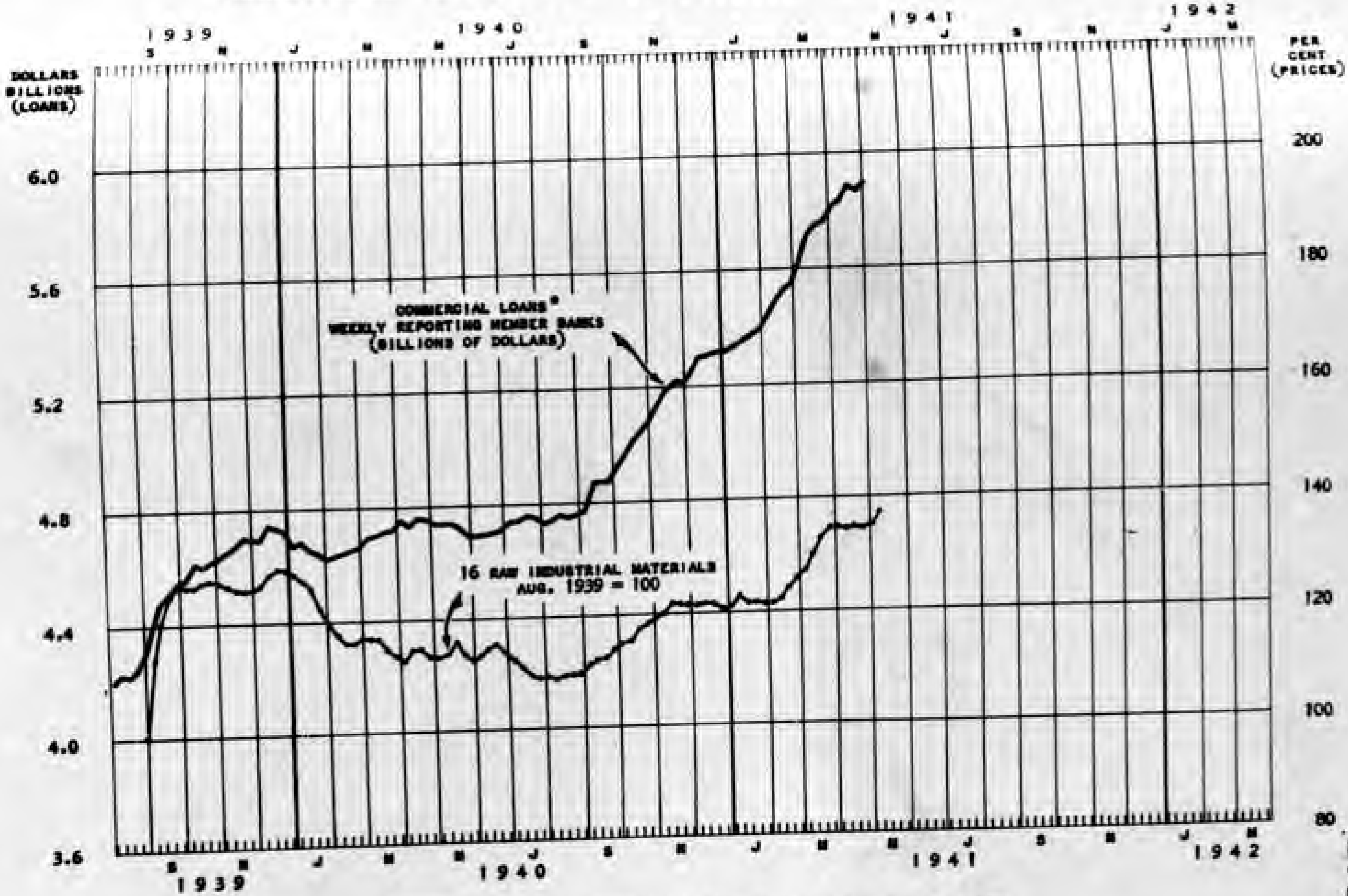
Chart 7

COMMERCIAL LOANS AND INDUSTRIAL MATERIALS PRICES



*COMMERCIAL, INDUSTRIAL, AGRICULTURAL LOANS AND OPEN MARKET PAPER

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

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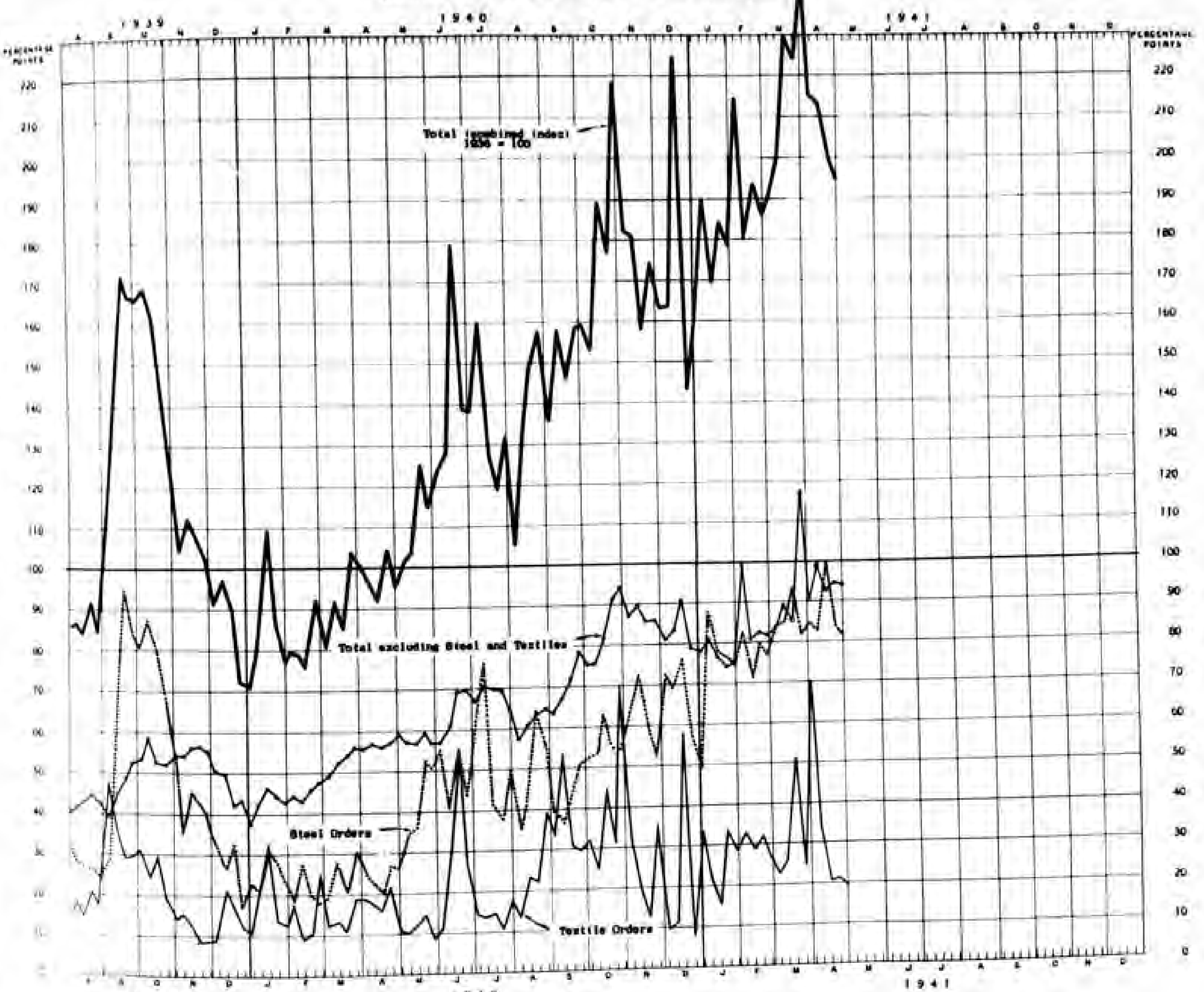
Chart 8

INDEXES OF NEW ORDERS

Combined Index of New Orders and Selected Components



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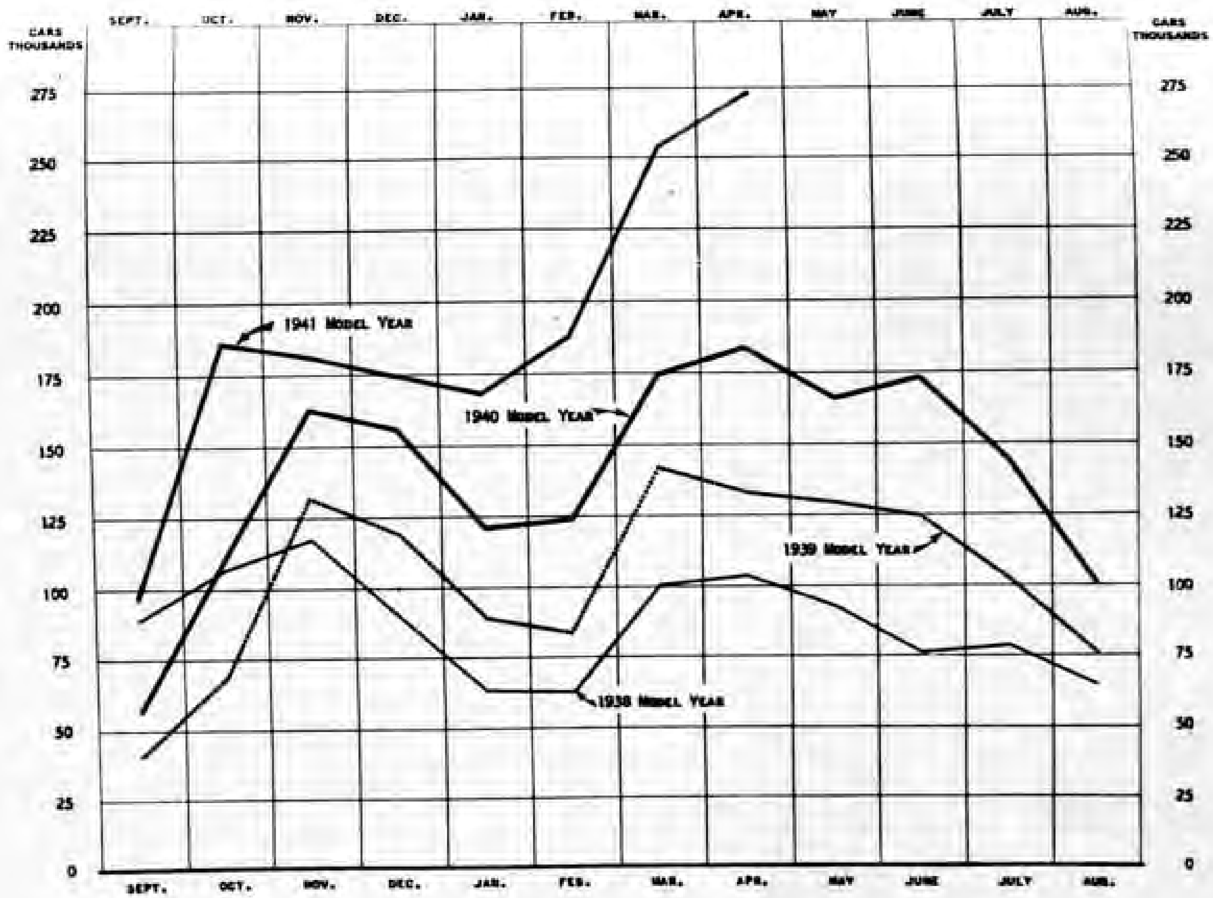
GENERAL MOTORS

Retail Sales of New Cars during Model Years 1938 - '41



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

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Chart 10

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 12, 1941

TO Secretary Morgenthau

FROM Mr. Haas

The Work Projects Administration reports a decline of 26,000 to 1,560,000 persons employed during the week ended April 30, 1941. This represents a decline of 148,000 persons since the end of March.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708
April	1,560

Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

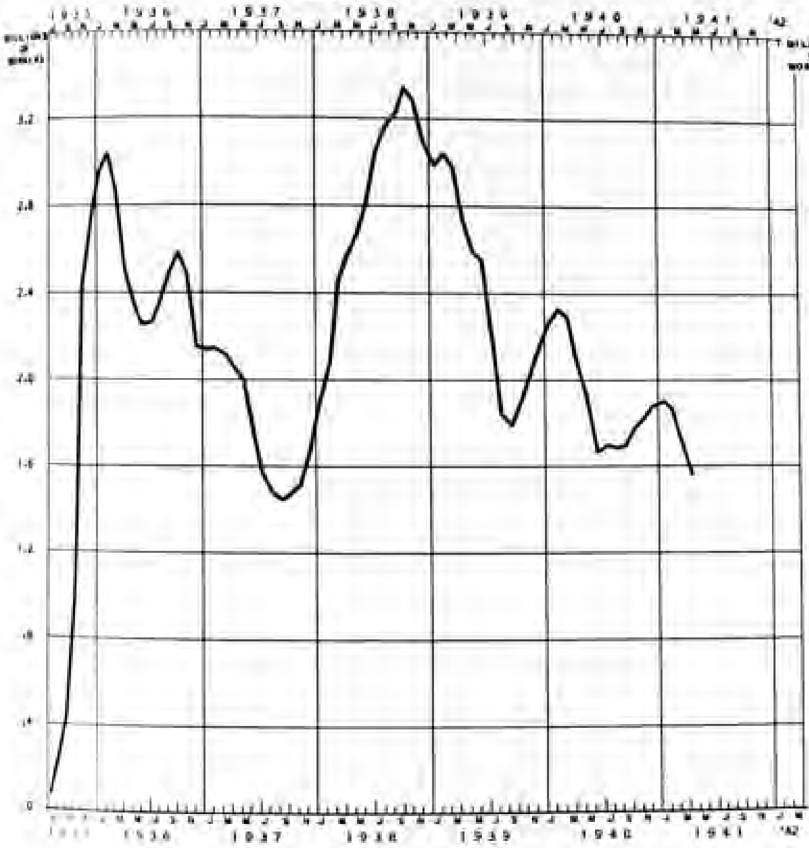
WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1940-41	Number of Workers (In thousands)
October 2	1,747
October 9	1,763
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,786
November 20	1,807
November 27	1,822
December 4	1,832
December 11	1,855
December 18	1,872
December 25	1,878
January 1	1,880
January 8	1,887
January 15	1,894
January 22	1,895
January 29	1,895
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634
April 16	1,607
April 23	1,586
April 30	1,560

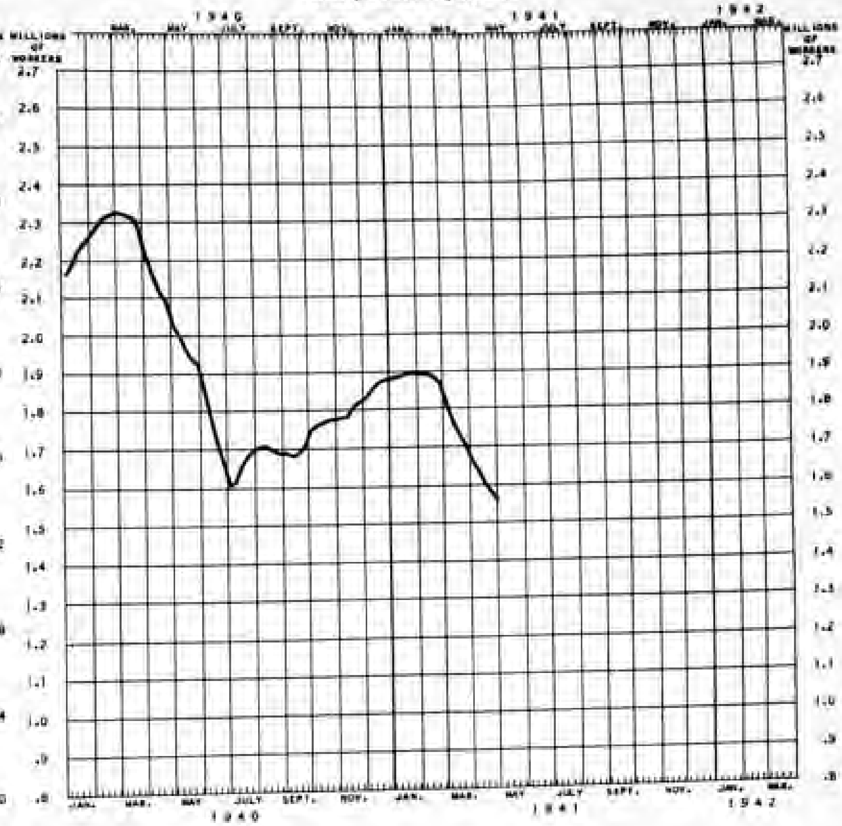
Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

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

E - 221 - C

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 12, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£39,000
Purchased from commercial concerns	£12,000

Open market sterling held steady at 4.03-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 1,000
Purchased from commercial concerns	£10,000

The Argentine free peso advanced to .2380 late this afternoon, and closed at that rate. About a week ago, the peso rose from .2350 to .2375, and the latter quotation prevailed until today.

The Cuban peso improved to close at 2-3/8% discount this afternoon. It will be recalled that this currency reached a current high of 2-1/4% on May 7, and subsequently weakened to a final quotation of 2-7/8% on Saturday.

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

Canadian dollar	12-3/4% discount
Swiss franc	.2321-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan again improved in terms of our currency. Today's quotation was 5-13/32¢, or 3/16¢ higher than the rate prevailing on May 6 and May 7. Sterling was quoted at 3.90 today, off 7/8¢ from Saturday's level.

There were no purchases or sales of gold made by us today.

The Treasury issued licenses under both the Gold Reserve Act and Executive Order No. 8389, as amended, permitting the Federal Reserve Bank of New York to effect the following transfer of gold in its vaults:

$630,343 from B.I.S. account no. 2 to the account of the Bank of Sweden. Gold in B.I.S. account no. 2 is owned by that bank.

No new gold engagements were reported to us today.

We were informed that the Bombay gold price for May 10 was equivalent to $34.27, or 30¢ lower than the quotation of May 3. Silver was 1/8¢ lower at the equivalent of 44.51¢.

The price fixed in London for both spot and forward silver was unchanged at 23-1/2d, equivalent to 42.67¢.

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

We made two purchases of silver totaling 150,000 ounces under the Silver Purchase Act. This silver consisted of new production from various foreign countries, and was bought for forward delivery.

The Federal Reserve Bank's report of May 7, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled $75,750,000, a reduction of $2,389,000 since April 30. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on May 7:

		May 7	Change from April 30
Liabilities:	Deposits for Japan and Manchuria	$50,946,000	+ $ 421,000
	Deposits for China	17,814,000	- 2,371,000
"	: U.S.Treas.Bills, comm. paper, etc.	24,949,000	- 770,000
Claims	: Loans	$40,280,000	- $ 231,000
"	: Other - mainly Jap. import bills	7,212,000	+ 1,095,000

CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D.C.

12th May, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the latest reports received from London on the military situation.

Believe me,
Dear Mr. Secretary,
Very sincerely yours,

Nevile Campbell

For the Ambassador

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

TELEGRAM RECEIVED FROM LONDON DATED

MAY 10th, 1941.

During March and April 4,470 tons of cargo destined for enemy seized in prize. Main items 2,183 tons of oil seed mostly from French ships. Total since beginning of the war 781,211 tons.

2. Merchant ships lost by enemy up to May 6th, 1941 - German, 61 captured or seized, 102 scuttled or sunk, unidentified ships reported by submarine, aircraft, etc. sunk or destroyed 179. Total tonnage, 1,756,000 tons. Italian 40 captured or seized, 71 scuttled or sunk unidentified ships 102. Total 1,090,000 tons. In addition thirty-seven ships 66,000 gross tons under enemy control have been sunk. Also fifty-three ships totalling 320,000 gross tons placed under United States and South American ports.

3. His Majesty's Ship "Neptune" unsuccessfully attacked by enemy aircraft.

4. Two British tankers damaged by enemy aircraft in east coast convoy. Another convoy unsuccessfully attacked in St. George's Channel.

5. Two or three U-boats attacked outwardbound fleet 400 miles from west Iceland sinking four merchant ships three of which in ballast; another in the same convoy torpedoed, another merchant ship out of convoy torpedoed west of Freetown.

6. Military

Habbaniya Iraqi have withdrawn from Ramadi and Falluja and carried out demolitions and inundations covering these towns.

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Basra.

Bazaar area was occupied early on May 8th. Local situation appeared to be returning to normal and restrictions are being lifted.

7. Royal Air Force Night of May 8th - 9th

Hamburg

139 aircraft dropped 150 tons including nine 4,000 pound bombs and 9,000 incendiaries; large fires started in dockyards and buildings in industrial areas were blown into the air. At Bremen 112 aircraft dropped 105 tons of bombs and 24,250 incendiaries; results equally successful. Numerous other objectives in Germany and German occupied territories bombed by single aircraft.

8. May 9th

During offensive and defensive operations we lost three fighters (2 pilots safe); two enemy fighters claimed as destroyed.

9. Night of May 9th - 10th

One hundred and thirty-six bombers sent to attack Mannheim and forty-three to engage coasts, others to Berlin and Calais. Out of 195 all but three have returned.

10. Iraq. May 7th and 8th.

During attacks on enemy aerodrome, hangars and buildings were hit, petrol dump set on fire and ten enemy aircraft destroyed on the ground.

11. German Air Force. May 9th.

Activity negligible during the day.

12. Night of May 9th-10th.

About fifty aircraft overland further seventy against coastal shipping. Two enemy aircraft destroyed.

/13.

-3-

13. **Libya.**

Tobruk attacked twice on May 7th; damage slight. Three raiders shot down by anti-aircraft fire, two more probably destroyed.

14. **Malta.**

Heavy attack night of May 6th - 7th achieved little success. Our fighters destroyed one bomber and probably a second, two others were shot down by anti-aircraft.

15. On May 9th our fighters destroyed one and probably two dive bombers attacking shipping.

16. Home Security. Liverpool area.

Seventh consecutive raid took place night of May 7th-8th. At Bootle about four thousand houses have been destroyed, homeless estimated at twenty thousand.

Hull.

Casualties so far reported nights of 7th-8th are two hundred and fifty killed, three hundred and six seriously wounded. Several thousand people rendered homeless. No dismay, general situation well in hand.

17. Night of 9th-10th.

Bombing widely dispersed. No area seriously affected, casualties light. Fire broke out at Vickers Armstrong, Barrow.

COPY OF TELEGRAM FROM LONDON DATED

MAY 11th, 1941.

1. Naval.

May 9th. (words omitted) A.M.C. intercepted Vichy French "Criton" 4504 tons 400 miles northwest of Freetown.

2. Night of May 9th/10th

Mines dropped Suez Canal. Canal open Kantara to Suez.

3. On May 10th Hilary boarding vessel intercepted Italain tanker 5719 tons 25 miles north of the Azores.

4. 0100/8, Ajax, Hotspur, Havock and Imperial bombarded shipping at Benghazi. Two ships along side the jetty were hit. Two laden ships 3,000 tons and 5,000 tons intercepted approaching the harbour from the south were destroyed; one carried ammunition and believed fuel also.

5. May 10th

Twenty-three Blenheims twice saved convoys from air attack. One destroyed enemy aircraft about to attack east coast convoy others drove off Fokke Wulf from convoy western approaches.

6. Iraq.

Situation at Basra improving but Iraqi officials are still boycotting.

7. Night of May 10th - 11th.

Hamburg plastered by 119 bombers, twelve went to Berlin, forty-four coastal shipping few to Emden. Seven bombers missing.

8. German Air Force. Night of 10th - 11th.

/out

-2-

Out of 386 enemy aircraft estimated operating over British Isles about 340 attacked London. Preliminary reports give thirty-three destroyed, seven probable four damaged.

9. Further German casualties: Night of May 8th - 9th by A/A destroyed one May 9th confirmed two, additional two.

10. Home Security.

Attack on London lasted from 11 p.m. to 6 a.m. Damage chiefly in the centre south-east and east; numerous fires. Docks and residential property suffered extensive damage, main line terminus, two gas works and five hospitals hit. Westminster Hall, Westminster Abbey and Westminster Cathedral, Houses of Parliament and British Museum all damaged.

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, May 12, 1941

TENTATIVE LESSONS BULLETIN
No. 103
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.

BOMBER ATTACKS UPON FRENCH PERSONNEL

SOURCE

The information in this bulletin was released to an American official observer in France on March 24, 1941. The observer attached the following note:

"These observations. . . were made by a French officer actually on the ground. He secured corroboration of his observations by questioning numerous officers and men who were with leading units of French armies on the march into Belgium. The officer stated frankly that his observations were applicable only in the case of complete absence of friendly aviation."

CONTENTS

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BOMBER ATTACKS UPON FRENCH PERSONNEL

1. EFFECTS UPON MORALE

a. Before Contact Was Established

French troops expected to be attacked even before they entered Belgium, but they were not. The appearance of columns of powerful reconnaissance squadrons, which were taken for bombers, caused alerts on the afternoon of May 10. When the planes took no action, the men felt easier and looked at them more with curiosity than with fear.

b. During First Combat

Occupied positions were attacked by bombers, first in horizontal flight at low altitude with 10-kilogram bombs, then with 100-kilogram bombs and machine guns; finally they were strongly attacked by diving Stukas. Casualties from these bombing attacks were practically nil, and as a result, troops gained confidence and joked about the attacks.

c. Later

A well-disciplined and well-officered unit is apparently no more afraid of aircraft fire than of any other type of fire. However, an actual nervous strain was beginning to show by the end of operations, although enemy aerial activity was then much less intense than it had been earlier in Flanders.

2. MATERIAL EFFECTS

a. On Personnel in Shelters

There was no apparent effect on "dug-in" personnel except in those exceptional cases when a direct hit was scored. Some nervous strain resulted from the noise - the shrill drone of Dorniers, the loud shrieking of Stukas, the whistling of bombs, and the violence of the explosion of 100-kilogram bombs. This strain was experienced all the more rapidly when heavy bombs were used, as for example at Dunkirk, where 500 and 1000-kilogram bombs were employed.

b. On Unprotected Personnel

Dreadful results - much worse than those produced by field artillery - were felt by unprotected personnel. Here bombs act more by blast effect than by fragmentation, and there were many

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cases in which unsheltered personnel were disabled even when lying on the ground at that time of explosion. The effect of aerial machine gun fire is less dangerous, but terrible wounds result from its density.

As far as bombs are concerned, it was noted that the bomb could be seen during its descent. The men learned quickly to estimate the point of impact, and since its time of flight was from two to four seconds there was usually sufficient time for personnel to seek shelter. In addition, the smallest ditch, the smallest hole, or even a small slope constituted efficient protection against blast.

c. On Motor Material

(1) In Column

Aiming at personnel, the enemy attacked with small bombs or machine guns. Except where direct hits were scored, there was little effect on motor vehicles at Hornaing on May 20, for example, 15 bombers attacked for 10 minutes with 10-kilogram bombs and machine guns; one vehicle was pierced by a fragment and a crankcase was pierced by a ricochet, but repairs were made in a few minutes.

(2) Isolated

An attack was made on an automobile stalled alongside a road. Medium-caliber bombs, 100-kilograms, were used, and the car was smashed to bits after eight bombs had fallen.

(3) In a Motor Park

On May 27, 1940, at Watou and on May 30, 1940, at Malo-les-Bains the enemy attacked motor parks, using large bombs and small incendiary bombs. The first attack produced no results, but in the second, all vehicles were burned.

3. METHODS OF ATTACK

a. Against Troops on the Ground

The position to be attacked is reconnoitered at first by either one plane or by a whole squadron. Then, after a variable length of time, the bombing unit appears. The number of planes employed depends upon the importance of the objectives. The squadron flies above the objectives at low or very low altitude without breaking its triangular formation. If the objective is considered sufficiently important and has been definitely spotted, a signal is given by the patrol chief, and the planes go into a circle in column, each dropping its bombs. Bombs are released singly or in series of four, according to their size.

A dive attack begins in the same manner.

The duration of an attack is about 10 minutes, but the duration of the bombings themselves may be much greater, since the initial attack may be followed by successive waves.

b. Against Columns

The method employed against columns is the same as that just described. There is always a certain delay, which, if the look-out service functions well, gives enough time to halt the column and to have the men take cover. Experience in France was that machine gun fire never began before the release of bombs, nor were sudden attacks experienced, even by isolated planes. German aviation apparently likes well-prepared work, and the period of preparation affords a respite before the attack is delivered.

4. DEFENSE AGAINST AERIAL ATTACKS

a. Passive Defense

Standard regulations proved very efficient in France, but the following remarks are considered pertinent:

(1) Troops

(a) On the Ground

Ground troops sheltered in narrow, deep holes about 2 meters by 80 centimeters, were practically invulnerable. Wide dispersal on the terrain is not only a powerful factor for safety but a source of tranquillity, for German aviation dislikes to use bombs on small objectives.

Camouflage against aerial photographs is difficult in a moving situation, except on thickly covered ground. It appears that only the outline of positions and occupying troops may escape aerial observation.

A look-out service for foot troops is practically useless, for everybody watches the sky himself and the noise of the engines is easily heard. Alert signals were rarely given, since they were found to be superfluous.

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(b) Foot Troops in Column

Isolated men or small groups were frequently machine gunned without results.

(c) Troops in Motorized Column

The protection of troops in motorized columns was obtained by proper spacing of vehicles, by proper alert signals, by the look-out service, and by the well-disciplined execution of protection measures adopted.

(2) Spacing of Vehicles

Vehicles were spaced from 150 to 200 meters apart. In event of an alert on the march or at a halt, this spacing made feasible the effective dispersion of personnel and material with a resulting reduction in probable casualties. Distances were not always the same, but they varied in accordance with schedules, itineraries, atmospheric conditions, and enemy air activity.

Large distances between vehicles make the task of convoying more difficult over a complicated itinerary, but active liaison and a proper marking of the route will remedy this inconvenience. These inconveniences are of no consequence when compared with the resulting increase in the security of the troops.

(3) Alert Signals

Choice and transmission of alert signals has been the object of numerous observations. It seems difficult to adopt any one system because everything depends on the type of unit concerned. The one which gave the best results for motorized units was that of standing up, arms outstretched, and facing the rear of the column. This action should be accompanied by blasts on a whistle. The attention of the look-out of each car, or of each chief of car, cannot fail to be attracted if they are on the alert.

It was found in actual practice that the unit commander at the head of the column was the logical person to give the alarm. Being responsible for the accomplishment of the mission assigned, he should be the sole judge of risks to be taken. Further, since the head of the column is always first to be attacked, it is normal for the unit commander to give the alert signals. In broken ground and with large intervals between vehicles, this mission may eventually be delegated to platoon chiefs.

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(4) Look-Out Service

The look-out service, which must be functioning constantly, is organized for each vehicle under the responsibility of the car-chief. Each vehicle should have at least two men performing this service at all times. They must be relieved frequently. In actual practice the system gave excellent results.

(5) Protective Measures

The most important protective measure, maintenance of order and calm, is facilitated by the example set by the officers. If discipline is preserved and if orders are given, heard, and executed, there will be no excitement and no losses. The lessons are clear: get off the vehicle quickly, in good order, and make rapidly for a shelter or protection.

It is necessary to stop entirely, or not at all. Bombs fall, in great majority, alongside the road. Since it is usually impossible to go far, ditches afford the best protection. Even if a bomb falls on the edge of the road, it cannot hit both ditches at once, and there are always banks protecting the side that is hit.

Under no circumstances should men seek shelter under vehicles other than armored cars except in case of a machine gun attack by an isolated plane. They should not take shelter in houses. In an attack on a small unit at Abcon on May 21 the N. C. O. and three men who became losses had become confused and were running in the fields. They were hit by machine gun bullets.

b. Active Protection

Antiaircraft fire with automatic weapons belonging to attacked troops was abandoned almost at once for the following reasons:

(1) There was insufficient correction; density and duration of fire were too low, and personnel were poorly trained.

(2) The danger of bullets falling on friendly troops was greater than the aerial danger itself.

(3) The number of attacking planes made fire direction and control practically impossible.

(4) In a column, it was physically impossible to leave a lone rifleman standing in his car amid bomb fragments and machine gun bullets.

(5) The altitude, speed, and attacking methods of airplanes made impossible the execution of fire by non-specialized personnel with insufficient materiel.

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G-2/2657-220; No. 389 M.I.D., W.D. 12:00 M., May 12, 1941.

SITUATION REPORT

I. Western Theater of War.

Air: German. On the night of the 10th-11th an attack in great strength was made on the London area, where widespread damage was caused. Last night the Germans came over in strength again, but their attacks were widely scattered, with principal attention to airfields.

British. On the night of the 10th-11th fairly strong attacks were made on German north coastal cities, including Hamburg and Bremen. These attacks were repeated last night. The British claim to have brought down 33 hostile planes on the night of the 10th-11th, principally by night fighters.

II. Greek Theater of War.

Italian detachments have landed on the Greek Islands of Zea and Seriphos, in the Aegean. German troops have occupied the Island of Melos in the Cyclades. A few hundred British and Greek stragglers were captured in this operation.

III. Mediterranean and African Theaters.

Ground: North Africa. Operations are characterized by exchanges of artillery fire.

Sea-Air: Following the attack of May 8th, British naval units again attacked Benghazi the night of May 11th. The Axis claims three British ships were directly hit by heavy caliber bombs.

Air: Axis. Malta was again attacked.

IV. Iraq.

No substantial change in the situation.

RESTRICTED

Paraphrase of Code Cablegram
Received at the War Department
at 09:05, May 12, 1941.

London, filed 15:10, May 12, 1941.

I. Daily Cable.

1. British Air Activity over the Continent.

a. Day of May 11. Operations on this day consisted only of routine defensive patrols.

b. Night of May 10-11. Operations of this date consisted of 118 bombers over Hamburg, 44 on enemy shipping, 12 on Berlin, and a few on Emden. There were 12 fighter missions which attacked airdromes in France and Belgium. During this night 2 German planes were destroyed. The attack on Hamburg is reportedly very successful. Planes from the Coastal Command bombed docks at La Pallice, France, and shipping off the Dutch and Danish coasts.

2. German Air Activity over Britain.

a. Night of May 11-12. The German air force attacked an extensive area which included Anglia, Lincolnshire, Yorkshire, Midlands, Lancashire, Sussex, Devon, Dorset, and Cornwall with other missions over the coastal areas of Berwick to Orfordness, from Selsey to Beachy Head and Lyme Bay, Plymouth, and Milford Haven.

b. Day of May 11. Operations consisted of a raid on Newcastle-on-Tyne and to several fighters sweeps over Dorset.

c. Latest reports of German raids over Great Britain on the night of May 10-11 are as follows: There was a total of 386 bombers employed, approximately 340 of which operated solely against London.

Besides the damage to the London docks reported in previous cable, three main line railroad stations, five hospitals and two gas works were badly damaged. One operations room in the War Office was wrecked.

3. Aircraft Losses, British Theater.

a. As a result of the extensive raids over Germany on the night of May 10-11, seven British planes were reported missing.

b. During the widespread operations over Great Britain on the night of May 11-12, night fighters destroyed two German planes and one probable, and antiaircraft destroyed three. During the German activity on the day of May 11, five planes were destroyed and one probable, and one damaged. Latest figures show that during the German raids on the night of May 10-11, 34 planes were destroyed and five probable, and eleven damaged.

4. British Air Activity, Egyptian Theater.

a. R.A.F. planes from Egypt bombed 150 enemy aircraft on Derna airport and three on Jedabaya (?) airport. During this operation one German plane was shot down. British planes from Malta staged an intensive attack on Tripoli Harbor. Mines were laid and many fires started. Axis aircraft were also attacked while on the ground at Catania and Comiso airports (Sicily). A large number of aircraft were burned or otherwise damaged.

b. Abyssinian Theater. The British bombed Amba Alagi.

c. Iraq Theater. A number of airports and barracks in Iraq were bombed and machine gunned.

5. Axis Air Activity, Egyptian Theater.

a. Axis planes bombed Halfiyah (Egypt) and Port Said.

II. The following is a summary of British military intelligence information to date of May 12:

1. Carrier patrols from Tobruk surprised 300 Italians and practically annihilated them.

2. In Abyssinia the British are making good progress toward Amba Alagi.

3. The Suez Canal is now open from Kantara to Suez and closed from Kantara to Port Said.

4. In Iraq the situation in the Basra area is returning to normal. Native labor volunteering to work is more than ample for the needs of the British.

LEE

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

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Paraphrase of Code Radiogram
Received at the War Department
at 10:00, May 12, 1941

Budapest, filed May 12, 1941.

1. I have no further reports concerning railways outside Hungary other than those destroyed of which you have been informed.

2. Serious weaknesses in the Hungarian railway system are listed according to their importance.

a. The bridge three miles east of Szolnok and another bridge a little north of the town. The railway junction three miles west of Szolnok.

b. The north and south span over the Danube at Budapest.

c. The bridge at Komarom.

d. The twenty kilometer line from Pozsony to Marchegg, direction northwest, is said to be of prime importance.

PARTRIDGE

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

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Paraphrase of Code Cablegram
Received at the War Department
at 12:21, May 12, 1941.

London, filed 18:47, May 12, 1941.

1. In regard to your cable of April 29 requesting additional information concerning the combined training centers and the doctrines evolved thereat, please consult Naval Attache Report 472 dated 20 March 1941.

2. Maneuvers will be held shortly and will be observed by military personnel attached to this office.

LEE

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

SECRET
By authority A. C. of S., G 2
Date MAY 14 1941 (BPI&
Initials

Paraphrase of Code Radiogram
Received at the War Department
at 12:21, May 12, 1941

London, filed 18:41, May 12, 1941.

The following information in regard to experimental flame throwers is submitted for the information of the Chemical Warfare Service. A further report will be rendered later.

1. The British flame thrower, which is under experimentation for employment in special tanks, projects 62 United States gallons of fuel 450 feet in 1 second under 650 pounds pressure at the rate of 6 shots per minute. The dimension of the nozzle orifice is 2 inches. The fuel is one part light creosote to three parts anthracene oil with a viscosity of 12½ centistrokes.

2. The British flame thrower being developed for use in the infantry tank projects 19 United States gallons of fuel 210 feet in 2½ seconds. A pressure of 260 pounds is derived from a cordite cartridge through a conical nozzle with one-inch orifice, three-inch diameter of base, and three-inch axial length. A honeycombed rectifier of hexagonal mesh, approximately 6 inches in length, 15 inches in rear of nozzle base, provides for laminar flow.

3. To secure the projection of the fuel to the objective, maximum density, service tension, and viscosity are desirable. Parallel projections in the front of the nozzle are undesirable.

SECRET

The cylinder is automatically replenished from a fuel tank carried on a trailer by residual pressure.

LEE

Distribution:
- Secretary of War
- State Department
- Secretary of Treasury
- Under Secretary of War
- Chief of Staff
- Assistant Chief of Staff, G-2
- War Plans Division
- Office of Naval Intelligence
- Armored Force
- Ordnance
- Chemical Warfare Service

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 12:22, May 12, 1941.

London, filed 18:39, May 12, 1941.

1. Daylight May 8-9. Additional information concerning the British raids over Germany is as follows:

a. Bremen. One hundred twelve planes dropped 105 tons of high explosive bombs and 24,250 incendiaries.

b. Hamburg. One hundred thirty-nine planes dropped 150 tons high explosive bombs and 9,000 incendiaries. Nine bombs of 4,000 pounds each were included among the high explosive bombs.

LEE

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

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 12:22, May 12, 1941.

London, filed 18:35, May 12, 1941.

The following information is derived from reports concerning two Me-109's which were brought down in England recently, marked respectively F1 and F2. Additional detailed information will be forwarded as soon as it has been secured.

1. Both planes were armed with one 15-millimeter cannon discharging through the propeller hub and two 7.9 millimeter machine guns installed in the fuselage. No weapons were installed in the wings. Both planes have eliptical wings. One had been altered by adding false wing tips 24 inches long and of eliptical pattern.

2. Both planes were motored with DB-601N engines. This equipment probably permits an additional altitude of 1500 to 2,000 feet above the standard DB-601A engine.

LEE

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

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 15:34, May 12, 1941

Rome, filed May 12, 1941.

This cable in answer to cable G-2 requesting information as to number of Italian armored divisions and locations and if more are being organized. Italy now has three armored divisions, the 131st Centauro in Albania, the 132nd Ariete in Libya and the 133rd Littorio in Yugoslavia. At the present time it is not contemplated increasing the number of armored divisions. As a matter of fact the present three divisions are lacking their full complement of tanks but tanks are now being received from French factories which will relieve present shortage and besides will replace old Italian models.

FISKE

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Chief of Cavalry
Armored Force Liaison Office

CONFIDENTIAL

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 24:46, May 12, 1941

Moscow, filed May 12, 1941

1. The following Red infantry divisions (13) are located in the Trans-Caucasus:

2, 4, 5, 9, 24, 31, 43, 47, 63, 69, 76, 77, 81.

2. Germany is replacing her divisions in Yugoslavia at this time, according to the Turkish Military Attache in Moscow.

3. German mechanized divisions were passing through Bratislava day and night toward the Soviet frontier; and German hospital units were taking over schools in Warsaw, according to a Slovak diplomat when he passed through that area on his way to Moscow recently.

YEATON

Distribution:

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

CONFIDENTIAL

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, May 13, 1941.

Press Service
No. 25-12

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 May 14 and to mature August 13, 1941, which were offered on May 9, were opened at the Federal Reserve Banks on May 12.

The details of this issue are as follows:

Total applied for - $374,651,000
Total accepted - 100,004,000

Range of accepted bids:

High - 100
Low - 99.980 Equivalent rate approximately 0.079 percent
Average price 99.983 " " " 0.069 "

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

-0o0-

Forwarded

May 13, 1941

Memorandum

I ought to write the President a letter telling him what happened at my house last night and what John Sullivan proposes to do on Friday. Please remind me to do this this morning.

May 13, 1941

My dear Mr. President:

Last night at my house I had for supper Senator George, Senator Connally, Chairman Doughton, Congressman Cooper, Congressman McCormack, John Sullivan and Ed Foley.

I explained to these gentlemen that as we began to get the tax returns on excess profits, it was becoming more and more clear that this kind of a tax was not getting the results that you and I had in mind; that it hit various companies very unevenly.

It was the consensus of opinion, and subsequently approved by Senator Barkley, that John Sullivan would appear before the Ways and Means Committee on Friday and explain the inequities in this tax and also would bring to the attention of the Committee three or four alternative methods of accomplishing the principles that this Administration stands for.

If you would care to have an outline of what we propose to present to Congress on Friday, John Sullivan and I will be delighted to see you at your convenience.

The Committee in the House of Coinage, Weights and Measures has just reported out the Bill to extend the Stabilization Fund and your right to devalue the dollar with a very, very tricky amendment. If this amendment were enacted into law, it would make it impossible for you to pay more than $35.00 per ounce for gold which, in effect, nullifies tho devaluation power which you now have and completely ties your hands in respect to gold. I have been in touch with the Speaker and if I am not successful in getting this amendment knocked out, I will call on you for help.

Yours sincerely,

(Signed) Henry

The President,

The White House.

By Messenger 1:05

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

May 13, 1941

CONFERENCE IN THE SECRETARY'S OFFICE
AT 9 a.m. MAY 13, 1941

The Secretary and I conferred for about an hour with Harold Smith, Director of the Budget.

The Secretary stated to Mr. Smith that he had prepared his statement on taxes which was submitted to the Ways and Means Committee and offered to show it to the President, but the President said that he did not want to see it. After he made the statement before the Ways and Means Committee and in the course of the hearings, he suggested that the non-defense expenditures be reduced by at least one billion dollars in 1942. He said he asked the President how he liked his statement and the President said he thought it was fine. He asked him further what he thought about his suggestion to reduce expenditures, and the President said that was quite all right. The Secretary told the Director that he had not had an opportunity to discuss the matter with him but that he wanted to let him know that he had discussed it with the President and had received his o.k. on it. He said he wanted to discuss this matter with him today and find out if he had given any consideration to the possibility of revising the Budget estimates for non-defense purposes so as to show a decrease of approximately one billion dollars in expenditures.

The Secretary went on to explain that Mr. Bell had, on March eight, asked the Director to make a study of WPA, CCC and NYA expenditures to see whether or not they could be reduced, and while at first he had promised to make such a study, he later advised the Treasury that he had to withdraw the people working on this matter to work on Lease-Lend organization matters. In view of this, the Secretary told Mr. Smith that he had designated Dr. White of his office to go out into the field and make a short survey of these activities. Before doing this he had contacted each of the agencies involved and had received communications from each of them indicating that Dr. White would have their complete cooperation.

Mr. Smith said that he was aware of what had gone on. He thought, when the statement regarding the billion dollar reduction on expenditures was made by the Secretary, that the Secretary was stepping a little out of his bailiwick, but after reflection he thought possibly it would do a great deal of good, particularly on the Agricultural Appropriation bill pending in Congress. It has, however, had the reverse effect. He has been told by representatives of the Department of Agriculture that the Secretary's statement has made the Congressmen and Senators interested in Agriculture more determined than ever to put through the Agricultural bill with the increases over the Budget included in it. Mr. Smith said that there was a great deal of confusion in the minds of the public because of the various statements that had been made on Budget estimates not only as to the billion dollar reduction but as to total expenditures. When these statements are made, there is, of course, a great deal of pressure brought to bear on him to give out revised figures, which, if he yielded to such pressure, would only add to the confusion.

He said he felt that the Budget can not be reduced a billion dollars, that there are a great many factors involved, and while the Secretary had talked to the President and gotten his approval of what he had suggested to the Committee, the President has shown absolutely no inclination to reduce these expenditures. On the other hand he has recently given Howard Hunter some indication that the estimates of appropriations to be submitted to Congress for WPA would exceed the estimates for this purpose included in the 1942 Budget. Mr. Smith had talked to the President about this and while the President said that he had not committed himself, he admitted that he and Hunter did talk about three figures, namely, $1,150,000,000, $1,250,000,000 and $1,350,000,000, all of which exceed the Budget estimates of one billion dollars. Smith thought that the estimate would eventually go up and would be somewhere around $900,000,000 and a billion dollars. He thought that some savings might be made in CCC and NYA by the Budget setting up additional reserves, but he did not think this would be any large amount. I asked him if he would hesitate to recommend to the President an appropriation of $500,000,000 for WPA in 1942. He said yes, that he would hesitate and that he did not feel he could do it.

We then discussed at some length the personalities involved in the various programs herein referred to. It is apparent that a great deal of reliance can not be placed upon the statements made by some of the individuals in charge of these activities and the Director thought it was very unfortunate that these individuals had been picked out to carry on such important functions.

The Secretary then asked the Director if he had seen the executive order which he had sent over to the President two weeks ago, setting up a Capital Funds Control Committee. The Director said he had seen it and was holding it to see whether it could be worked in with some of the other contemplated executive orders, such as the executive order on economic warfare. I raised the question as to what relation there is between the two. He said he thought they definitely tied together. I said I thought the Capital Funds Committee definitely belonged to the Treasury whereas I had some doubt about the functions of economic warfare.

The Secretary then said that he wanted the Director to know that it was his responsibility to collect the revenue and raise the vast amount of money necessary to finance the deficit and he could not allow anybody outside the Treasury to assume control over the capital markets as long as the other was his responsibility. If Mr. Smith had in mind putting this responsibility some place else, he would like to know about it so that he could take the matter up with the President. We indicated to him that the Treasury had endeavored to put on the Capital Funds Committee representatives from the organizations which are definitely interested in this matter, namely, the Treasury, the Federal Reserve Board and the Securities and Exchange Commission.

Mr. Smith said that it may turn out that way, but he hoped the Secretary would appreciate his position. Executive orders are coming from every direction to set up this committee and that committee, and they were sent to him, he assumed, to try to bring some order out of the situation. That is what he is trying to do, but he finds it rather difficult some times to please everybody in recommending these orders to the President. He said he was fully aware, however, of the Treasury's problem and would certainly bear it in mind in any consideration of these orders.

As Mr. Smith was leaving the Secretary said he appreciated the frank talk they had had and hoped they could do it once a week so that they could keep each other advised of what was going on in Washington and how they could help one another with their respective problems.

AWB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 13, 1941

TO Secretary Morgenthau

FROM Herbert Merillat

HEARINGS OF WAYS AND MEANS COMMITTEE
Tuesday, May 13, 1941

Duncan questioned at length witnesses suggesting that a manufacturer's excise, rather than a retail sales tax, on jewelry be imposed. He remarked that the committee probably would find it necessary to impose some tax on jewelry.

More testimony opposing increases in tobacco taxes, particularly on cigars, was well received. Robertson as usual showed strong opposition to tobacco tax increases. Buck is the only member showing openly an inclination to favor such increases.

The hearings seem to be in the doldrums. Doughton tries to hurry the proceedings along as much as possible. Only five or six members heard the last two witnesses this morning. One of them was attacking the Stam proposal to put second-class mail on a "paying basis." Dingell favors increased postage for newspapers and periodicals now receiving special concessions.

May 13, 1941
9:23 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

Cordell Hull: Henry?

H.M.Jr: Good morning.

H: I understand that one of your men put out - spewed out all that stuff for Drew Pearson and Allen yesterday morning.

H.M.Jr: No, that's not true.

H: Well, I get it very direct. Pearson told that to a man in my Department so he says.

H.M.Jr: Well, I'll - before you get excited you'd better let me find out because I'm - well, I'd bet 99¢ to a dollar ......

H: Well, you'll find out - if you don't mind you'll find out that certain fellows in your Department - I can guess at them but I'll not - went to Robert Allen and sold this stuff to him.

H.M.Jr: Well, I'll call up but just stay calm until I find out because ......

H: Well, I wish you would because I'm not going to say what I think.

H.M.Jr: Well, don't. Don't.

H: Yeah.

C
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P
Y

THE DAILY
WASHINGTON MERRY-GO-ROUND
WASHINGTON, D.C.

May 13, 1941

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

Dear Mr. Secretary:

Enclosed is a carbon copy of a letter to Mr. Hull.

It occurred to me that it might be a good idea for me to hold up delivery of this letter until you had read it, so that if you had any changes to suggest I could make them. I will call Mrs. Klotz early Wednesday morning and unless I hear from you or her to the contrary, I will deliver the letter by 10 a.m.

Sincerely yours,

DP/b

/s/ Drew Pearson

May 13, 1941

The Secretary of State
Mr. Cordell Hull
State Department
Washington, D. C.

Dear Mr. Secretary:

I learn from Secretary Morgenthau that he is much upset over the story published in our column on May 12 regarding the question of freezing Axis funds in the United States, and that some question has been raised as to whether this story originated from the Treasury Department.

Of course, as you know it is difficult for a newspaper man to reveal his news sources, but I am able in this case to give you my word that the information regarding this particular story did not come from the Treasury either directly or indirectly. As a matter of fact, the original information contained in the story came from Mr. Allen, I having been in Texas during the preceding week. Mr. Allen suggested that I discuss the matter at the State Department which I did with one official. He declined to comment except that he did inform me that he suspected my information came from the Treasury. I was unable to deny or confirm his suspicion because at that time I did not know.

Since that time I have asked Mr. Allen regarding the source of the story and he has told me exactly where it came from. The source, I can assure you, was not even remotely connected with the Treasury.

Mr. Allen or I would be delighted to call upon you at any time if you so desire to answer any further questions as far as is ethically possible.

Very sincerely yours,

DP/b

Washington Daily MAY 12 1941

Merry-Go-Round

(Trade Mark Registered)

By DREW PEARSON and ROBERT S. ALLEN

One of the most vigorous inner Cabinet debates in a long time took place the other day, over the question of freezing German-Italian funds on deposit in the United States. In a heated discussion, Secretary of State Hull and Secretary of Commerce Jesse Jones were the only Cabinet members who stood out for letting the two axis powers continue to spend money as they wished in this country.

Many people may not realize it, but whereas the Government has frozen the funds of all the conquered nations—France, Norway, Denmark, Belgium, Holland, Greece, etc.—it continues to permit the conquering nations to use their money in the U. S. A. in any manner they wish.

For instance, Germany gets more than a million dollars monthly from the lease of patents to American companies. This is paid in American dollars and can be spent for anti-American propaganda or anything else, or shipped back to Germany. Italian diplomatic attaches, for instance, were found carrying $2,000,000 in U. S. currency in a suitcase from New Orleans to Mexico for propaganda purposes. Another $2,000,000 of U. S. currency was shipped to Buenos Aires by the Italian embassy.

Meanwhile, France, for example, no longer sells perfume, etc., to the United States, but sells to Germany, which in turn sells the perfume through Vladivostok to the United States. Because the French funds are frozen, the French can get no money from the U. S. A. But German funds are not frozen, so French trade to the United States now increases Nazi profits and helps build up trade channels for the future.

Hot Cabinet Split

All this came to a head at a Cabinet meeting last week. Five members were vigorous in urging that axis funds be frozen. They were:

Secretary of the Treasury Morgenthau.
Secretary of War Stimson.
Secretary of the Navy Knox.
Attorney General Jackson.
Secretary of the Interior Ickes.

These argued that it was useless and silly for the United States to give almost aid to Britain, then turn around and help subsidize Nazi and Fascist propaganda here. The two things didn't make sense.

However, Cordell Hull and Jesse Jones opposed. Other members took no firm stand one way or the other, but appeared to favor freezing the funds. At one time Roosevelt, in private conversation with Hull, almost brought him around to freezing, but in the end he backed away.

Career Boys Favor Freezing

Most of Secretary Hull's State Department advisers—even many of the Career Boys—also have urged him to freeze German and Italian funds. For three months, Dean Acheson, new Assistant Secretary of State, has been endeavoring to persuade him without success.

Acheson was appointed to his job partly because he and Hull were congenial. But that has made no difference. Hull remains adamant.

In the inner Cabinet meetings, Secretary Hull gives the following reasons for opposing his Cabinet colleagues and the President:

1. Freezing axis funds would give Germany an excuse to retaliate against American property in Germany. Other side contends that Germany will do what she wants with American property anyway, and that Germany has more property to lose in the U.S.A. than we have in Germany.
2. There is not much real axis money in American banks, most of it having been secreted long ago in strong boxes and bureau drawers.
3. There is no definite evidence that Germany is using funds for propaganda or subversive activities in the U.S.A.

Regarding the latter point, Attorney General Jackson contends that the financial transactions of German companies in the U.S.A. should have been registered and checked long ago. This can be done under the laws for freezing funds. He especially contends that the financial activities of the German-American Board of Trade in New York should be registered. (This is the organization which paid the late Senator Lundeen handsomely for an after-dinner speech.)

However, Hull contends that there is no proof regarding these German activities; so there the matter stands.

Hull's Mountaineer Pique

Inside fact is that Hull's opposition goes back a long way to a rivalry with Morgenthau and Ickes. When the question of freezing axis funds first came up more than a year ago, it was proposed that the Treasury take over not only this matter but also various other State Department functions, such as control of munition shipments.

Mr. Hull became extremely indignant. He told assistants that the Treasury was trying to take over the State Department's duties. And he has been suspicious of every Treasury proposal ever since.

Likewise Hull never forgave Ickes for refusing to sell helium gas to Germany for the Graf Zeppelin. About that time Ickes called the turn on Hull for selling arms to Germany up until the outbreak of war—despite the treaty of 1920 which prohibits the sale of arms to Germany.

Lindbergh and Willkie

Two very interesting episodes occurred during the House of Representatives debate on the bill empowering the President to take over idle foreign merchant ships in U. S. harbors. They gave a unique slant on Lindbergh and Willkie.

First episode was during the speech of scrappy Representative Luther Johnson of Texas, who assailed Lindbergh as an appeaser. At mention of Lindbergh's name the Republican side of Congress broke into loud applause. Democratic side remained silent.

Quick as a flash, Johnson shouted: "I want the record to show that this applause came from the Republican side."

The Republican answer was a louder burst of applause.

A little later Representative John McCormack, Democratic floor leader, lauded Wendell Willkie as a "man who has shown himself to be an outstanding American." The entire Democratic side broke into enthusiastic applause.

But not a hand was clapped by a single Republican, not even by Representative Joe Martin, G.O.P. floor leader and manager of Mr. Willkie's campaign.

215

TO: MISS CHAUNCEY

Mr. Foley carried to Secretary's 9:30 meeting this morning.

5-14-41

MR. FOLEY

MAY 13 1941

Secretary Morgenthau

E. H. Foley, Jr.

Who Get Dividends?

1. Between 8 and 9 million Americans own corporate stock, or, in other words, less than 1 person in 5 receiving any income, owns corporate stock.

The importance of dividends as a source of income increases sharply with total income. Dividends constitute 5% of total income for taxpayers with a net income of less than $5,000, but make up 50% of total income for individuals with a net income of $100,000 or more.

2. The great bulk of domestic stockholders own only small amounts of stock and receive only very small amounts of dividends or none at all.

50% of all stockholders have an annual dividend income of less than $100, receiving less than 5 per cent of the total dividend income of all individuals.

80% of all stockholders have an annual dividend income of less than $500, receiving only 10% of the total dividend income received by all stockholders.

\- 2 -

3. The 10,000 persons with the highest dividend income, comprising not much over one-tenth of 1% of the total number of stockholders and about one-fiftieth of 1% of the total number of income recipients, received 25% of all dividends paid to individuals.

Only 65,000 persons, less than 1% of the number of stockholders and considerably less than one-fifth of 1% of the total number of income recipients, received 50% of all dividends received by individuals.

(Initialed) E. H. F., Jr.

CLK/Lsw
5-13-41