

DIARY

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June 21 - 25, 1940

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Note:

1

The Secretary telephoned this telegram to me at 4:15 this afternoon. I called for Mr. Rodier but he had gone home and Mr. McMullen was in the telegraph room at the White House. He told me he would get it right off. It was sent to the White House at 4:25 p.m.

McH

June 21/40

TELEGRAM

June 21, 1940.

PRESIDENT ROOSEVELT
HYDE PARK, N. Y.

MR. ALFRED SLOAN OF GENERAL MOTORS TELEPHONED ME THE FOLLOWING
FACTS ABOUT THE COMPLETED TEST OF THE ALLISON ENGINE ON THE
NEWLY DESIGNED TEST STAND STOP THE ENGINE COMPLETED ONE
HUNDRED HOURS OF TEST AND DEVELOPED NINE HUNDRED THIRTY FIVE
HORSEPOWER AT TWENTY SEVEN HUNDRED REVOLUTIONS STOP MR. SLOAN
SAID THAT HE WAS SATISFIED WITH THIS TEST AND IS NOW GOING TO
PROCEED WITH ANOTHER TEST OF THE SAME ENGINE HOPING TO DEVELOP
ONE THOUSAND AND TWENTY FIVE HORSEPOWER AT THREE THOUSAND
REVOLUTIONS STOP THIS ENGINE IS SUPPOSED TO DEVELOP ONE
THOUSAND AND FIFTY HORSEPOWER STOP MR. SLOAN INFORMED ME
THAT HE WAS PLEASED AT THE PROGRESS THEY WERE MAKING AND
HOPED TO BE ABLE TO INFORM ME IN TWO OR THREE DAYS TIME THAT
THEY WERE PREPARED TO PLACE THE STAMP OF APPROVAL OF GENERAL
MOTORS ON THIS ENGINE

HENRY MORGENTHAU, Jr.

TELEGRAM

June 21, 1940.

3

PRESIDENT ROOSEVELT
HYDE PARK, N. Y.

MR. ALFRED SLOAN OF GENERAL MOTORS TELEPHONED ME THE FOLLOWING
FACTS ABOUT THE COMPLETED TEST OF THE ALLISON ENGINE ON THE
NEWLY DESIGNED TEST STAND STOP THE ENGINE COMPLETED ONE
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HENRY MORGENTHAU, Jr.

TELEGRAM

4

June 21, 1940.

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HYDE PARK, N. Y.

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FACTS ABOUT THE COMPLETED TEST OF THE ALLISON ENGINE ON THE
NEWLY DESIGNED TEST STAND STOP THE ENGINE COMPLETED ONE
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MOTORS ON THIS ENGINE

HENRY MORGENTHAU, Jr.



DEPARTMENT OF STATE
WASHINGTON

June 21, 1940.

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury, and
encloses one copy of paraphrase of telegram No. 46
of June 20 from Bordeaux.

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE
WASHINGTON
JUN 21 1940

RECEIVED
JUN 21 1940

RECEIVED
JUN 21 1940

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Bordeaux

DATE: June 20, 1940, 6 p.m.

NO.: 46

The following is for the Treasury Department from Matthews, and is strictly confidential.

Reference is made to telegram of June 19, 9 p.m., No. 17, from the Department.

I delivered your message to Governor Fournier and he expressed his appreciation for it.

The Governor gave me the most definite assurances that except for the scattered small amounts (referred to in my telegram of June 18, 4 p.m., No. 21) totaling about 300,000,000 francs, all gold has already gone out of French ports. During the recent past about thirty billion francs has been shipped out of the country. The equivalent of about ten billion Francs of Belgian gold has left for the British Isles.

The destination of the French gold the Governor could not give me, he said, but I understand confidentially that it is Casablanca; the Governor suggested that I get in touch with Boutillier and ask him, and I am making an effort to locate him now.

BIDDLE.

EA:LWW

June 21, 1940

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy
(Paris) Bordeaux

Strictly Confidential from Secretary Morgenthau

The Anglo-French coordinating committee has requested of Monnet that a B-1 Bis tank, together with two specialists to demonstrate it, be sent to the United States Army, Aberdeen Proving Grounds, Maryland. It is desired that French Government expedite shipment."



ENCLOSURE 5.21.40



DEPARTMENT OF STATE
WASHINGTON

June 21, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 20 of June 20 sent to the American Embassy, (Paris) Bordeaux.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

JUN 21 1940

RECEIVED

TREASURY DEPARTMENT

10

INTER OFFICE COMMUNICATION

DATE June 21, 1940

Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Livesey telephoned to me from the Department of State yesterday afternoon to the effect that Mr. Merriam, of the Near Eastern Division of that Department, had written a memorandum of a visit on the part of the Turkish Ambassador, who stated that the Commercial Representative in New York of the Afghan Government desired to purchase 50,000 ounces of gold in New York and hold this amount under earmark. Mr. Livesey recalled the exchange of views which we had some months ago when the Bank of America took up this question of gold earmarking. I confirmed to Mr. Livesey the Treasury view as expressed at that time that application should be made directly with the Federal Reserve Bank of New York. I told Mr. Livesey that the Turkish Embassy, which represents Afghan interests in Washington, could appropriately pass this information on to the Afghan Commercial Representative in New York.

Upon terminating this conversation, I telephoned Mr. Knoke. He told me that he had just written a memorandum upon the above subject. A copy thereof has been received this morning and is attached. There is nothing further for the Treasury to do in the premises, pending the provision by the Afghanistan Representative of the information desired by the Federal Reserve Bank at New York.

I am providing Mr. Livesey with a copy of Mr. Knoke's memorandum.



FEDERAL RESERVE BANK
OF NEW YORK

Mr. Cohen ¹¹²

OFFICE CORRESPONDENCE

DATE June 19, 1940.

Files

SUBJECT: Banke Millie Afghan and
Afghan Government.

FROM L. W. Knoke

Mr. Mohammad Omar, 226 West 26 Street, New York City, Telephone: Chickering 4 0778, called today with reference to exchange of cablegrams in February of this year between the Legation of Afghanistan in Paris through the American Embassy in Paris and our Treasury, also to correspondence between National City Bank of New York and the Banke Millie Afghan in March of this year. All this correspondence dealt with the acquisition by the Banke Millie Afghan or by the Afghan Government of gold in this country and its earmark in New York

Mr. Omar claims that he represents the Ministry of Economy and also the Banke Millie Afghan of which he says he is a director. He does business in New York in the name of the Afghan Commercial Agency at the above address.

Mr. Omar reported that the Afghan Government wants to buy in this country 50,000 ounces of gold and hold them under earmark in New York. He stated his instructions were to try and complete the acquisition of gold and arrange for its earmark. Mr. Omar had asked the Turkish Ambassador on June 18 to approach the State Department in this matter.

I explained to Mr. Omar that the Turkish Ambassador would presumably be referred to the Treasury which in turn would refer him to this bank as fiscal agent. I pointed out that as regards earmarking this bank generally prefers to earmark for account of a central bank rather than for account of a foreign government although in isolated

FEDERAL RESERVE BANK
OF NEW YORK

12

OFFICE CORRESPONDENCE

DATE June 19, 1940.

Files _____

SUBJECT: Banke Millie Afghan and
Afghan Government.FROM L. W. Knoke

2

cases we had in the past agreed to earmarking for foreign governments of countries where there was no central bank in existence. I continued that before we could determine what the status was of the Banke Millie Afghan we would like to have its status and a late balance sheet (both in English) and also some information on Afghanistan's international trade, particularly its trade with this country. Mr. Omar replied that he had some of the necessary information available in his office here and for the rest he would cable to his London branch or to Afghanistan. He will communicate with me further in due course.

LWK:KW

June 21, 1940

Dear Mr. Nathan:

In confirmation of our conversation by telephone, I have pleasure in informing you that a cablegram was dispatched by the State Department at 9 p.m. on June 19, 1940, under #17, to the American Embassy at Bordeaux, in which the Treasury Department instructed Mr. Matthews as follows:

"Please inform Governor Fournier that at the direction of the Treasury Department the Federal Reserve Bank of New York has credited the Ordinary account of the Bank of France with two hundred twenty nine million four hundred ninety seven thousand one hundred ninety seven dollars and sixty five cents, representing 95% of the value of the gold shipment."

A message, #46, emanating from the American Embassy at Bordeaux and dated 6 p.m. June 20, 1940, has today been received wherein Mr. Matthews refers to the above-mentioned cablegram #17 of June 19, 9 p.m. and states:

"I delivered your message to Governor Fournier and he expressed his appreciation for it."

Very truly yours,



H. Merle Cochran
Technical Assistant to the Secretary

Mr. L. V. Nathan,
Vice President,
Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

BND:enb:16.21.40

TREASURY DEPARTMENT

14

INTER OFFICE COMMUNICATION

DATE June 21, 1940

Secretary Morgenthau

Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Atkins, of J. P. Morgan and Company, New York, telephoned me yesterday afternoon. He stated that he had just talked with Mr. Leroy-Besulieu, Financial Counselor of the French Embassy, in regard to supporting French Government bonds on the New York market. In the past, J. P. Morgan and Company have bought such bonds for the sinking fund. The idea was being considered yesterday of buying some eight or ten thousand dollars of these bonds to offer some slight support on the declining market therefor. Mr. Atkins wanted to know if the Treasury would approve such an operation.

In answer to my inquiry, Mr. Atkins stated that Morgan's had instructions dated some time ago, authorizing them to purchase French Government bonds on the New York market when the price therefor goes below the level at which they are authorized to purchase them for the sinking fund. In the past, it has been the practice of Morgan's to sell francs to acquire the dollars for this purpose. In present circumstances, the dollar account of the Bank of France would be charged with the amount spent in purchasing the bonds.

When I remarked that it was already four o'clock in New York and presumably too late for any market transactions, Mr. Atkins agreed that it was not urgent that a decision be given at once. Consequently, I told him to make the routine application for a license through the Federal Reserve Bank at New York. I promised that the Treasury Department would give prompt consideration to the application, and even reply by telephone, in the event that a quick decision was necessary to permit Morgan and Company to know whether or not they could carry out the supporting operations.

Mr. Atkins also raised a question as to how funds could be transmitted by "Friends of France" to support the ambulance corps in France in which Miss Ann Morgan is so active. Again I told Mr. Atkins that the Federal Reserve Bank of New York should be consulted on this technical question, which would in turn solicit the advice of the Treasury, if this might be required.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Zoltowski, Polish Financial Attache, called on me at 11 o'clock today by appointment. He stated that action on our part would have been welcome if we had seen fit to block Polish assets in this country some nine months ago. Since this action was not taken at that time, and since Polish assets are now comparatively low in this country and so distributed and placed that it would be difficult for Germany to get hold of them, he sees no merit in blocking at this late date. If the question should arise, he would be happy to come in and discuss it with us and hopes that any definite action would be delayed pending such a discussion with him.

Mr. Zoltowski returned from a visit to Europe only a few days ago. He had been astounded to find the unpreparedness that existed in both England and France as late as April and early May and the almost complete lack of realization of the danger that so immediately confronted these two countries. He gave a long story of the usual peacetime political intrigue in France, which continued right up to the evacuation of Paris.



REP

GRAY

(Paris)
BORDEAUX

Dated June 21, 1940

Rec'd 1:45 a.m., June 22

Secretary of State

Washington

TRIPLE PRIORITY

Sl, June 21, 11 a.m.

FOR THE TREASURY FROM MATTHEWS.

The Bank of France has asked me to request you to transmit the following message in its special code to the Federal Reserve Bank of New York in view of the fact the Bank of France cables do not appear to be getting through "XOOST DUPOH AFZOC ADNIG IWCAS ZULKY YGREV YERUJ XOXEW XIRHY BIRUV EZIHO ODIME EULUH ALOIN DIDPI KAHBY AFSYT XOOST XOPED IWWAY FRAEN ICIOG ZUGPI ZUATS ZOTUH XUBYS BIRUV EZIHO BAVAP EWTAT BULEB OKXIE WOYJA YAKYR " signed Banfra.

The Bank of France informs me that the foregoing concerns primarily the transfer of \$4,323,128.73 from the Bank's account with the Federal Reserve to the Credit of J. P. Morgan & Company " for the sinking fund and coupon provision accounts (?) per and 7½. This transfer is being made against payment by Morgan et Compagnie,

Paris

-2- #51, June 21, 11 a.m. from Bordeaux

17

Paris of the equivalent at 43.90 or francs 189,785,351.50 and shows the wish of the French authorities to maintain their credit standing in the United States (only a small proportion of the bonds are held in the United States.)

BIDDLE

EMB

JOINT 21 JUN 1941
RECEIVED
BUREAU OF THE
TREASURY

12 0 00 00 00 00

RECEIVED
BUREAU OF THE
TREASURY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 21, 1940

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

An improvement in the sterling quotation took place today, reversing a downward trend that has been in evidence for more than a week. After opening at 3.54-1/2, the pound advanced to 3.58 within an hour. It moved back to 3.56-1/2 by noontime. The rate had a firm tone throughout the rest of the day, and sterling reached a high of 3.60 just before the close. The final rate was 3.59-1/2, a gain of 5-1/2¢ compared with Thursday's close.

The reported turnover was nearly as large as that of yesterday, but today, reported orders to sell sterling were about £260,000 greater than buying orders. Most of this excess, according to the New York banks, was absorbed by purchases of the New York agencies of Japanese banks.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £561,000, from the following sources:

By commercial concerns.....	£119,000
By foreign banks (So. Amer., Near East, Europe & Far East).....	£387,000
By the Federal Reserve Bank of New York (for Yugoslavia).....	£ 55,000
Total.....	£561,000

Purchases of spot sterling amounted to £302,000, as indicated below:

By commercial concerns.....	£ 83,000
By foreign banks (Far East and Europe).....	£219,000
Total.....	£302,000

The National City Bank reported that it had sold cotton bills totaling \$1,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Bank of Manhattan stated that it had purchased £7,000 from the British Control at the official rate of 4.03-1/2, to be used to pay for shipments of tea.

Developments in the other currencies were as follows:

The Swiss franc again improved to reach a current high of .2262 in the mid-afternoon. In addition to demand from Swiss sources, it was reported that commercial concerns here purchased moderate amounts of Swiss francs. Their acquisitions, for the most part, are being applied against sales for forward delivery made in the past as a hedge against anticipated exports. The latter have not taken place owing to the scarcity of shipping space. The Swiss franc closed at .2261.

- 2 -

The Canadian dollar had a better tone today. In a very thin market, the discount for that currency narrowed to 19-1/8% at the close, as compared with yesterday's final quotation of 19-3/4%.

The lira and reichsmark remained at .0505 and .4000 respectively.

The Cuban peso was quoted at 9-15/16% discount, a slight improvement over yesterday's rate.

The Mexican peso was unchanged at .1818 bid, .2000 offered.

We sold \$1,000,000 in gold to be added to the earmarked account of the Central Bank of the Uruguayan Republic.

The Federal Reserve Bank of New York reported that the Swiss Bank Corporation, London, made two shipments of gold totaling \$126,000 from England to its New York agency, for sale to the U.S. Assay Office.

The Bombay gold price declined the equivalent of 16¢ to \$35.22.

Spot silver in Bombay was equivalent to 43.86¢, off 7/16¢.

In London, spot silver was fixed at 22-7/16d, off 3/8d. The forward price was 21-11/16d, off 1/16d. The U.S. equivalents were 40.79¢ and 39.43¢ respectively.

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

We made two purchases of silver totaling 130,000 ounces under the Silver Purchase Act. Of this amount, 70,000 ounces represented a sale from inventory, and the remaining 60,000 ounces consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 21, 1940.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM: L. W. Knoke

Mr. Bolton called at 10:30 a.m. today. The Dutch Treasury in London, he said, had asked him to find out whether in compliance with their request, we had forwarded our code and test key arrangement so that they could work on their account with us. In reply I requested Mr. Bolton to advise the Treasury that both code and test were now on the way to them.

Mr. Bolton then referred to the Ottoman Bank, all the assets of which he understood had been blocked here on the theory that that was a French organization. This theory was quite wrong. He understood that the necessary representations were being made in Washington but meanwhile he wanted us to know that the Ottoman Bank was a Turkish bank and, as an authorized dealer in London, an important part of the British Exchange Control. As he saw the situation, blocking of balances belonging to other than the Paris branch was working a great injustice on the whole bank and had created a situation of great distress. The bank was carrying accounts, among others, with the Guaranty Trust Company, Chase National Bank and National City Bank.

Mr. Bolton then put Dr. Beyan, the former president of the Bank for International Settlements, on the telephone. The censor immediately cut us off but afterwards evidently Dr. Beyan was allowed to proceed. He stated that he acted as the financial adviser to the Dutch Government and as such he was anxious to find out what sort of procedure would have to be followed if, under the decree of May 24, the Dutch Government, in case of need, wished to

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 21, 1940.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knake

2

dispose of gold held here in the name of de Nederlandsche Bank.
I replied that that was a matter which should be taken up through
official channels.

LWK:KW

RECEIVED
FEDERAL DEPARTMENT

JUN 25 AM 9 03

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

TELEGRAM SENT

JR

GRAY

June 21, 1940

Noon

AMERICAN LEGATION

STOCKHOLM

208.

Your 601, June 7, 1 p.m. Department's 160, May 18.

Treasury states it would appreciate receiving any recommendations the Legation may care to make relative to license applications in particular cases.

HULL
(FL)

840.50 Frozen Credits/195

EA:FL:EB

JT

PLAIN

LONDON

Dated June 21, 1940

Rec'd 4:10 p.m.

Secretary of State,
Washington.

1776, June 21.

FOR TREASURY FROM BUTTERWORTH.

Another £10 million was added to the note circulation, the fourth consecutive substantial increase, largely attributable to encashment of French notes by refugees and returned British soldiers and to further evacuation movements. However the credit base was practically unaltered, security holdings being increased to offset the outgo of notes.

The market continues to anticipate another war loan which is expected by the city at any time in view of the liquid condition of banks and mounting government expenditure. Supply costs for the second consecutive week, that ending June 15, were at the £60 million level (see my 1620, June 12).

The finance bill has now passed the House of Commons, the Chancellor of the Exchequer again stating that a new budget is inevitable and heavy burdens all round are fully expected.

KENNEDY

CSB



DEPARTMENT OF STATE
WASHINGTON

reply refer to
840.51 Frozen Credits/200

June 21, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information a copy of a memorandum dated June 19, 1940 reporting on a conversation between a member of the Department of State and Baron de Gruben, Counselor of the Belgian Embassy, regarding the release of funds to certain Belgian nationals in Iran, and a copy of paraphrase of telegram No. 132 dated June 21 from the American Legation, Tehran, Iran, on the same subject.

Enclosures:

1. Memorandum, June 19, 1940.
2. Paraphrase, No. 132 of June 21 from Tehran.

28

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Tehran, Iran

DATE: June 21, 1940, 9 a.m.

NO.: 132

The Belgian Ambassador in Washington has been contacted by telegraph by the Belgian Minister here with regard to funds of Belgian nationals in Iran which are blocked in the United States.

I can perceive no objection to the procedure which is outlined by the Minister; the Ambassador in Washington will explain this procedure to the Department.

ENGERT.

EA:LWW

DIVISION OF NEAR EASTERN AFFAIRS

26

DEPARTMENT OF STATE

Memorandum of Conversation
(Telephone)

June 19, 1940
DATE:

SUBJECT:

Release of Funds to Certain Belgian Nationals in Iran.

PARTICIPANTS:

Baron de Gruben, Counselor of Belgian Embassy;
Mr. Alling.

COPIES TO:

Baron de Gruben, Counselor of the Belgian Embassy, telephoned today to inquire whether we had had any word from our Legation at Tehran regarding the release of funds to certain Belgian nationals in Iran. I told the Counselor that nothing had come in up to this time. He went on to say that the Embassy here had just had a telegram from the Belgian Minister in Tehran to the effect that he had made an arrangement with the American Legation under which he would submit to the Legation the names of Belgian citizens in Iran who desired to draw on their accounts in the United States, the amounts required by each person and a justification for the sums needed. Baron de Gruben inquired what action we took

on

- 2 -

on such requests, and I told him that we referred them to the Treasury and upon receipt of the Treasury's decision we notified our appropriate mission abroad. The Counselor requested that if and when the expected message came in from our Legation at Tehran on this matter he be notified.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

840 JUN 21 PM 4 18

RECEIVED
TREASURY DEPARTMENT

NE PHA/LS



HEADQUARTERS

SECRET

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 21 June, 1940.

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

28

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

Message from Mr. Nicholson.

T. V. Soong left Hongkong via the Clipper Wednesday; he is due to arrive in Honolulu Sunday. He would appreciate any customs courtesies that may be properly extended at Honolulu and San Francisco. Soong is also desirous of engaging a bodyguard to accompany him during the trip for which he will pay all expenses. It is respectfully suggested that the Supervising Customs Agent, San Francisco, be requested to obtain a bodyguard for Soong's use upon his arrival.

TO THE SECRETARY
TECHNICAL SERVICE UNIT
OFFICE OF THE
CLIFF

END TOW 31 JUN 15 03

THEY WILL DELIVER THE
RECEIVED



TREASURY DEPARTMENT
WASHINGTON

29

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

June 21, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Walter Kidde and Company, Incorporated:

The contractor's representative called to discuss the proposed closing agreement with Appel.

W. P. Helving
Commissioner

IT:P:CA
CAA

June 21, 1949.

REPORT FOR SECRETARY MORSENBRAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Walter Kilde and Company, Incorporated:

The contractor's representative called to discuss the proposed closing agreement with Appel.

(Signed) Guy T. Halvering

Commissioner.

CAA/IRA

30-A

BRITISH EMBASSY,
WASHINGTON, D.C.

Secret

June 21st, 1940.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram despatched from London
on the evening of June 20th.

United Kingdom. About 150 enemy aircraft raided aerodromes and industrial centres last night. Results reported as follows: Considerable damage to chemical plant at Billingham. Gas and water mains damaged at West Hartlepool. Four bombs in Cardiff dock area, one merchant vessel sinking. Damage to steel works at Stockton-on-Tees. Armament depot damaged at Southampton. Bombs on dock at East Hull, but no serious damage. Dorman Long's works at Middlesbrough damaged. Enemy casualties three confirmed and two unconfirmed. No casualties reported to our fighters. Further details regarding German attacks on United Kingdom night of June 18th-19th as follows: Enemy losses five Heinkels 111's and one Junker 88 confirmed and three Heinkel 111's unconfirmed. Our losses four Blenheims and one Spitfire. Civilian casualties 10 dead, 26 injured. One military casualty.

2. British Expeditionary Force.

Totals landed in United Kingdom up to midnight June 19th-20th are: personnel, fit 109,569 personnel, wounded 1,909. Guns, 510. Vehicles, 2,278 (include 22 tanks). Ammunition (tons) 150. Stores (tons) 193 (including H.A.P. equipment)/

equipment). Allied armies, 787. Above are not final figures. Every effort is being made to evacuate Polish and Belgian troops, who are reported to be fighting their way to coast.

3. French warships which have now evacuated French northwestern bases are utilising British ports as their operational bases. All ships have left Brest, except two submarines which were scuttled. French demolitions at Brest were largely effectual.

4. No official news of position of French armies, but spasmodic resistance is undoubtedly still being offered by portions of these armies. East advance of Germans left wing continues. Epinal has been captured. Capture of Colmar in Alsace also claimed. Further west Germans advancing down Valley of the Saone towards Lyons, and are reported at Louhans. In upper Loire Valley they have passed Digoin southwest of Orleans. They were reported yesterday at Tours. Normandy and Brittany are being overrun. Column has entered Charbourg though section of resistance had not been overcome yesterday morning. Brest reported still in French hands at 23.30 hours yesterday.

5. 160 bombers attacked aluminium works, canal locks, railway and oil targets in western Germany last night. No reports yet received. One Wellington missing. Reports so far received of similar attacks on night of June 18th-19th show that these were generally successful. Extensive

fires and explosions resulted. Blenheims attacked enemy aerodromes near Amiens and at Rouen yesterday obtaining direct hits on parked aircraft and ground installations. 52 fighter aircraft operated over northern France yesterday. Two Heinkel 111's shot down (unconfirmed). No British fighters missing. Fleet Air Arm successfully attacked German seaplane base at Denhelder yesterday.

6. German long-range bomber aircraft yesterday principally directed against shipping off Brest and west and northwest coast of France, and against French troops and their ground communications. German transport aircraft continued very active. There are indications of further decrease in advance training.

Italy.

No further information of military activity on mainland, but there are reports regarding contemplated movement of German formations through Italy to Africa. Further details of operations on eastern Libyan frontier on June 17th show that Italian mechanical transport column and 800 infantry with 4 guns and 12 tanks were engaged. Tank crews became demoralized and left their vehicles. One tank and 2 guns captured and remainder destroyed. Italian casualties/

casualties 20 - 30 killed and similar number wounded. Remainder taken prisoner. British casualties nil. All reported quiet in Sudan. Indication that adjoining Italian garrisons are in bad state of nerves. Royal Air Force have carried out successful attacks on camps and aerodromes in Northern Abyssinia at El Adem (Libya). On June 17th, enemy aircraft bombed Sidi Barrani and Djibouti. Bombs also dropped on Zeilah, Berbera and Tugargoa in British Somaliland.

9. Two British ships sunk by torpedoes off Cape Finisterre on June 18th. Reference report of sinking of steamer off North Island. A mine has been swept up in this vicinity and a dangerous area declared. Enemy submarine thought to have been sunk by aircraft in Aden.

10. Scandinavia.

German forces reported to have occupied Kirkenes on June 15th.

11. Nothing reported from Gibraltar or Malta. Tangier zone reported completely under Spanish control including Gestapo police methods.

DKP

Gray

(Paris)
Bordeaux

Dated June 22, 1940

Rec'd 6:55 a.m. 23rd

Secretary of State
Washington

74, June 22, 11 p.m.

FOR THE TREASURY FROM MATTHEWS.

The Bank of France requests transmission of the
following to the Federal Reserve Bank of New York:

"XOSRO ZEIRS OZLEB XOSRO ZEIRS OZLFB XOHGO JAVYC
EPUPA FYZUL LADNO IODUN XOLEI KEXOX XOLEI ZEIRS
OZLEB XOFNY OPHOC KIUTI OZLEB XYIBS JYUBE ILORL
ERGEP HOFEB ICPIT OYJIH SHIPU REOYM OYJIH TEOBU BYNU
ALOIN ITVOK FRYDO FUWSI GYCEU CURZO GEHYP OIRFE
OGFMY CODAY IOCIT YBJUP JYUBE IUVUR IOCIT HOFNY
MAUTE OYJIH CIENEL IHFFD AIXYR OBIMP FOZUB IRYBS
IRYBS BANFRA ONCEZ ICPIT OCVOE JYUBE IOCIT XOJCI
ONCEZ MATSE OYSZO FUZDO EWTAT OSMAP ODIME FOZUB
IRYBS BANFRA HUASI ICPIT ZEIST XUKXI JYUBE AKHOB
EBGEP ODIME CEMLO IRJIP IRYBS CIBBU APXYZ OXSES
IRPED KOGYI LOZAT ATYYB EXTAT JYUBE OAVIK ONESK
AVAFI AKHOB AFSYT GYACU CABAL AFSYT ODIME CIBBU

OWKAW

DKP 74 June 22 from Bordeaux

OWKAW GOODS ELVES ZFIST YUMEN NOFAZ DISSO GYPPI"

Cariguel tells me that several days ago the Bank cabled the Federal Reserve with reference to its moving to Chatel Guyon and Saumur but received no reply the above message is to inform the Federal Reserve Bank that all departments of the Central Office of the Bank of France are located here at Bordeaux.

The message likewise asks for information as to the Bank's balances both ordinary and bullion with the Federal Reserve.

EIDDLE

ES 2 MA 10 JUL 1943

DDP!



DEPARTMENT OF STATE
WASHINGTON

June 22, 1940.

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury, and
encloses one copy of telegram No. 51 of June 21 from
Bordeaux.

RECEIVED
DEPARTMENT
OF STATE
JUN 23 1940

RECEIVED
JUN 23 1940

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE
OFFICE OF THE
SECRETARY

JT

GRAY

(PARIS)
BORDEAUX

Dated June 21, 1940

Rec'd 4:08 p.m.

Secretary of State,
Washington.

51, June 21, noon.

Please transmit the following to J. P. Morgan and
Company, New York:

"At our request Treasury has instructed Bank of
France to transfer to you through Federal Reserve Bank
of New York dollars four million three hundred twenty-
three thousand one hundred and twenty-eight point
seventy-three for the credit of the French seven per
cent and seven and a half per cent sinking fund and
coupon accounts. We have paid Bank of France cor-
responding amount in francs at 43.90. Jay Arregon
Bordeaux, June 21, 1940.

BIDDLE

CSB

(The above message was phoned by Mr. Cochran
to Mr. Mitchell of J. P. Morgan & Co. of New
York at 12:10 noon, June 22, 1940.)



DEPARTMENT OF STATE
WASHINGTON

June 22, 1940

ply refer to
O.51 Frozen Credits/207

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a telegram received from the French American Banking Corporation, dated June 22, 1940, regarding blocked funds.

Enclosure:

From French American Banking
Corporation, June 22, 1940.

COPY OF TELEGRAM RECEIVED

New York NY June 22, 1940

Secretary of State.

On behalf banque D'Etat du Maroc which is official Moroccan bank of issue and depository government funds we have applied through Federal Reserve Bank New York for general license to operate their account under executive order 8389 as amended application bearing our number 65 stop We are informed agreement in principle has been given to this by US government in response to demand by US Consul General in Morocco stop Will appreciate anything you can do to expedite issue of license.

French American Banking Corpn.



DEPARTMENT OF STATE
WASHINGTON

June 22, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for such action as may be deemed advisable a copy of telegram dated June 21, 1940, addressed to the President by Mr. Herbert McLean Purdy with regard to certain funds for payment of wages for workers on the French Pavillion of the World's Fair.

Enclosure:
From Mr. Purdy, June 21.

JS

COPY

TELEGRAM

THE WHITE HOUSE
Washington

29WU. RA 112 - D.L. 2:10 p.m.

New York, New York, June 21, 1940

THE PRESIDENT

Can you do something to release funds of French Government for purpose of paying the men at the French Pavilion World's Fair. Upward one hundred fifty men at building will not get paid today. National City Bank here has applied to Federal Reserve for special permit. Understand this has gone to Washington to get permit approved but no word yet from Washington. Meantime, employees clamoring to be paid. Mr. Edward Mortimer Livingston, who is with our Company is I understand personal friend of yours and also knows General Watson. Will greatly appreciate your sending word to proper department to rush release of money so men can be paid today. Kind regards.

Herbert McLean Purdy, Management Corp.

Herbert McLean Purdy, President.

HSM

PLAIN

London

Dated June 22, 1940

Rec'd 9:12 a. m.

Secretary of State,
Washington.

1784, June 22.

FOR TREASURY FROM BUTTERWORTH.

Last night's announcement of the new $2\frac{1}{2}$ percent five to seven year war bond saleable from Tuesday next on tap at par is welcomed in this morning's financial press as particularly suitable at the moment and as likely to be very successful, especially in view of the usefulness of a similar war bond in the last war. The loan is particularly suitable for banks and other financial institutions and large investors, while the provision for subscriptions at a minimum of £25 reaches down to the medium size private investor who has already taken up the legal limits of defense bonds and savings certificates. Though not a funding loan proper much of the proceeds may be used to meet the £100 million to be paid out dissented holdings of the $4\frac{1}{2}$ percent conversion loan on July 1, while the Treasury bill issue now considered at a technically convenient level will doubtless be

prevented

hsm -2- No. 1784, June 22, from London

prevented for some time from rising drastically. The decision not to float a large loan of limited amount at the present critical moment is also considered wise.

KENNEDY

WWC

EH

GRAY

Paris
BORDEAUX

Dated June 22, 1940

Rec'd 12:35 p.m.

Secretary of State,
Washington.

64, June 22, 2 a.m.

FOR THE TREASURY FROM MATTHEWS

The Bank of France has asked me to ascertain the
New York free market rates for the French franc and
sterling. The Bank of France seems unable to communi-
cate with Marciall.

BIDDLE

DDM

OK

GRAY

Bern

Dated June 22, 1940

Rec'd 1:40 p.m.

Secretary of State

Washington

STRICTLY CONFIDENTIAL

73, June 22, noon.

Trade negotiations resumed yesterday in Bern between German and Swiss delegations headed by Hennen and Hotz respectively to provide substitution for the present clearing agreement due to expire June 30th by an arrangement taking account of interruption of German-Swiss clearing is now heavily in favor of Germany (Swiss now owing 40,000,000 francs as compared with Swiss credit of 65,000,000 as of last October,).

It is confirmed here that in an endeavor to restore a balance in the clearing Swiss firms have recently been urged to increase their exports to Germany. Under present conditions it is to be expected that the German share of total Swiss foreign trade will rise and that Germany will dominate Swiss economy to a greater extent than heretofore.

(With reference to Zurich's 142, June 19, 5 p.m.) I have been authoritatively informed here that there has been nothing in the nature of an ultimatum from Germany in

this

JR

MAIN

44

Berlin

Dated June 22, 1940

Rec'd 1:50 p.m.

Secretary of State,
Washington.

2013, June 22, 1 p.m.

The Foreign Office sponsored DIENST AUS DEUTSCHLAND carries under date of June 21 the following communique with respect to Germany's food situation: "The assertion of the London radio that during the coming winter Germany will be faced with a famine is characterized in authoritative German circles as a foolish and completely unfounded speculation. It is expressly stated that Germany as before disposes over extraordinarily large supplies of cereal grains which are quite as large as the beginning of the war. The supplies of butter, eggs and meat will be considerably larger at the beginning of the winter than was the case last year. Finally, an interesting light is cast upon the German supply situation by a statement from the Ministry of Foods in which it is asserted that the Ministry is no longer concerning itself with the problem of the food supply for the year 1941, that is to say, up to the time of the 1941 harvest, but is now working upon the supply plan for the year 1941-1942".

HEATH

TFV



DEPARTMENT OF STATE
WASHINGTON

June 22, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of telegram no. 52 from the American Embassy at Bordeaux (Paris), dated June 20, 1940, transmitting a message for the Federal Reserve Bank of New York.

Enclosure:

From Bordeaux (Paris),
no. 52, June 20, 1940.

JT

GRAY

(PARIS)
BORDEAUX

Dated June 20, 1940

Rec'd 5:45 p.m., 21st

Secretary of State,
Washington.

RUSH.

52, June 20, 3 p.m.

FOR THE TREASURY FROM MATTHEWS.

The Bank of France has urgently requested me to transmit the following code message to you for the Federal Reserve Bank of New York. (END GRAY)

(NOT DEPARTMENT CODE) "XOPVL CEGOZ ODIME
ETDEK MOOMS OYJIH BUDYA CIMFUL OYJIH PHYNIC
OYJIH CILLIWAM JUYBE XUEKA OYJIH GYELMAUL."

(GRAY) The message cancels authorized signatures of Under Governor Boisanger, Thomas and Sarrazin who are now in German hands at Chatel Guyon.

BIDDLE

JRL

TELEGRAM SENT

ET

GRAY

June 22, 1940

4 p.m.

AMERICAN EMBASSY

LONDON

1335.

FROM THE TREASURY DEPARTMENT.

Reference your 1773, June 21, 7 p.m.

Prior to receipt of Embassy's cablegram 1671 of June 15 Treasury Department had on June 14, after being advised on June 13 by Federal Reserve Bank at New York of complaints by American rubber importers, taken up with British Embassy through Pinsent the question of fair treatment for Americans under the Defense Finance Regulations. Pinsent was asked to send a cablegram to London expressing the Treasury's hope that in carrying out the provisions of the Foreign Exchange Control Order which was to become effective June 10 the British authorities would accord American importers periods of grace similar to those permitted under the Order which was announced on March 8, and also would allow continuance of privilege to importers of SB products to cover in free sterling contracts entered into before March 9 which are still running.

On

-2- #1335, June 22, 4 p.m. to London.

On June 19 Pinsent reported that a message from London had been received of which he provided orally the following paraphrase: QUOTE Point was raised by United States Embassy in London who are understood to have telegraphed to Washington on the 15th. Our desire with which we are confident Mr. Morgenthau will sympathize is to put an end to exporting on basis of free rate with minimum delay. We have expressed a desire to meet United States wishes fully but have drawn attention to importance of above consideration. END QUOTE Pinsent has also provided us with Notice to Exporters (No. 2).

The Treasury Department is cognizant of the reasons which led to the issuance of the Foreign Exchange Control Order of June 8 and is sympathetic with the desire of the British authorities to terminate as quickly as possible exports financed with free sterling. It approves, however, representations by the Ambassador with the view to obtaining for American importers the considerations which the Embassy has had reason to believe from official documents and official assurances would be granted.

HULL
(HF)

EA:FL:EB

TELEGRAM SENT

CR

PLAIN

June 22, 1940

EMBASSY

LONDON

1343, Twenty-Second.

Your 1671, June 15.

Rubber Trade Association of New York has written the Department protesting against any retroactive changes in the regulations affecting use of free sterling to settle pre-March-9 contracts for rubber. They mention conflicting reports as to what is going on. Compromise date such as suggested in your 1671 would apparently not meet their fears since they lost heavily on guilder contracts after disappearance of Amsterdam exchange market. However, if British insist on some terminal date such as August 1, it would seem important that this be promptly communicated to interested trade. The Department is asking the Trade Association what would be the effects of extension to August 1 or some later date and hopes to telegraph Monday on this.

HULL
(HP)

EA:FL:EB

MA

GRAY

Milan

Dated June 22, 1940

Rec'd 10:55 a.m.

Secretary of State
Washington

63, June 22, 6 p.m.

Today's market index 216.60. Volume 40,655.

Market slightly lower in poor trading.

SCHNARE

PEG

HSM

GRAY

Lisbon

Dated June 22, 1940

Rec'd 9 a. m.

Secretary of State,
Washington.

RUSH

83, June 22, noon.

FOR TREASURY.

Urge granting of general license to operate frozen
account in Chase Bank of Credit Franco-Portugais, Lisbon.
Bank operates only in Portugal.

PELL

PEG



DEPARTMENT OF STATE
WASHINGTON

June 22, 1940.

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury, and
encloses one copy of paraphrase of telegram No. 28
of June 21 to Bordeaux.

PARAPHRASE OF TELEGRAM SENT

TO: American Consul, Bordeaux

DATE: June 21, 1940, 7 p.m.

NO.: 28

FOR BIDDLE

STRICTLY CONFIDENTIAL FROM SECRETARY MORGENTHAU.

Monnet has been asked by the Anglo-French coordinating committee to send to the United States Army, Aberdeen Proving Grounds, Maryland, one B-1 Bis tank and two special operators for demonstrating it. We should like to have shipment of this tank expedited by the French Government.

HULL
(HF)

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Yesterday noon I talked over personally with Mr. Livesey of the Department of State the question of a reply to Ambassador Kennedy's cablegram of June 15. He agreed to send me a copy of a pertinent letter from the Rubber Trading Association which came over in the afternoon. A copy thereof is attached, together with a copy of Ambassador Kennedy's No. 1773 which arrived simultaneously.

This morning I delivered to Mr. Livesey the attached draft of a Treasury reply and it was agreed that the State Department should send a separate reply answering the specific question posed by the Ambassador as to protecting American interests. At 12:30 today Mr. Livesey sent me the attached copy of his message, stating that both this and the Treasury cablegram had been sent.



DEPARTMENT OF STATE

55

ADVISER ON
INTERNATIONAL ECONOMIC AFFAIRS

June 21, 1940

Mr. Cochran:

There is enclosed for your information a copy of the letter from the Rubber Trade Association of New York, Inc., which Mr. Livesey discussed with you this noon.

We do not intend to answer this letter until a reply to London's 1671 of June 15, 1940 is decided upon.

Enclosure:
Copy of letter.

Luthring

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

END JUL 31 PM 2 15

RECEIVED
DEPARTMENT OF STATE

RUBBER TRADE ASSOCIATION OF NEW YORK, INC.
95 Broad Street, New York

June 19th, 1940

Dr. Herbert Feis,
Adviser on International
Economic Affairs,
Department of State,
Washington, D. C.

My dear Dr. Feis:

For your information and record we wish to advise you that the members of this Association understand that the Foreign Exchange Committee of the New York banks, Mr. R. F. Loree, Chairman, has been asked by the Bank of England to cooperate in establishing an official rate of sterling exchange in New York.

We have requested the Foreign Exchange Committee that in the event, during the course of negotiations with the British Government and/or the Bank of England, any proposed legislation or suggestions in respect to free sterling which might be of a nature retroactive be made known to this Association, as under no circumstances do we feel that after complying with past regulations should any change be made of a retroactive nature.

It would appear that the negotiations this far are of a preliminary nature and quite naturally advices received from various sources are rather conflicting. We are deeply concerned in respect to the situation in regard to free sterling.

No doubt you are familiar with the regulations which have been promulgated by the British Government during the past few months. In substance, these regulations set forth the conditions under which free sterling can be used as pertaining to rubber contracts. We hold to the opinion that there should be no change in the status of contracts for rubber on which free sterling could be used at the time such contracts were entered into and on which there was no time limit set as to when free sterling must be purchased.

Our members suffered a severe loss through the Amsterdam guilder situation, which was explained to you in our letter of June 3rd, 1940, and they most certainly wish to avoid the same experience with their sterling transactions.

Very truly yours,
B. G. DAVY, Secretary

BGD:F



DEPARTMENT OF STATE
WASHINGTON

June 21, 1940.

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury, and
encloses one copy of telegram No. 1773 of June 21
from London.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

JUN 21 1940

RECEIVED
DEPARTMENT

JR

GRAY

London

Dated June 21, 1940

Rec'd 1:55 p.m.

Secretary of State,
Washington.

RUSH.

1773, June 21, 7 p.m.

FOR THE SECRETARY OF THE TREASURY FROM THE AMBASSADOR.

Not having heard from my 1671 June 15, and realizing that the records indicated action on behalf of American importers who are requesting that I ask the British to go ahead and deal with these cases pending receipt of your reply. Incidentally I only decided to bother you about this because one of the under secretaries of the British Treasury called into question whether I was accurately representing Washington's policy by making the British live up to their word. I might say that I do not consider that the British Treasury is doing us any favor in making the concession I sent you in my 1671 of June 15 and I do not regard their initial action as having anything to do with winning the / war or helping the allies. If the British Treasury had been half as active taking care of their own battle interests as they are regulating and screwing ours they would not be in one half the mess they are in.

KENNEDY

June 22, 1940

Mr. Feis

Mr. Cochran

Will you kindly send a cablegram along the following lines:

American Embassy
London

From the Treasury Department.

Reference your 1773 June 21 7 p.m. Prior to receipt of Embassy's cablegram 1671 of June 15 Treasury Department had on June 14, after being advised on June 13 by Federal Reserve Bank at New York of complaints by American Rubber Importers, taken up with British Embassy through Pincent the question of fair treatment for Americans under the Defense Finance Regulations. Pincent was asked to send a cablegram to London expressing the Treasury's hope that in carrying out the provisions of the Foreign Exchange Control Order which was to become effective June 16 the British authorities would accord American importers periods of grace similar to those permitted under the Order which was announced on March 5, and also would allow continuance of privilege to importers of 5 B products to cover in free sterling contracts entered into before March 9 which are still running.

On June 19 Pincent reported that a message from London had been received of which he provided orally the following paraphrase: 'Point was raised by United States Embassy in London who are understood to have telegraphed to Washington on the 15th. Our desire with which we are confident Mr. Morgenthau will sympathize is to put an end to exporting on basis of free rate with minimum delay. We have expressed a desire to meet United States wishes fully but have drawn attention to importance of above consideration.' Pincent has also provided us with Notice to Exporters (No. 2).

The Treasury Department is cognizant of the reasons which led to the issuance of the Foreign Exchange Control Order of June 5 and is sympathetic with the desire of the British authorities to terminate as quickly as possible exports financed with free sterling. It approves, however, representations by the Ambassador with the view to obtaining for American importers the considerations which the Embassy has had reason to believe from official documents and official assurances would be granted.

END: 6.22.40



June 22, 1940.

AMEMBASSY

LONDON

Your 1671, June 15.

Rubber Trade Association of New York has written the Department protesting against any retroactive changes in the regulations affecting use of free sterling to settle pre-March-9 contracts for rubber. They mention conflicting reports as to what is going on. Compromise date such as suggested in your 1671 would apparently not meet their fears since they lost heavily on guilder contracts after disappearance of Amsterdam exchange market. However, if British insist on some terminal date such as August 1, it would seem important that this be promptly communicated to interested trade. The Department is asking the Trade Association what would be the effects of extension to August 1 or some later date and hopes to telegraph Monday on this.

(s) HULL

EA:FL:EB

COPI

June 22, 1940

MEMORANDUM FOR THE SECRETARY:

The memorandum of Mr. Currie's, dated June 4, 1940, on fiscal policy which was sent to you with the President's memorandum of June 14th with a request that you read and speak to him about it, is now too old to require comment in view of the fact that the House and Senate last night agreed to the tax bill.

However, Mr. Currie indicates in the first paragraph of his memorandum that he is working on a more comprehensive statement of the considerations entering into the determination of fiscal policy under current conditions. I believe that we should wait until we get his new memorandum before commenting upon the points raised in his memorandum of June 4th.

sub B

June 22, 1940

MEMORANDUM FOR THE SECRETARY:

The memorandum of Mr. Currie's, dated June 4, 1940, on fiscal policy which was sent to you with the President's memorandum of June 14th with a request that you read and speak to him about it, is now too old to require comment in view of the fact that the House and Senate last night agreed to the tax bill.

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DWB:ce

MEMORANDUM

June 18, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan
SUBJECT: Lauchlin Currie's memorandum to the President of June 4th.

I prefer not to comment upon paragraphs 1 to 7 inclusive. These are observations of an economist with which I am probably not qualified to differ.

The estimate used in paragraph 8 A is quite incorrect. The proportion of individual income taxes derived from those persons in the brackets below \$3000 is only 2.3% in 1936 and 3.9% in 1937 of the anticipated total collections. The statements in paragraph 8 B are correct except that at the present time it is quite likely that there will be no increase in the tobacco taxes. It should be borne in mind that these three commodities lend themselves to high excise taxes and throughout the world are taxed at a far higher rate than those increased rates provided for in the pending Bill.

8 C, no comment. 8 D. I believe the "increased signs of dissatisfaction on the Hill" have been largely answered in the increase in additional revenue added to the Bill since the date of this memorandum.

In recommendation I, Mr. Currie suggests we do not press for tax legislation within the next couple of weeks, and if we do, we restrict it to excise taxes and leave the rest of the revision until early in the next session. Assuming that the next session of Congress will wish to increase the present rates before March 15, 1941, nothing in the present Bill will prevent this from being done. Meanwhile, in addition to the excise taxes we will be collecting additional revenue from increased estate taxes, gift taxes and capital stock taxes.

In recommendations 3, 4 and 5, I concur except to the extent that the "revision" of inheritance tax and income tax indicates — as it does when almost everyone else uses the word "revision" — reduction rather than correction.

JHS

Munday 64
87

THE WHITE HOUSE
WASHINGTON

June 14, 1940

CONFIDENTIAL

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

To read and speak to me about.

F. D. R.

Enclosure

THE WHITE HOUSE
WASHINGTON

June 4, 1940.

MEMORANDUM FOR THE PRESIDENT:Re: Fiscal Policy.

I am working on a more comprehensive statement of the considerations entering into the determination of fiscal policy under current conditions. This will take some time to complete, and since time is so short I am taking the chance of presenting some conclusions in advance of the general argument and supporting data.

1. A fundamental fact at the moment is that America possesses an overall great excess of unutilized material and human productive resources.
2. Hence, the financing of national defense should be directed at taking up this slack rather than toward the diversion of resources from the making of consumer goods to the manufacturing of armaments. This latter course is proper only when the economic machine is already working at capacity.
3. Broadly speaking, increased armament expenditures provide a net increase in employment only when they are financed in ways that absorb saving or offset saving that would not otherwise have been absorbed or offset.
4. If financed through consumption taxes they merely divert employment, not create it.
5. Hence, from a strictly economic point of view, the appropriate method of financing defense expenditures at this time would be by borrowings or by taxation of potential savings.
6. I have not at hand estimates of actual additional defense expenditures for the next fiscal year. As things are shaping up, however, it would not be unreasonable to expect that somewhat over half will be borrowed and the remainder raised by taxation. The part raised by taxation is estimated, on the basis of recent studies of consumer incomes and purchases, to fall two-thirds on consumption and one-third on possible savings. Hence, if the additional expenditures amount to, say, \$1.2 billion, only two-thirds of this amount will act to create employment. Moreover, since the excise taxes go into effect July 1st and the additional expenditures will not increase greatly immediately, it is possible that a major part of the additional expenditures will be offset in the next few months by decreased consumption.
7. The conclusion follows, on economic grounds, that it would be better to postpone increases in consumption taxes until the economy is more nearly providing full employment.

June 4, 1940.

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8. On political grounds, on which I feel less competence, the present program appears vulnerable on several counts:

(a) Our tax system is already heavily regressive and the proposed change makes it more so. One estimate is that more than one-half of a full year's yield will be derived from income brackets below \$3,000 and an even higher proportion will be so derived from the first fiscal year's collections.

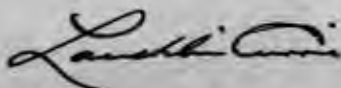
(b) The rates on tobacco, beer and gasoline, all articles of wide consumption, are increased 16-2/3 percent, 20 percent, and 50 percent, respectively.

(c) There is nothing in the proposed legislation to prevent a new crop of millionaires. In the first quarter of this year the profits of 445 large companies, mainly in the durable goods field, increased 62 percent over the first quarter of last year, although the production index was only eleven points higher.

(d) There are increasing signs of dissatisfaction on the Hill.

Recommendations.

1. Do not press for tax legislation within the next couple of weeks.
2. If it is decided to go ahead with the pending legislation, confine it to increases in the excise taxes with the idea that before March, 1941, income tax payments become due, a more scientific and comprehensive job will be done in raising rates, plugging up loopholes and instituting an excess profits tax.
3. Induce the ways and means and finance committees jointly to begin a study of income, excess profits and inheritance tax revision, to apply to incomes in this calendar year.
4. It is estimated that Randolph Paul's excess profits tax proposal, with fairly moderate rates, would yield \$500 million on this year's profits. The Treasury might well work on and present this proposal to the proposed joint committee.
5. It would be highly desirable to bring Paul down in an advisory capacity. When the foremost tax man in the country happens also to be a New Dealer, it seems a pity not to use him. His books are standard works of reference and he is employed by the biggest corporations in the country.



Lauchlin Currie

TREASURY DEPARTMENT

67

INTER-OFFICE COMMUNICATION

DATE June 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The open market rate for sterling jumped more than 13¢ today, mainly due to the New York banks' attempts to execute, in a thin market, buying orders received from Japan and other Far Eastern banks. From an opening of 3.60, sterling advanced to a high of 3.74-1/4. It closed at 3.73-1/2.

Sales of spot sterling by the six reporting banks totaled £137,000 from the following sources:

By commercial concerns.....	£ 21,000
By foreign banks (Europe and Far East).....	£116,000
Total.....	£137,000

Purchases of spot sterling amounted to £208,000, as indicated below:

By commercial concerns.....	£ 61,000
By foreign banks (Far East and Europe).....	£147,000
Total.....	£208,000

There were no reported sales of sterling to the British Control on the basis of the official rate of 4.02-1/2.

The Guaranty Trust Company stated that it had purchased £5,000 from the British Control at the official rate of 4.03-1/2, the funds to be used to pay for whisky shipments.

Continuing its improvement, the Swiss franc moved to a new current high of .2267 this morning. It subsequently reacted to close at .2260, slightly lower than yesterday's final rate.

The Canadian dollar again had a firm tone today. The closing discount was 18-3/4%, as compared with 19-1/8% yesterday.

The other currencies closed as follows:

Lira	.0505
Reichsmark	.4000
Cuban peso	10% discount
Mexican peso	No quotations received

We purchased \$50,000,000 in gold from the earmarked account of the Bank of England.

- 2 -

The Federal Reserve Bank of New York reported that the Bank of Canada, Ottawa, shipped \$5,102,000 in gold from Canada for its own account to the Federal, for sale to the U. S. Assay Office at New York.

The State Department forwarded to us cables stating that the following shipments of gold would be made:

\$1,261,000 from England, shipped by Sharps and Wilkins, London, to the Bank of China, New York.
181,000 from Hong Kong, shipped by the National City Bank, Hong Kong, to the American Trust Company, San Francisco.
107,000 from England, shipped by the Westminster Bank, London, to the Chase National Bank, New York.
56,000 from England, shipped by Sharps and Wilkins, London, to the Chase National Bank, New York.
16,000 from England, shipped by the Westminster Bank, London, to the Swiss Bank Corporation, New York.

\$1,621,000 Total

The shipments coming from England will be sold to the U. S. Assay Office at New York, and the one from Hong Kong will be sold to the United States Mint in San Francisco.

No gold or silver quotations were received from Bombay today.



CONFIDENTIAL

RDS

PLAIN

63

WELLINGTON VIA TUTUILA
& N.R.

Dated June 22, 1940

Rec'd July 31, 1940
9:30 p.m.

Secretary of State,
Washington.

NOT TO BE DISSEMINATED WITHOUT

June 22nd, 1940.

Regulations issued by the Government on June 18th under the Emergency Regulations Act of 1939 gave to the Government wide powers to draft and control the Dominion's man-power and production facilities as a necessary war measure. These regulations provide for compulsory national service for all persons sixteen years of age or over, whether for military or economic purposes, and give the Government power to control all productive plant and materials used in both primary and secondary industries, to acquire use and dispose of private property of all kinds, and to suspend or modify contracts or regulations is made a good defence to actions for British of contract.

Financial regulations give the Government power to raise a forced loan for war purposes. All residents of New Zealand must offer to sell to the reserve bank all gold coin, bullion and foreign currency owned by them. Foreign securities owned by New Zealand residents must be registered with the Government and may be purchased by the reserve bank.

All

-2- June 22, 1940, from Wellington via Tutuila & N.R.

All dealings in foreign currency or securities are unlawful except with the bank's consent. Interest rates on bank loans may not be increased over those prevailing on June 18, 1940 except with the consent of the Minister of Finance. Issues of capital stock and public offers of securities must be approved by the Minister.

National finance accounts for the fiscal year ended March 31, 1940 showed a surplus of pounds New Zealand three hundred and nineteen thousand. Total revenues were pounds New Zealand thirtyseven million nine hundred and seventyfour thousand, and expenditures, pounds New Zealand thirtyseven million six hundred and fiftyfive thousand. In the 1938-39 fiscal year revenues were pounds New Zealand thirtysix million five hundred and eightytwo thousand and expenditures pounds New Zealand thirtyfive million seven hundred and seventythree thousand. These figures cover only the consolidated fund and do not include revenues and expenditures in separate funds for war purposes, social security, public works and other purposes. Expenditures for war purposes were pounds New Zealand seven million one hundred and six thousand, for social security pounds New Zealand ten million eight hundred and forty three thousand, and for public works pounds New Zealand nine million two hundred and thirty eight thousand. Revenues for war purposes and social security were raised mainly by taxation, for public works

-5- June 22, 1940, from Wellington via Tutuila & N.R.

works mainly by loans. The Government recently announced that no reductions in social security benefits would be made as a result of the war, but that non-essential public works would be eliminated. Between September 1, 1939 and May 25, 1940 public works employees were reduced from nineteen thousand eight hundred and nine to fifteen thousand six hundred and eightyone.

The excess of export for the first four months of 1940 was pounds New Zealand fifteen million sevenhundred thousand, compared with pounds New Zealand seven million three hundred and fortyeight thousand in the same period of 1930. The export excess in the twelve months May 1, 1939 to April 30, 1940 was pounds New Zealand sixteen million nine hundred and seventyfour thousand, compared with pounds New Zealand four million five hundred and twentytwo thousand in 1938-39 and pounds New Zealand two million nine hundred and seventysix thousand in 1937-38. Imports in the 1939-40 twelve month period totalled pounds New Zealand forty six million one hundred and fiftyeight thousand, and exports pounds New Zealand sixtythree million one hundred and thirtytwo thousand, compared with sixtythree million one hundred and thirtytwo thousand, compared with imports valued at pounds New Zealand fiftythree million seven hundred and thirtyone thousand, pounds New Zealand fiftyeight million two hundred and fiftythree thousand in the same period

-4- June 22, 1940, from Wellington via Tutuila & N.R.

period of 1938-39. Between May 1, 1939 and April 30, 1940, the overseas net assets of New Zealand banks increased from approximately pounds New Zealand nine million to pounds New Zealand twentyfour million six hundred and seven thousand. An indication that these assets have accumulated further since the latter date is an increase of approximately pounds New Zealand seven hundred thousand in the sterling funds of the reserve bank between April 30th and June 7th, on which date the bank's total sterling exchange stood at pounds New Zealand fourteen million five hundred and fortysix thousand.

Applications for licenses to import goods in excess of quotas or to import goods which are not subject to definite quota limitations, are being administered with increasing strictness, particularly as regards shipments from non-sterling countries. To obtain such licenses for non-sterling orders, importers must show that (a) shipments are essential to the importer's business and (b) that similar goods are not available from a British sterling country.

Despite shortages in many imported lines, including luxury goods, canned foodstuffs, iron and steel, paper and hardware, retail prices have not risen excessively since September 1939. Except for a considerable decline in private building construction, and motor vehicle sales, most internal business indexes reflect healthy tendency.

Sales
tax

-5- June 22, 1940, from Wellington via Tutuila & N.R.

tax receipts for the first four months of 1940 decreased by eleven point one per cent from figures in the same period of 1939, but May collections in three large urban centers were reported to be higher than in May, 1939. The value of building permits issued in the first four months of 1940 declined by fifteen point nine per cent from the first four months of 1939. New passenger car registrations in the first five months of 1940 totalled four thousand and new trucks seven hundred and fiftyeight, representing decreases of sixtysix point six per cent and fiftyeight point seven per cent respectively from registration figures in the first five months of 1939.

The Minister of Supply estimated in mid-June that during the seven months in which gasoline consumption restrictions have been in force since the outbreak of war in September, 1939, more than twelve million imperial gallons of gasoline value at approximately one million three hundred and sixtyeight thousand dollars in dollar exchange had been saved from normal consumption requirements. Normal annual consumption is approximately one hundred and three million imperial gallons. However, the Minister stated that more drastic rationing would soon be necessary unless users voluntarily restricted consumption still further. Total passenger car registrations on May 31, 1940 were only three point two per cent less than on May 31, 1939, trucks,

-6- June 22, 1940, Wellington via Tutuila & N.R.

trucks, naught point two per cent less.

A drive for increased production of primary produce has been instituted by the Government to make available larger quantities for export to the United Kingdom. Among production aims for the 1940-41 export season are: butter, mutton and lamb to be kept at 1939-40 production levels, cheese production to be increased from fifteen thousand to twenty thousand long tons per year, bacon to be increased by ten thousand long tons per year, and a larger output of beef, eggs, pasture and clover seeds and forage crops of all kinds. The Government is to consider the possibility of establishing a linseed oil extracting plant and the manufacture of stockfeed. At the request of the United Kingdom Government plans have been made to set aside fifteen thousand acres for the planting of linen flax, to produce eight thousand long tons of fiber. Five hundred tons of seed have been ordered for sowing in September, 1940.

Butter gradings for export during the first ten months of the 1939-40 season ended May 31, 1940, totaled one hundred and thirty thousand five hundred and twentyone long tons and cheese gradings, ninety one thousand three hundred and fiftyfive long tons. These totals represented increases of eight point one per cent and thirteen point seven per cent respectively over gradings in the same period of 1938-39.

Meat production in the current season has greatly increased. Killings for export of all types during the

ten

-7- June 22, 1940, Wellington via Tutuila, & N.R.

ten months period July 1, 1939 to May 31, 1940, totalled eleven million seven hundred and twentysix thousand eight hundred and fortyfour freight car cases, an increase of sixteen per cent over car cases handled for export in the same period of 1938-39. Lambs killed totalled approximately ten million and one thousand (an increase of seven hundred and fortysix thousand), mutton carcasses, three million one hundred and sixteen thousand (increase of five hundred and seventyfour thousand), and beef quarters, five hundred and ten thousand (increase of one hundred and seventynine thousand). Pig killings totaled four hundred and nineteen thousand, a decrease of one hundred and fifteen thousand, but production by weight was approximately the same as in the previous season due to an increase in the proportion of pigs raised for bacon to those raised for pork.

Unfavorable weather in May for wheat sowing is expected to reduce greatly the estimates previously made for a bumper harvest in 1941. The Government has publicly appealed for farmers to increase wheat production immediately in order that imports may be cut to the lowest possible level. A potato crop surplus was partially relieved by the lifting of the Australian embargo on New Zealand potatoes to permit shipping five thousand long tons during the year 1940.

PINKERTON

EMB

PARAPHRASE OF TELEGRAM RECEIVED**FROM:** American Embassy, Berlin, Germany**DATE:** June 23, 1940, noon**NO.:** 2038

**FOR THE TREASURY DEPARTMENT AND FOR THE DEPARTMENT'S
INFORMATION.**

FROM HEATH.

Reference is made to telegram No. 1141 of May 2
from the Department.

The speech which the Secretary of the Treasury made
on May 3 was communicated to Bowerpuhl, active head of
the Reichsbank, informally. He has written me a letter
dated June 17, which presumably was given official
approval before being sent to me, which letter I quote
in telegram No. 2038 from the Embassy.

HEATH.**EA:LNW**

HSM

GRAY

Berlin

Dated June 23, 1940

Rec'd 1:40 p. m.

Secretary of State,
Washington.

2039, June 23, noon.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S
INFORMATION.

"You were good enough to hand to me in the beginning of May the tenor of Mr. Morgenthau's argument relating to the gold problem. I immediately devoted myself to the study of this material and I have done so again now after my return as the question which role gold is to play in a future currency settlement becomes more and more actual. I quite appreciate the fact that this question is one of the greatest importance especially to your country. I personally am of the opinion that the role of gold in the monetary respect need not by any means have been played out provided all parties concerned can arrive at a reasonable solution of the gold problem.

"I am very thankful to you for having again given me the opportunity to acquaint myself more thoroughly with the official viewpoint of the United States of America in this matter and presume that within a measurable time we shall have to deliberate on this complex collect questions in due form."

PEG

HEATH

June 24, 1940
2:45 p.m.

RE FRENCH SHIPS IN AMERICAN PORTS

Present: Mr. Foley
Mr. Bell
Mr. White
Mr. Gaston
Mr. Thompson
Mr. Viner
Mrs. Klotz

H.M.Jr: This is what the President said in his telephone conversation with me. He said that he and Cordell Hull before they signed this Armistice sent word to the French Government that they would not recognize the ceding of any territory in this Hemisphere. Now, after all, he said in the case of Denmark we didn't recognize any acts of the Danish Government because we say it is done under duress. Therefore, why should we recognize that if they get orders - ships flying the French flag in these ports, if they should get orders to sail, why should we recognize that any more than we would orders from Denmark, so what I said was that we take the action and then find a legal reason for having done it afterward. He said that would be fine.

White: The same reasoning could apply to balances or gold.

Bell: We discussed that a little this morning at a meeting and Bernstein is studying it to see what he can work out now.

Foley: On the ships?

Bell: On the ships. The only control we have is through evidence of ownership, the ships

- 2 -

belonging to those countries over which we have control.

Bell: I was saying that we talked about this this morning, Mr. Secretary. We are now studying it and Bernstein is now working on it. We have control over the evidence of ownership of those ships through this trading of the enemy act. Bernstein thought we might get some control of these ships through the masters' documents or papers or something.

H.M.Jr: Well, you fellows have got to move. The President of the United States called up. He wants us to hold all French ships in the ports and then find a reason for it afterward.

Gaston: We can hold them, that is simple.

H.M.Jr: I have sent for Norman Thompson. I am going to draw up a piece of paper that Customs goes under you now. I can't be fooling around with Basil Harris who is here three days a week. I am sick and tired of it.

(Mr. Thompson entered the conference.)

H.M.Jr: Norman, draw up a piece of paper for me and I will sign it. You can leave it undated. Effective July 1st, Customs goes under Mr. Gaston. We have got to have somebody who is around here. I just can't be sitting here doing these things. You are willing to take it, aren't you?

Gaston: Oh yes.

Bell: He is doing a lot of it already.

H.M.Jr: It is perfectly asinine. Did Basil tell you he was going away?

Thompson: Yes, he said he was going to New York and he had an appointment with his dentist this morning.

H.M.Jr: Well, I would like to have an appointment with my dentist. I haven't had one for three months. I can't even get my hair cut.

I am not going to fool around with him. If people aren't willing to take this thing 100% seriously, I won't fool around with them.

Well, Herbert, you - I sent for Johnson and I am going to pin it on you that no ship flying the French flag sails from any port until we can find a legal reason to keep them here.

Gaston: We have been --

H.M.Jr: That is what the President wants, and then it is up to you fellows to - the President just phoned me.

Viner: Well, Bernstein went to work this morning on what will be necessary to do that, so we may have something ready.

H.M.Jr: I told the President we would do it and then find the reason for it. He said swell. In the meantime, that would go for funds, too.

Bell: Well, we are not releasing any funds except to pay American contractors.

H.M.Jr: But you don't let any go out of the country?

Bell: Haven't yet.

H.M.Jr: Don't let it, please.

Bell: All right, we'll watch it carefully.

White: There has been some talk, and I take it we are going to explain it further, of possibly tying up the Government funds and using as an excuse that it is against the war debt.

Bell: There was an announcement of it at the White House this morning that the President had received hundreds of suggestions to use these funds against the war debt and he said the Department of State and the White House are studying the question.

H.M.Jr: Well now, should I at my 3 o'clock press conference say that we are not going to

let any French ship go or wait until we have got the legal reason?

Foley: Sure.

Viner: Let the White House make the announcement.

H.M.Jr: Now, Herbert --

Gaston: You have told Johnson to hold the ships?

H.M.Jr: I told Johnson to come over here. It is up to you. I am asking you to handle it. He is on his way over here.

Gaston: All right.

H.M.Jr: And, Herbert, I have said this publicly and privately, please get all the help you need, will you?

Gaston: Oh yes.

H.M.Jr: Will you?

Gaston: Yes.

H.M.Jr: I mean that you can have anybody that you want.

Gaston: Mr. Harris was planning to go shortly anyway.

Bell: I thought it was June 1st.

H.M.Jr: I will ask him point blank.

Thompson: Johnson told me a week ago that Harris had told him in view of the present situation he wouldn't think of walking out.

H.M.Jr: What do you call what he is doing now?

Gaston: Do you want me to go down and talk to Johnson?

H.M.Jr: Would you? And did you hear what I said about help and yourself? Did it register?

Gaston: That is the reason I made that statement, anticipating that Mr. Harris was going to go shortly I was planning to use a couple

in that organization that Mr. Harris has in there now so that would depend on what he is going to do, but I can take care of that.

H.M.Jr:

All right then, we will continue with coffee. I wish you would stay, Jake.

June 24, 1940

FROM: MR. GASTON'S OFFICE

TO: The Secretary

After leaving your office around 3 p.m.
I immediately called ~~Expix~~ Commander Field
of Bureau of Navigation, who has to issue
orders with respect to clearance; He said he
would get out telegram to collectors at once
and soon afterward phoned the following draft,
which we approved in substance:

"To All Collectors of Customs: Upon applica-
tion for clearance made by any vessel under
French registry or flag inform Department of
Commerce immediately by telephone or telegraph
and withhold clearance pending definite
instructions."

He also notified NewYork by phone.





TREASURY DEPARTMENT

WASHINGTON

June 24, 1940.

MEMORANDUM FOR THE SECRETARY:Re: Special Stamps, or Receipts, for Defense Taxes.

You have asked me to formulate a system of special stamps, returns, or receipts, to be used by, or given to, taxpayers, covering the additional taxes prescribed by Title II of the Revenue Act of 1940, referred to as "Defense Taxes," the object being to bring home to taxpayers the fact that a specified portion of their taxes is being contributed directly to National Defense.

The annual additional collections from the so-called Defense Taxes have been estimated by the Department at \$672,300,000, as follows:

1. Income, capital stock, estate and gift taxes.....	\$302,400,000
2. Distilled spirits taxes.....	76,000,000
3. Beer tax.....	46,300,000
4. Wine taxes.....	1,600,000
5. Occupational taxes, liquor dealers.....	1,000,000
6. Cigarette tax.....	34,500,000
7. Miscellaneous stamp taxes (including playing cards, \$400,000).....	6,700,000
8. Gasoline tax.....	112,000,000
9. Taxes on automobiles and accessories...	18,500,000
10. Other manufacturers' excise taxes.....	10,900,000
11. Admission taxes.....	60,000,000
12. Other miscellaneous taxes.....	2,400,000
	<u>\$672,300,000</u>

Obviously no single method could be found which could be uniformly applied to all the above classifications, to accomplish the object which you have described. Any methods selected to accomplish this object must, moreover, be administratively practicable. They must occasion no substantial inconvenience or hardship to the taxpaying public, and must impose no cost upon the Bureau of Internal Revenue which can not be met within the limits of the appropriations available for collecting the revenue.

Having these limitations in mind, I submit the following

Memo. for the Secretary--2.

suggestions for steps which might be taken to accomplish your purpose, in the case of each of the classes of Defense Taxes above enumerated.

1.--Income, Capital Stock, Estate and Gift Taxes, \$302,400,000.

These taxes are paid on the basis of returns filed by the taxpayers. In my judgment, your point can be met satisfactorily for these classes of taxes by providing a special line on the tax return on which will be shown separately the amount of the additional tax due for Defense purposes under the Revenue Act of 1940.

Supplementing this arrangement, it would be possible, if desired, for the quarterly notices sent to persons paying their income taxes in installments, to contain a statement to the effect that the taxes due and payable include the 10 per cent additional tax assessed for Defense purposes under the Revenue Act of 1940.

2.--Distilled Spirits Taxes, \$76,000,000.

These taxes are paid by stamps affixed to the bulk packages (barrels) at the time the spirits are withdrawn from the distillery or warehouse for bottling. Since the whole of the distilled-spirits tax is paid by a few hundred distillers and warehousemen, there would apparently be no point in changing the present procedure for tax payment by providing a separate stamp to cover the additional Defense Tax.

The present revenue laws require that all distilled spirits moving into the hands of retailers for sale must be in bottles, and they require, moreover, that each bottle of distilled spirits must carry a stamp as a symbol of tax payment. This is the familiar red or green "strip stamp."

To accomplish the object which you have in mind, it would be practicable to substitute new designs for the "strip stamps" now in use, so that they could carry an appropriate legend showing that all internal revenue taxes had been paid, and mentioning separately the additional Defense Tax collected under the Revenue Act of 1940. If desired, the basic tax rate and the additional rate for Defense purposes could be separately shown on the stamp.

3.--Beer Tax, \$46,300,000.

The tax on beer sold at bars by the glass is paid by stamp

affixed by the brewer to the bulk container (barrel). Since the bulk container is rarely, if ever, seen by the patrons, there would scarcely be any point in requiring the brewer to affix a separate and additional stamp for the Defense Tax, and it is not believed that this should be done.

The tax on bottled beer is paid by stamp by the manufacturing brewer on the basis of meter readings at the brewery. The stamps are taken up and canceled by revenue officers, and no stamp is required to be affixed to the bottle. The label affixed to the bottle by the brewer, however, is required to carry a statement to the effect that the internal revenue taxes have been paid, and it would be a simple matter to amend existing regulations so as to require a specific reference in the label to the additional tax imposed for Defense purposes by the Revenue Act of 1940.

4.--Wine Taxes, \$1,600,000.

Wine taxes, like beer taxes, are collected by stamps affixed to the bulk package (barrel), and no stamp is required to be affixed to the bottle which reaches the consumer. The regulations, however, require the label on each bottle of wine to contain a statement to the effect that the internal revenue taxes have been paid. It would be practicable to require wine-makers and bottlers of wine to include in their bottle labels a specific reference to the Defense tax, should this be desired.

5.--Occupational Taxes, Liquor Dealers, \$1,000,000.

Persons paying occupational taxes as wholesale or retail dealers in distilled spirits, wines, or fermented malt liquors, are given receipts for such taxes in the form of stamps, and these are required to be prominently displayed at their respective places of business. It would be practicable to amend the form of receipt now used for this purpose so as to mention expressly the additional tax collected for Defense purposes under the Revenue Act of 1940.

6.--Cigarette Tax, \$34,500,000.

As is well known, the cigarette tax is paid by the manufacturer, who is required to affix a stamp to each retail package.

It would not be feasible to require a separate and additional stamp to be affixed to the retail package to cover the additional cigarette tax for Defense purposes under the Revenue

Act of 1940. To do so would involve all manufacturers in the necessity of securing expensive new equipment, and the imposition of large financial burdens upon the manufacturers for this purpose could not, in my judgment, be justified.

The same object can, however, be met by changing the design of the present cigarette tax stamp, without changing its size, so that the stamp will contain specific reference to the additional tax for Defense purposes. If desired, the new stamp can be designed in such a way as to show the base rate and the additional Defense rate, separately.

7.--Miscellaneous Stamp Taxes (including Playing Cards, \$400,000), \$6,700,000.

Playing-card stamps.--It will be necessary in any case to redesign the playing-card stamp, since the stamp now in use is in the denomination of 10 cents. The new rate is 11 cents per pack. In redesigning this stamp, it would be feasible to follow the principle above suggested, that is, to make specific reference to the additional tax for Defense purposes under the Revenue Act of 1940, and, if desired, to show the base rate and the Defense tax separately. It would not, in my judgment, be advisable to incur the additional costs which would be involved, for both the Government and the manufacturers, in providing a separate additional stamp for the additional Defense tax.

Documentary-stamp taxes.--The tax on corporate securities, capital stock issues, capital stock transfers, transfers of bonds, deeds of conveyance, and steamship passage tickets, is collected by revenue stamps affixed to the documents involved.

Special additional stamps to cover the increased rates for Defense purposes under Title II of the Revenue Act of 1940 would not be practicable. Documentary stamps are sold in various denominations, and in the case of any taxable transaction the taxpayer is required to affix to the appropriate document, stamps having an aggregate value equal to the amount of tax due. It would be quite impossible to educate the tax-paying public to the proper use of supplementary additional stamps to cover the increase in rates for Defense purposes under the Revenue Act of 1940.

As in the case of the items above discussed, however, it would be entirely feasible to redesign the documentary stamps in such a way that they would expressly mention the additional

taxes for Defense purposes under the Revenue Act of 1940, and it is believed that such a redesign would satisfactorily accomplish the object which you have in mind so far as documentary-stamp taxes are concerned.

- 8.--Gasoline Tax, \$112,000,000;
- 9.--Taxes on Automobiles and Accessories, \$18,500,000;
- 10.--Other Manufacturers' Excise Taxes, \$10,900,000.

These are excise taxes paid by the manufacturers on lubricating oils, gasoline, electric energy, tires and tubes, toilet preparations, automobile trucks, passenger automobiles and motorcycles, parts and accessories for automobiles, radio sets, mechanical refrigerators, firearms, shells, pistols, and revolvers.

These taxes are paid on the basis of returns filed monthly by the manufacturers, numerically a relatively small class. It will be practicable to revise the existing returns so as to show separately the additional taxes due for Defense purposes under Title II of the Revenue Act of 1940.

11.--Admission Taxes, \$60,000,000.

These taxes, like the manufacturers' excise taxes above referred to, are paid on the basis of returns filed by the proprietors of the theaters, cabarets, ball parks, race tracks, etc., involved. As in the case of the manufacturers' excise tax returns referred to, it would be feasible to amend the form of return so as to require the additional amount due for Defense purposes under Title II of the Revenue Act of 1940 to be separately stated on the return.

It is considered doubtful whether the Department would have the authority to require those liable for the collection of amusement taxes to modify the form of admission ticket now in use so as to show separately the additional tax under Title II of the Revenue Act of 1940.

12.--Other Miscellaneous Taxes, \$2,400,000.

These include taxes on club dues and initiation fees, safe deposit boxes, and the transportation of oil by pipe line. It will be feasible to amend the form of return used in the collection of these taxes so as to show separately the additional Defense taxes collected under Title II of the Revenue Act of 1940.

It should be understood that it will be impossible in any case to make administrative changes such as have been described above to be uniformly effective on the dates when the new tax rates become effective. This is especially true of changes in the design of stamps covering changes in tax rates effective July 1 next. The redesign of the stamps above mentioned, and the manufacture of the required new stocks, would require a number of months' time on the part of the Bureau of Engraving and Printing, but since the increased tax rates are effective under the Revenue Act of 1940 for a period of five years, it is not believed that this necessary delay in the change of stamp designs would mitigate in any important way against the program which you have in mind.

GRAVES.

December 12, 1939.

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Secretary Morgenthau

Mr. Foley

In accordance with your request, I have prepared a memorandum outlining the scope of the Treasury's authority to assist in the program for national defense by exercising powers conferred upon it by the internal revenue laws. The discussion falls under three headings: (1) closing agreements, (2) obsolescence allowances, and (3) remedies of taxpayers.

I

Closing Agreements

Closing agreements were first authorized in 1921. Revenue Act of 1921, §1312. Restrictive provisions in the law, however, prevented any extensive use, even though in 1924 the original limitations were modified. Revenue Act of 1924, §1006; Revenue Act of 1926, §1006(b).

In 1928 both the Committee on Ways and Means in the House of Representatives and the Committee on Finance in the Senate criticized the continual reopening of tax cases, by the government as well as by taxpayers. Both committees suggested that increased use of closing agreements would operate to diminish the number of reopened tax cases.

In an effort to solve the problem of reopened tax cases, Congress removed the technical restrictions which had made the use of closing agreements ineffectual. Revenue Act of 1928, §606. However, since

Congress had liberalized the provision relating to closing agreements primarily to settle finally income taxes for prior years, the law permitted the execution of such agreements only in respect of a previously existing tax liability.

It was not until last year that the authority to execute closing agreements was extended to cover future tax liability. Revenue Act of 1938, §801.

In delegating this authority to the Treasury, Congress recognized that the power would have to be exercised with considerable restraint to avoid discrimination among taxpayers.

The Ways and Means Committee of the House of Representatives in making its report declared that "since closing agreements of this type will constitute a new method of settling controversies, it is contemplated that the Commissioner [of Internal Revenue] will exercise his discretionary power only where such exercise is in the interest of a wise administration of the revenue system." House Report No. 1860, 75th Cong., 3d Sess., p. 67.

It is clear, therefore, that Congress intended closing agreements to be used solely for the purpose of assuring taxpayers some certainty in entering into business transactions by settling in advance factual and legal questions likely to be of a constantly recurring nature and involved in the transaction in question.

With this object in mind, the Treasury can be of assistance to taxpayers who intend to submit bids for the production of items needed for

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the national defense by executing closing agreements to assure such bidders the method of charging against the cost of performing the contract expenditures for jigs, dies, tools and special machinery designed, constructed and suitable only for the performance of a particular job.

On the other hand, if, for example, a prospective bidder proposes to erect a building having a probable period of usefulness of 50 years, the possibility that at the end of the existing emergency the building may be useless to the taxpayer and might be permanently discarded from his business would not furnish the Commissioner a sufficient basis on which to enter into a closing agreement at this time, fixing the rate of obsolescence on the building at 50 per centum per annum. Such a closing agreement would be predicated upon two conjectures: (a) that the emergency period will last for 2 years, and (b) that the building will constitute surplus capacity having only salvage value. Neither surmise can be made with any reasonable degree of certainty.

II

Obsolescence Allowances

Under the Vinson-Trammell Act the method of ascertaining the amount of excess profit to be paid into the Treasury is determined by the Secretary of the Treasury in agreement with the Secretary of the Navy. Public No. 135, 73d Cong., §3, 48 Stat. 505. Under the national defense act of 1939 the provisions of the Vinson-Trammell Act are made applicable with respect to contracts for aircraft for the Army in the same manner

that such provisions are applicable to contracts for aircraft for the Navy. Public No. 18, 76th Cong., §14, I.R.B. 1939-20, 13.

Pursuant to these acts, the Treasury has issued excess profits regulations for Navy contracts for vessels and aircraft, with the concurrence of the Secretary of the Navy. T.D.4906, 4 F.R. 2492. The Treasury has also issued similar regulations for Army contracts for aircraft, with the concurrence of the Secretary of War. T.D.4909, 4 F.R. 2733.

These regulations provide that there may be charged as part of the cost of performing a particular contract, or subcontract, under the Vinson-Trammell Act indirect factory expenses including "depreciation and obsolescence of special equipment and facilities necessarily acquired for the performance of the contract or subcontract." T.D. 4906, §17.9; T.D. 4909, §16.8.

With the concurrence of the Secretary of the Navy, it was ruled in 1935 that the determination of a proper allowance for obsolescence of such special equipment must await the termination of the contract or subcontract for which such special equipment was required inasmuch as it could not be reasonably ascertained until then whether the special equipment would be useful in performing other contracts. I.T.2861, C.B. XIV-1, 530.

In order to assure contractors that their profits derived from such contracts or subcontracts would not be distorted, it was ruled in June of this year that if, upon the completion of such a contract or subcontract, the Commissioner of Internal Revenue determines that special facilities

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required and used solely in the performance of the contract or subcontract are no longer being used in connection with any other operations nor have any further prospective use, then "their entire and reasonable cost, less salvage value, will be generally accepted as part of the cost of performing the particular contract or subcontract," but if the Commissioner of Internal Revenue determines that the special facilities in question were not used solely to perform the particular contract or subcontract, then "allowance for exhaustion, wear and tear, and obsolescence shall be made in accordance with a reasonably consistent plan, on a basis which will return to the contracting party the reasonable cost of such facilities at the end of their expected economic term of usefulness, and . . . The part of the cost, if any, remaining after deducting such allowances and the salvage value of such facilities will be generally accepted as a part of the cost of performing the particular contract or subcontract." I.T.3289, I.R.B. 1939-24, 13.

Under the Internal Revenue Code it is provided that in computing net income there should be allowed as a deduction "a reasonable allowance for the exhaustion, wear and tear on property used in the trade or business, including a reasonable allowance for obsolescence." I.R.C. §23.

In accordance with this provision, the income tax regulations state that if a taxpayer shows that physical property is "being affected by economic conditions that will result in its being abandoned at a future date prior to the end of its normal useful life, so that depreciation deductions alone are insufficient to return the cost or other basis at the

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end of its economic term of usefulness, a reasonable allowance for obsolescence, in addition to depreciation, may be allowed in accordance with the facts . . ." Regs. 101, art. 23(1)-6.

It will be noted that the provision in the income tax law and in the income tax regulations permitting a deduction for obsolescence in computing the income tax is in general terms and applies alike to all taxpayers. See Ganbrinus Brewery Co. v. Anderson, (1931) 282 U. S. 638, 644.

There is nothing to indicate that Congress intended that, for income tax purposes, the taxable incomes of private manufacturers of armament should be determined according to any different rules from the rules applicable to the taxable incomes of all other private manufacturers. Likewise, there is nothing to indicate that Congress intended that, for Vinson-Trammell Act purposes, obsolescence should be determined under rules different from those which prevail with respect to the income tax.

All taxpayers, and all contracting parties subject to the Vinson-Trammell Act, share alike the privilege of deducting a reasonable allowance for obsolescence. The amount of this allowance is the sum which should be set aside for each taxable year, in order that at the end of the useful life of the facilities in question, the aggregate sum set aside will (with the sum set aside for depreciation plus salvage value) be sufficient to provide an amount equal to the original cost.

Obsolescence is a question of fact in each case. It may arise as the result of laws regulating or forbidding the particular use of the

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property as well as from changes in the art, the shifting of business centers, loss of trade, inadequacies or other causes. Burnet v. Niagara Falls Brewing Co., (1931) 282 U. S. 648, 654.

In the case cited, the brewing company had claimed deductions for obsolescence in the years 1918 and 1919 because the imminence of national prohibition would require it to cease to use its brewery for making beer. The Supreme Court took judicial notice of the fact that the Eighteenth Amendment had been ratified by twelve states in the first six months of 1918, by three more before the end of 1918, and that in January, 1919, (before the tax return for 1918 was due) twenty-one additional states ratified and prohibition was established to take effect one year later.

On the basis of these facts, the Supreme Court held that the brewing company was justified in the early part of 1918 in concluding that its property would become useless for the purpose for which it was acquired.

Applying this same principle, the Supreme Court held that a small arms ammunition manufacturer who had constructed a plant solely to manufacture war ammunition was entitled to treat the value of such plant remaining after the Armistice as salvage in computing the company's income tax liability for the year 1918. United States Cartridge Co. v. United States, (1932) 284 U. S. 511.

The general requirement that losses be deducted in the year that they are sustained follows from the need for a practical test in computing income. The only reason an exception is made in the case of some losses, such as obsolescence, is because such loss is not only reasonably certain

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in fact but is ascertainable in amount before the loss is absolutely realized.

Hence, the right to an obsolescence deduction must rest upon substantial reasons for believing that the property in question will become obsolete prior to the end of its ordinary useful life, and it must be known or susceptible of being known to a reasonable degree of certainty when that event will likely occur. That the value of property or its earning power has declined does not of itself furnish the basis for a deduction. First National Bank of Key West v. Commissioner, (1932) 26 B.T.A. 370.

It follows that, in the case of permanent buildings and standard machinery, the fact that it is impossible on the basis of available evidence to compute any greater than the normal amount of depreciation and obsolescence forbids the execution of closing agreements determining in advance an extraordinary obsolescence allowance for such permanent buildings and standard machinery. To do otherwise would be to purport to grant private manufacturers of ornament more than they are entitled to under the law.

III

Remedies of Taxpayers

The income tax law is based upon a procedure of self-assessment, and the Vinson-Trammell Act provides that the assessment, collection, and refund provisions applicable with respect to the income tax shall be applied to Vinson-Trammell Act cases. Generally speaking, a taxpayer makes out his return, computes the tax on the net income shown in the return which

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he then files, and pays the tax indicated on the return.

If the Collector of Internal Revenue for the district in which the return is filed, or the Commissioner of Internal Revenue, finds after reviewing or auditing the taxpayer's return that the taxpayer owes a greater tax than that which he indicated in the return, the Collector or the Commissioner, as the case may be, advises the taxpayer of this determination and of his intention to increase the tax. The taxpayer is then given an opportunity to protest the proposed assessment of an additional tax and to show that he has not under-assessed himself. If the correct amount of liability is not agreed upon, the Commissioner usually proceeds to send the taxpayer a notice of deficiency which sets forth his determination of a deficiency in the tax, and the taxpayer may within 90 days petition the Board of Tax Appeals for a redetermination of the deficiency, or the taxpayer may pay the tax and file a refund claim. I.R.C. §§271-277.

The procedure by which the taxpayer may obtain a refund in such case is, on the whole, the same as if he had originally overassessed and overpaid his tax and seeks to recover the amount of overpayment. The taxpayer may claim a credit or refund within three years from the time the return was filed or within two years from the time the tax was paid. I.R.C. §322(a)(b).

If the Commissioner should reject the taxpayer's claim for refund, the taxpayer may bring an action in the courts to recover the taxes alleged to have been erroneously collected within two years after the

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Commissioner sends a notice of rejection. I.R.C. §§3772-3774. If, however, the taxpayer has elected to file a petition with the Board of Tax Appeals, as a rule, the courts would have no jurisdiction over an action for the recovery of an overpayment for the taxable year which is pending before the Board. I.R.C. §322(c).

It has not been intended to discuss in detail in this memorandum all the applicable statutes and multitudinous decisions relating to the determination, assessment and collection of income taxes, and the methods for securing the return of overpayments. It has been deemed sufficient merely to indicate that ample remedies are open to a taxpayer, or a contracting party subject to the Vinson-Trammell Act, who may feel himself aggrieved by a determination of the Commissioner of Internal Revenue.

Nor do these remedies embrace only statutory and legal proceedings. In an effort to reduce repetitious steps and long delays in the settlement of tax liability, the Treasury inaugurated on March 1, 1938, a definite program looking to the decentralization of the appellate procedure for the administrative settlement of tax cases. With certain exceptions as to review of audits in Washington, this procedure is followed with respect to cases arising under the Vinson-Trammell Act.

Through the use in field divisions of the settlement procedure developed by the Technical Staff of the Bureau of Internal Revenue since its establishment in 1933, the Treasury has provided a method for the expeditious and economical disposition of tax disputes.

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It is fair to conclude that, although an erroneous determination of the appropriate allowance for obsolescence may from time to time occur, the tax laws and the procedure developed for their administration invariably afford the taxpayer full opportunity to have any such mistakes rectified; and it is safe to predict that whenever the fact of obsolescence can be definitely shown and the point of time of complete disappearance of value other than salvage value can be definitely ascertained, the taxpayer will obtain the full benefit of the reasonable allowance for obsolescence granted by the Congress.

F. V. Foley Jr.

Shown to White
6-26-40

June 24, 1940.

Copies to: Mr. D. W. Bell
Mr. H. Gaston
Mr. J. Viner

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Home

At a conference in Mr. Bell's office, participated in by Messrs. Bell, Gaston, Viner and White, the following was arrived at:

There was agreement:

1. that the additional taxes called forth by the special defense program be segregated wherever possible but without the use of stamps. (For example, the income returns should provide for segregation in the totals of the amount added because of special defense taxes.)
2. that no publicity be given to the program of segregating the additional tax from the regular taxes but that the procedure be treated as administrative routine so that the general idea will receive as little public attention as possible.

The disadvantages of the use of stamps for defense taxes were suggested to be as follows:

1. The additional taxes cover less than a fourth of the Federal expenditures for the Army and Navy. Therefore, it would be misleading to label only the additional taxes "defense tax".

(Possible ans.) -- This could be avoided by labeling the additional taxes "special defense taxes".

2. The public has demonstrated its willingness to pay additional taxes and inasmuch as the expenditures are bound to be increased again it would be well to save the patriotic appeal of a special stamp for a time when we must make a really great effort.

(Possible ans.) -- Doubtless expenditures on defense will increase, but the fact that the program of special stamps had already been established with respect to a small amount of taxes does not seem to weaken the efficacy of the idea when later applied to a larger amount.

Division of Monetary
Research

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3. The outstanding debt is so high that there is sufficient justification for a continuation of an additional tax even if defense expenditures were later to be reduced. To label the additional taxes "defense" taxes would render it difficult to continue the higher level of taxation after expenditures for defense have been out.

(Possible ans.) — It is true that the additional tax imposed for defense may have to be continued in order to reduce the outstanding debt even after special defense expenditures have ceased. Yet the public is entitled to be reminded of that fact inasmuch as the excuse for the current additional tax has been the special defense program. Once the need for special defense taxes has ceased it should be easy to justify continued higher level of taxes on the grounds that it is necessary to reduce the outstanding debt provided the economic situation at the time justifies the same level of taxes. In any case, since special defense taxes will be in effect for a much longer period than five years, the problem for a long time to come is academic and not real.

4. The policy of allocating a special portion of tax receipts for special purposes is in general an unsound practice and lends itself to abuse. There is no more reason why taxes for defense should be so labeled than there would be for taxes for relief, or for agricultural subsidies to be segregated. Presumably all Government expenditures are desirable, else they would not be made.

(Possible ans.) — The very special nature and magnitude of defense expenditures may justify making an exception to the general principle that taxes should not be allocated for any special purpose. It might be well to establish the special stamp procedure now for the very reason that we expect those special taxes to be much larger in the future. The use of special stamps has the virtue of calling to the attention of the taxpayer the fact that a portion of his direct Federal taxes has been necessitated by the special defense program. He may have a more intelligent attitude toward that problem.

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Division of Monetary
Research

5. It would be difficult for the bearer of the tax to receive a stamp in payment for some of the special taxes -- e.g., gasoline and liquor taxes.

(Possible ans.) -- Though it may be administratively difficult to use stamps in many instances, the program need not have 100 percent coverage in order to have effect.

6. As increased expenditure for defense is necessary and therefore as the portion of the tax labeled as defense taxes increases, the reluctance of the public to spend the necessary amount for defense may possibly increase and render difficult obtaining sums adequate for defense expenditures.

(Possible ans.) -- On the other hand, it may be held that the public will be less reluctant to pay higher taxes when they realize that those taxes are being imposed for reasons of special defense.

7. The administrative costs involved in the use of stamps might be substantial.

(Possible ans.) -- The administrative costs would be too small an item to merit much weight in problems involving other issues indicated above.

ALLISON ENGINEERING COMPANY

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Deliveries of Airplane Engines

	: Actual : deliveries :	: Estimated deliveries on : existing orders
<u>1940</u>		
January.....	10	
May 1 - 23.....	10	
May 24 - June 1.....	5	
June 2 - 8.....	4	
June 9 - 15.....	8	
✓ June 16 - 22.....	11	
June 23 - 30.....		49
July.....		115
August.....		160
September.....		310
October.....		351
November.....		331
December.....		332
<u>1941</u>		
January.....		362
February.....		416
March.....		416
April.....		414
May.....		408
June.....		437
July.....		320
August.....		294
September.....		431
October.....		45
November.....		45
December.....		45
<u>1942</u>		
January.....		25
February.....		21

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

June 24, 1940.

CONFIDENTIAL

June 24, 1940

To: The Secretary
From: Mr. Young

Between June 6th and June 14th, the Navy Department, through Admiral Spear, notified Mr. Nelson, Chairman of the Liaison Committee, that certain materiel could be spared and made available to the British. Shortly thereafter, Mr. Purvis agreed to buy these supplies, subject to receipt of a list of prices on the various items.

I received a list of prices on Friday, June 21st, and immediately communicated with Mr. Ballantyne, Admiral Furlong of the Navy, and Colonel Minton of the Army. At my instigation, Admiral Furlong issued orders that night to the various Navy depots to start packing the supplies and equipment.

On Saturday morning, June 22nd, the official list of items, together with prices, was transmitted from the Navy Department to the War Department where it was subsequently approved as surplus by the Chief of Staff. By 5 o'clock Saturday afternoon, shipping arrangements had been made between U. S. Steel Export and the Navy. All supplies and equipment are to be concentrated at the Raritan Arsenal. The paper part of the transaction is to be handled by a supplemental agreement between the War Department and Steel Export, which will be signed at Raritan the first part of this week.

Admiral Furlong and Captain Byrnes of the Navy; General Harris, General Moore, and Colonel Minton of the Army were most helpful in working out this transaction. Attached is a list of the items and prices involved.

Note: The Navy originally offered to turn over 80 torpedoes and 640 depth charges to accompany the 20 motor boats, but these two items were withdrawn for the present. The Navy

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also had offered to make available 4,093 Browning automatic rifles, and 400 Thompson sub-machine guns, but these two items were withdrawn because legal transfer could not be made by the War Department.

The Navy also had agreed to turn over 9 million rounds of .30 calibre ball ammunition, but this amount was reduced to 6,600,000 rounds due to the fact that the difference of 2,400,000 was located in the Pacific Islands and in the Canal Zone.

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List of Material and Prices Transmitted
to Mr. Young from Colonel Minton, by telephone,
2:10 P.M., Saturday, June 22, 1940, as approved
by the Chief of Staff.

3,000	Lewis machine guns, aircraft type, used @ \$33.92	\$101,760
3,000	Lewis machine guns, ground type, used @ \$33.92	101,760
18,000	Spare barrels for both type of Lewis machine gun @ \$3.00	54,000
30,000	Magazines for Lewis machine guns @ \$1.00	30,000
35,000	U. S. Rifles, calibre .30, model 1903 used @ \$40.00	1,400,000
500	.38 calibre Smith & Wesson revolvers @ \$10.55	5,275
1,000,000	Rounds ammunition (more or less) for .38 calibre Smith & Wesson revolvers	20,000
6,600,000	Rounds calibre .30 ball M-1 ammunition for machine guns at \$30.00 per M (more or less)	198,000
	Total	\$1,910,795

June 24, 1940

My dear Mr. President:

The French have unquestionably learned a lot at a tragic cost. There must be a number of top flight aviators, aviation engineers, ordnance engineers, and designers who know through bitter experience what they should have had. France, as you well know, has been in the ordnance business for a lifetime.

It seems to me that if a number of these men could be brought over here immediately and put at the disposal of the War and Navy Departments that we could profit greatly by their experience.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger 2³⁵

June 24, 1940

My dear Mr. President:

The French have unquestionably learned a lot at a tragic cost. There must be a number of top flight aviators, aviation engineers, ordnance engineers, and designers who know through bitter experience what they should have had. France, as you well know, has been in the ordnance business for a lifetime.

It seems to me that if a number of these men could be brought over here immediately and put at the disposal of the War and Navy Departments that we could profit greatly by their experience.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger

June 24, 1940

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The French have unquestionably learned a lot at a tragic cost. There must be a number of top flight aviators, aviation engineers, ordnance engineers, and designers who know through bitter experience what they should have had. France, as you well know, has been in the ordnance business for a lifetime.

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Yours sincerely,

(Signed) H. Morgenthau.

The President,
The White House.

By Message

NEW YORK HERALD TRIBUNE

FRANCE CALLS IN ALL GOLD AND FOREIGN CURRENCY

Repatriation of Securities and Accounts Abroad Ordered

BORDEAUX, June 24 (UP).--All foreigners in this country as well as Frenchmen were ordered today by a government decree to surrender their gold and foreign currency to the Bank of France.

Another decree ordered all securities and bank accounts abroad to be repatriated immediately.

(Under the terms of the French-German Armistice, as announced at London, the French government must "prevent transfer" of valuables and stocks from occupied to nonoccupied territory or abroad.)

Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 1 p.m., June 24, 1940.

The blocking of French balance applies to accounts of persons and concerns in France itself but not at present in French overseas possessions. Payments to and from accounts at United Kingdom banks of United Kingdom branches of French banks are permitted, but assurances are being obtained from branches that they will not accept instructions from enemy-occupied territory whether from their head offices or otherwise and that they will refer doubtful cases to Bank of England."

British Embassy

20th June 1940



DEPARTMENT OF STATE
WASHINGTON

June 24, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 81 from Bordeaux.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

12 15 PM '40

RECEIVED
DEPARTMENT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Bordeaux (Paris)

DATE: June 23, 1940

Rec'd 11:18 p.m., 24th.

No.: 81

FOR SECRETARY MORGENTHAU.

Reference is made to telegram of June 20, noon, from the Department.

The rights for manufacturing Hispana Suiza engine are now owned by Matford, of which Dolfuss is President. Dolfuss said that his company was about to go into production in France, but that now manufacturing rights have been ceded by him to the Ford Company through Henry and Edsel Ford.

It is doubtful whether, in the present confusion, any French authority would be in a position to take action to transfer the licence to the Government of the United States, even if legal authority to do so were held by the French Government, which is not the case, according to Dolfuss.

BIDDLE.

EA:LWW

CONFIDENTIAL

115

June 24, 1940

My dear Admiral Noyes:

Will you please transmit the following cable for me to Ambassador Kennedy via secret naval code:

QUOTE - 1. Could you find out what has happened to French aircraft carrier Bearn and its cargo of American airplanes?
2. I have only turned over the plans for the Rolls Royce Merlin engines III - X - XX to manufacturers. Pending receiving word from Lord Beaverbrook direct through you, I am holding the balance of the plans in custody. Please ask Lord Beaverbrook what he wishes me to do with them. The Rolls Royce representative in this country is making a ~~damned~~ nuisance of himself. -
UNQUOTE

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Rear Admiral Leigh Noyes, U.S.N.
Director of Naval Communications,
Room 2622, Navy Building
Washington, D.C.

(page 254)
See Kennedy's cable of 6/25, filed in Rolls Royce book, which says that Bearn left Halifax June 16th for France and was diverted to North African port.

Mr. Lloyd
Secret Service
Dr. Morgenthau 4 20

CONFIDENTIAL

June 24, 1940

To: The Secretary
From: Mr. Young

AIRPLANE CONTRACTDate:

This contract, which covered the exchange of 93 Northrup A-17A bombers for Douglas A-20A attack planes, was approved by the War Department and Douglas at 11:50 A.M., June 14, 1940.

Equipment:

Each bomber was completely equipped with five guns, radio equipment, bombracks and minor accessories. Included also were spare engines, spare guns, and spare parts.

The 20 Douglas A-20A attack planes received by the War Department in exchange are to be completely equipped with guns, radio equipment, bombracks, and minor accessories.

Value:

The total value of this contract is \$3,200,000.

BOMB CONTRACTDate:

A contract for the exchange of 565 100-lb. demolition bombs, 5,343 30-lb. fragmentation bombs, and 100,000 charges of nitro-cellulose powder for 155 mm guns was approved by the War Department and the Harrisburg Steel Company at 4:35 P.M., June 13, 1940.

- 2 -

Both sets of bombs were turned over to the Army by the Navy and are for use with the 93 Northrup A-17A bombers. The nitro-cellulose powder was a miscellaneous item which had no connection with the airplanes. In exchange for these three items, the Army will receive 7 million pounds of TNT, 31,234 cases for 500-lb. bombs, and 50,000 cases for 100-lb. bombs.

Value:

The total value of this contract is \$3,012,000.

Present Status:

55 of the 93 planes were flown from Mitchel Field to Halifax, where there is a carrier waiting, last Friday, June 21st. The carrier will leave as soon as the planes can be partially disassembled and loaded.

The remaining 38 planes are at Floyd Bennett Field where 15 are already packed and ready for shipment. One ship will leave within a day or two with 20 planes, and two ships will leave before the end of the week with the balance.

The bombs were shipped by rail to Halifax and presumably will go on the carrier.

Dy.

CONFIDENTIALFOR YOUR INFORMATION

June 24, 1940

To: The Secretary

From: Mr. Young

As of June 22, 1940, 45.6 per cent of the total value of the equipment and supplies furnished the Anglo-French Purchasing Board from U. S. Steel Export was shipped. As no TNT or smokeless powder had been shipped to date, the value of the material shipped actually amounts to 55.4 per cent of the total supplies and equipment contracted for omitting the value of these explosives.

None of these supplies and equipment have been shipped to France.

P.Y.

119 *Humphreys*
not sent
I have copy
Pl.
6/24/40

SHIPMENT OF WAR MATERIAL
FROM
UNITED STATES
TO
ENGLAND

June 22nd, 1940.

Total value of all material	\$37,619,556.60
Less value of T.N.T. and smokeless Powder	6,621,060.00
Total value of Material other than T.N.T. and Smokeless Powder	30,998,496.60

Dollar value of Material shipped other than T. N. T.
and Smokeless Powder

55-4/10% of \$30,998,496.60 = \$17,177,862.97

Dollar value of Material shipped (\$17,177,862.97) is
45-6/10% of Total Value of all Material \$37,619,556.60

NOTE: No T. N. T. and Smokeless Powder shipped
except 3,000 lbs. as sample.

Attached is approximate itemized list of materials shipped.

APPROXIMATE FIGURES OF SUPPLIES LOADED

SUBJECT TO CONFIRMATION

1. Eastern Prince

48	.75 m.m. guns with complement of springs, pistons, adapters and sights
4,100	Browning Automatic Rifles
15,259	Lewis Machine guns - air and spare parts
392	Marlin Machine guns - tank type
8,940	Enfields
37,284,960	Rounds .30 calibre Ball ammunition
14,900	Leather gun slings
1	Case Handbooks

2. Pasteur

95	75 m.m. guns
45	Caissons
203	Limbers
1	Case Handbooks

3. Tillsington Court - a British ship, loaded by French and figures are very approximate.

33	75 m.m. guns
219	Caissons
213	Limbers and spare parts
128,140	Enfield rifles - bayonets and scabbards for same
33,565,102	.30 calibre Ball cartridges
1,705	Browning Automatic Rifles
7,712	Browning Machine guns with parts
1,057	Marlin Machine guns - tank type
11,951	Marlin Machine guns - aircraft
8,015	Lewis - aircraft
40	Lewis - ground - magazines for these
10,000	Smith and Wesson revolvers
10,000	Holsters

8,650 Vickers Aircraft Machine Guns

5,000 Vickers Aircraft Machine guns - ground type
(very rough estimate)

116 Stokes Mortars

4. Pacific Shipper - going today (loaded)

140,000 to 150,000 75 m.m. shells

75 Stokes Mortars

188 75 m.m. guns

260 Limbers

72 Caissons

9,700 Browning Automatic Rifles

33,182,378 Rounds of .30 calibre Ball ammunition

41,720 Enfields
Small lot (1,500 lbs.) smokeless powder
for guns

1,500 lbs for Howitzers - both for testing purposes

25,000 Stoke Mortar shells

858 Lewis Machine guns - ground

8,784 Lewis Machine guns - air

3,539 Vickers Machine guns - ground

81 Marlin Machine guns - air

362 Marlin Machine guns - tank

130,000 Bayonets

130,000 Scabbards and same number of gun slings

5. Dalcross - left 5 a.m. this morning (not confirmed)

300,000 75 m.m. H.E. shells

120-A

BRITISH EMBASSY,
WASHINGTON, D.C.
June 23rd, 1940.

Personal and secret.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copies
of the two latest reports received
from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Morris

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
early on the evening of June 22nd.

Approximately 100 enemy aircraft crossed east and south coasts of England last night. Recurring warnings were given at 17 places in eastern and southern England. Preliminary reports state that H.E. bombs have dropped at Wickhambrook (about 9 miles south of Newmarket) Sudbury and Bury St. Edmunds without causing major damage and incendiary bombs started fires in fields near Guisborough (York.). Several aerodrome gun posts and searchlights in east Anglia also attacked but without result. Our fighter patrols made only one interception and this was inconclusive.

2. Evacuation of Belgian, Czech, French and Polish troops continued from Bordeaux yesterday. Total evacuation figures up to midday yesterday were as follows: personnel, fit - 124,841, casualties 2,193, allied troops 4,410. Polish Government in France arrived in England yesterday.

3. Fighting continues in Alsace Lorraine round Belfort and elsewhere. In Burgundy armoured and motorised forces which occupied Lyons are pressing down Rhone Valley probably to open Savoy and Dauphine to Italians. German forces are consolidating along river Oser but

further/

further west southward advance down the coast proceeds about lower Loire. Further reports received that number of parachute troops in Germany is being considerably increased.

4. Fleet air arm yesterday attacked with 500 lb. bombs battle cruiser "Scharnhorst" in Norwegian waters. Three hits obtained on ship and one near miss along side. Two aircraft missing one W.E. 109 shot down. Mine laying operations also carried out last night by fleet air arm. All aircraft returned.

5. Blenheims attacked oil targets in north-western Germany yesterday. Oil plants, marshalling yards and aircraft factories were also attacked by 105 Wellingtons, Hampdens and Whitleys in same area last night. Two of our aircraft missing. Reports of attacks carried out by heavy bombers on night of June 20th-21st include mention of explosions caused at chemical works at Ludwigshafen, fires at marshalling yards at Osterfeld and at Gottingen aerodrome. Bombs also fell on factory buildings at Hitzacker.

6. Decrease reported in scale of German air operations in France but attacks continue on shipping off Brest and estuary of Loire. Mine-laying in Channel also continues. Bomber reconnaissance aircraft mainly active from Lyons to Bordeaux over estuaries of Gironde and Loire. Reports received that dive-bomber and fighter units in Dunkirk-Boulogne area may be soon increased. No change in activity of German

transport/

transport aircraft. Night flying navigational training renewed in Eastern Germany on small scale but normal advanced training which showed marked decrease a week ago continues at the same low level.

Italy.

7. Reports of Italian aircraft, probably bombers and fighters, being transferred to bases in Germany. These are probably being sent in exchange for German reinforcements in Sicily. On June 20th British bombers from Egypt attacked two Italian aerodromes in East Libya. Six enemy aircraft destroyed by fire and others damaged. As result of Royal Air Force and South African Air Force action, it is considered that major air operations by Italian Air Force in Italian East Africa are unlikely at present. Enemy aircraft attacked convoy in home waters last night but no damage reported. One Swedish vessel and one Yugoslav vessel sunk by torpedoes in western approaches on June 20th. Two British vessels and one Belgian vessel sunk off western coast of Europe on June 21st.

8. Three attacks were made on enemy submarines in these waters on June 20th and 21st. One of these attacks thought to have been successful.

10. Later news. Five enemy air raids on Malta yesterday. Many bombs fell in the sea. No military damage or casualties but floating dock has sunk. Successful attacks by Messerschmitts from Aden on Macassa aerodrome. All aircraft returned. British Somaliland reports enemy patrol activity and air reconnaissance on June 20th.

Telegram despatched from London on
the evening of June 22nd.

United Kingdom.

Small numbers of enemy aircraft approached the east coast of England and Scotland yesterday but fighters were unable to obtain interceptions. No attacks on the United Kingdom took place in the last twenty-four hours. Aircraft which attacked the United Kingdom the night of June 19th-20th were operating from aerodromes in Lille and Dijon areas.

2. British Expeditionary Forces. Following personnel and stores disembarked in the United Kingdom up to midnight last night: personnel, fit - 122,006; personnel, wounded - 2,174; allied troops, - 2,486.

No change in figures for guns, vehicles, ammunition and stores.

All British and Polish troops have been evacuated from La Pallice where French demolitions are proceeding. Efforts are being made to carry out the evacuation of further bodies of Polish troops now in the vicinity of other ports.

3. No official news of the situation of French troops but reports received yesterday that resistance continues in Alsace and about Saar. In Alsace Lorraine several German armoured divisions continue to operate and claim the capture of Nancy/

Nancy, Lunéville, Toul and Strasbourg. There appears to have been considerable resistance round Epinal before it fell. German forces advancing down the Saône Valley towards Lyon reported to have been reinforced. Lille (sic) fell yesterday. Possible that aim of these forces is to join up with the Italian forces on the Franco-Italian frontier. To the west the Germans have reached the western edge of the Auvergne plateau at Vichy and further west still they have reached the river Cher and River Loire from Bourges through Tours and Angers to Nantes. Heavy gun emplacement reported under construction near Cap Hanc - Mes. Signs that another similar emplacement is being started in the vicinity. Report has been received that 20 German divisions in the rear.....being reserve to the western front have been shipped to the Russian frontier and that troops and tanks from Norway and Denmark are being landed at east Prussian ports. Above movements appear possible since troops could now be spared and would be counter to the recent Russian moves into the Baltic States. It appears that the French armistice delegation reached German occupied territory about Tours early this morning.

4. Last night 56 Whitleys and Hampdens attacked.....works, air-park, aqueduct and railway targets in Western Germany. One Whitley and one Hampden missing. Preliminary reports indicate that attacks on suitable targets on the

night/

night of June 19th-20th were successful. Blenheims attacked Rouen early yesterday obtaining hits on hangars and aircraft. All Blenheims returned safely. Fleet Air Arm successfully attacked docks at IJmuiden, Holland, on the night of June 19th-20th. Yesterday Blenheims attacked Amsterdam aerodrome. Attack hampered by weather conditions but all aircraft returned safely. 36 fighter aircraft operated over enemy occupied aerodromes in northern France yesterday. 40 Junker 52's attacked on the ground at Rouen. 16 thought to have been damaged and 4 set on fire. All our aircraft returned.

5. Enemy bomber reconnaissance aircraft very active yesterday over France particularly in the neighbourhood of Marseilles and Toulon. Aerodromes for nearly all these aircraft operating in the vicinity of the United Kingdom appear to be near Brussels. Dive bomber units yesterday operated in Epinal and Cherbourg areas. German fighters being moved to forward areas in western France. Large amount of air transport activity yesterday centered round Brussels.

Italy.

6. No reports of military activity on June 19th. Libyan garrison reinforced recently and white troops there now approaching 250,000. Reports received that black-shirt corps in Cirenaica is being reinforced by Italian white division. In joint attack on Faida (due west of Tripoli) this Italian post completely/

completely destroyed. Morale of the Italian Libian troops appears doubtful and units are being exchanged between Tripolitania and Cirenaica. Supply problem in Libya is becoming extremely difficult for the Italians and cases have been reported of troops failing to receive rations for 2 or 3 days and being short of water. Reference reports in my immediately preceding telegram regarding contemplated movement of German troops through Italy to Africa. There are no indications that such movements immediately impending and no identifications of German troops in Italy have been received. Employment of large German forces in North Africa would be restricted by shortage of water supply. There are however indications of further German bomber reinforcements in Sicily. Italian command in East Africa reported concerned over their losses in aircraft and fuel. Movement of bombers in Italian East Africa indicates threat to Djibouti. Malta raided by aircraft early today. Floating dock badly damaged. Italians raided Mersa Matruh yesterday. One other tank killed. Two Italian aircraft brought down. Three enemy fighters shot down and two badly damaged in this area on June 19th. One British fighter missing. Blenheims operating from Aden successfully attacked aerodrome and railway station at Dire Dawa yesterday. Italian column located north of Moyale (northern frontier of Kenya) were bombed and machine gunned by British aircraft yesterday. Italian aerodrome at Yavello bombed on June 19th. Three enemy aircraft destroyed/

destroyed and one Hurricane lost. Italian air losses to date are confirmed 29, unconfirmed 9, and damaged 9. In our attack on El Wak (Italian Somaliland) on June 18th Italian barracks and ammunition destroyed. Our infantry repulsed Italian counter-attack and withdrew successfully. Four British wounded.

7. Canadian troop convoy has arrived in England. British submarine reports having torpedoed enemy battle cruiser yesterday outside Trondheim. British submarine sank Italian submarine northwest of Tobruk yesterday. Enemy submarine sank by aircraft in home waters yesterday. Italian submarine attacked by aircraft in eastern Mediterranean yesterday. Result not known. Considerable enemy submarine and air activity off western coast of France and England on June 19th and June 20th. Five British and one Belgian vessels attacked by submarines of which two British vessels were sunk and several damaged by torpedoes. One British vessel attacked by motor torpedo boats and subsequently beached. Four British and one French vessel attacked by aircraft but no information as to whether any of these were sunk. One Dutch ship sunk by mine.

120-J

BRITISH EMBASSY,
WASHINGTON, D.C.

June 24th, 1940.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. S. Brown

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of June 23rd.

1. Enemy bomber reconnaissance aircraft very active yesterday over coast of northwest France and south coast of England as far west as Portland. Their air activity ceased at 21.00 hours, probably due to weather conditions. During air attacks on England on night of June 21st-22nd, casualties were three killed and three injured. No key point hit. Private houses were damaged in Newcastle region. H.E.'s dropped in Leeds region, but no damage so far reported. Slight damage by bombs in Nottingham region. Number of bombs were dropped in the eastern part of Cambridge region, many of which failed to explode. Little damage caused except in Ipswich where homes were damaged and three people killed. Salvo of bombs fell in Harwich harbour, but did not explode. Considerable number of incendiary bombs dropped in Tunbridge Wells region but little damage done. There are indications of increased air preparations in Calais area and of concentration of barges between rivers. Scheldt and Meuse.

2. Total personnel, stores and equipment landed in United Kingdom from France up to 12.00 hours on June 22nd were: fit, 134,061; casualties, 2,488/

2,488; guns, 310; vehicles, 2,292; ammunition and stores, 1800 tons; 300 are said to be French personnel; 1,612 Poles, 203 Czechs were landed in England yesterday morning. Total allied personnel landed up to midday yesterday is 12,716. These are not the final figures.

3. Fighting still continues in Alsace Lorraine. No further information regarding German force movements down Rhone Valley. German advance southwards continues west of Bourges.

4. One gunboat and two old Dutch cruisers sunk in harbour at Texel by Fleet air arm on June 21st. Fleet air arm obtained four direct hits on new shore battery near Calais on the same day. One British aircraft missing. Guns of this battery estimated to be 4.7. Fleet air arm sunk German merchant vessel off Haugesund yesterday. Five submarines also attacked off Tereschelling, but no hits observed. One Dornier aircraft destroyed (unconfirmed). Fleet air arm attacked Willemsoord harbour on June 21st, sinking a gunnery training ship and a coast defence ship and severely damaging a gunboat. Warehouses and oil tanks also set on fire. Aerodrome and offices at Oost-Villeand also successfully attacked. Two British aircraft missing, and one Messerschmidt 109 probably shot down. Eighteen Blenheims escorted by fighters successfully attacked Merville aerodrome yesterday, all our aircraft returned. Nine Hurricanes operating over northern France shot down one Messerschmidt 110

confirmed/

confirmed, one Junker 52, two Messerschmidt 110's and three Heinkel 111's unconfirmed. One Hurricane missing. Owing to bad weather projected air operations by Royal Air Force were cancelled last night. Attacks on targets in western Germany on night of June 21st were very successful and many direct hits obtained. A few aircraft unable to locate original targets, but successfully bombed alternatives.

5. German aircraft still active against shipping off west coast of France and against unknown targets in Central France. Marseilles and Toulon were heavily bombed on the night of June 22nd-23rd, but work of these ports not seriously interrupted. Activity of German transport aircraft continues.

Italy.

6. In northern frontier district of Kenya, enemy columns were bombed near Wajir and Moyale. Light enemy air raids on Marsabit and Garissa. One French battleship, three cruisers and destroyer bombarded military objectives at Bardia (Gulf of Sollum) on June 21st with good results.

On June 21st Blenheims bombed warships at Tobruk in cooperation with naval bombardment. One large ship and two enemy aircraft badly damaged. All our aircraft returned. On night of June 20th-21st, Marsa Matruh heavily bombed but damage slight and no casualties. Italians carried out intermittent air-raids on Alexandria

on/

-4-

on night of June 21st-22nd, causing 25 civilian casualties. Egyptian A.A. guns were in action. Parachute training reported near Syracuse and elsewhere.

7. Three ships were attacked by submarines in western approaches on June 21st.

120 - O

BRITISH EMBASSY,
WASHINGTON.

June 24th, 1940

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. L. L.

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

Telegram despatched from London
on evening of June 24th, 1940.

Several enemy aircraft reported yesterday in Straits of Dover area. One enemy aircraft passed over Dover. Our fighters claim one Heinkel 113 at present unconfirmed. No enemy aircraft over this country last night.

British Ambassador in France with Canadian and South African Ministers have left for England in a warship.

24 Blenheims attacked railway targets in Ruhr and aerodromes in Low Countries yesterday. 3 Aircraft missing. 26 Whitleys and 44 Hampdens attacked Aluminium Works, aircraft works and railway targets in Western Germany last night. Reports not yet received. All aircraft returned. Air photographs obtained yesterday of one battle cruiser one "Hipper" class cruiser and three destroyers in Trondhejm harbour.

German bomber reconnaissance aircraft mainly employed in searching for shipping off West Coast of France and in English Channel yesterday. Aircraft from Norway reconnoitred North-east coast of Scotland and Orkneys. Meteorological flights in Northern North Sea and over Orkneys and Shetlands have increased.

Aircraft report one British destroyer

lying/

Regraded Unclassified

lying on her side in Perim harbour probably as result of air attack. Casualties reported slight. One British steamer sunk by torpedo in home waters last night. Enemy submarine in Western approaches attacked last night by destroyer. Result not known.

Italy

Bombing of Milan and Turin reported to have caused considerable demoralisation. Serious disturbances necessitating fixing by police took place in each town on June 8th and June 9th. On June 21st large enemy encampment near Egyptian frontier successfully attacked by British aircraft. Dire-dawa (Abyssinia) bombed on June 22nd and two enemy aircraft destroyed. Massawa aerodrome (Eritrea) also bombed. 15 enemy bombers escorted by fighters attacked Malta yesterday. One Macchi 200 shot down by Gladiator. 5 Civilians slightly injured and little material damage caused. One enemy aircraft shot down on June 22nd. Enemy also raided Djibuti. Ten people killed, seven injured, and slight material damage. Two Italian aircraft captured in British Somaliland. Italian submarine reported sunk by destroyer south-west of Perim on June 23rd. Another sunk Italian submarine observed near Port Sudan.

No. 765

AMERICAN CONSULATE GENERAL

Sao Paulo, Brazil, 24 June 1940.

Subject: Blocked Securities of Certain Countries.

The Honorable

The Secretary of State

Washington.

Sir:

I have the honor to report that several inquiries have been made of this office concerning the possible release of small funds from blocked securities and cash in the United States belonging to nationals of Denmark, Norway, the Netherlands, etc.

The Dutch Consul has called attention to the specific case of a subject of the Netherlands, resident in Sao Paulo, whose only source of income has been the small amounts of interest and dividends received from his securities and cash in the United States; and has inquired whether there is any procedure by which this hardship may be overcome.

Respectfully yours,

Reginald S. Kazanjian,
American Vice Consul.

851
RSK/hvf

C O P Y

CONFIDENTIALFOR YOUR INFORMATION

June 24, 1940

To: The Secretary
From: Mr. Young

At a conference in your office at 2:45 P.M., June 12th, at which were present Secretary Woodring, General Marshall, Assistant Secretary Compton, and Admiral Stark, among others, General Marshall refused the request of the Anglo-French Purchasing Board to release 500,000 Enfield rifles with ammunition. During that conversation, however, General Marshall stated that a lesser number, perhaps 200,000 rifles, might be released.

At a conference which immediately followed in the office of Mr. Nelson, at which were present Sir Henry Self, Mr. Purvis, Mr. Ballantyne, Mr. Nelson, and Mr. Young, the refusal of General Marshall to release 500,000 Enfield rifles was transmitted to Mr. Purvis. It was mentioned, however, that a smaller number, perhaps 200,000, might be available for release in the future.

I was subsequently advised by Mr. Ballantyne that Mr. Purvis considered that 200,000 Enfields had been officially released, a statement which is incorrect and has no foundation in fact as I recall the conversation.

Due to the fact, however, that General Marshall did state that possibly some Enfield rifles might be released, the Purchasing Board is submitting another request for at least 200,000 Enfield rifles.

RY.

June 24, 1940

My dear Mr. President:

In view of your memorandum of June 15th addressed to the Secretaries of War and Navy, copy of which is inclosed herewith, I have addressed a letter to the Secretaries of War and Navy outlining for them the basis on which we are prepared to cooperate with them to promptly clear all contracts coming under the Vinson-Trammell Act. A copy of this letter is also inclosed.

I am sending a copy of my letter to the Secretaries of War and Navy to Mr. William H. McReynolds so that he, in turn, can inform the Advisory Council as to the delivery procedure.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

2 Enclosures: ✓

*File Mr. Thompson gave me on
this returned to him.*

By Messenger 445

June 24, 1940

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Yours sincerely,

(Signed) H. Morganthau, Jr.

**The President,
The White House.**

By Messenger

178
June 20, 1940.

My dear Mr. Secretary:

Under existing law the Treasury Department determines what portion of the cost of special additional equipment and facilities shall be charged against a contract of the War or Navy Department for the construction or manufacture of a complete naval vessel or army or navy aircraft or any portion thereof. Under a procedure for closing agreements provided for by section 3760 of the Internal Revenue Code, a procedure was adopted whereby the Treasury would, prior to the execution of the contract, fix the amount which under existing law may be determined in advance as chargeable to the contract. Such a closing agreement was entered into only after certification by the Secretary of War or the Secretary of the Navy, as the case may be. In such cases the contractor filed his request for a closing agreement with the Commissioner of Internal Revenue, and a copy thereof was filed with the War Department or the Navy Department, as the case may be, in order to facilitate certification by such department. If section 4 of H. R. 9822 (76th Cong., 3d sess.) becomes law, this practice of entering into closing agreements with respect to special equipment and facilities will be discontinued.

Section 4 of H. R. 9822 would modify this existing practice by requiring the Secretary of War or the Secretary of the Navy, as the case may be, to determine in advance what portion of the cost of the special additional equipment and facilities shall be borne by the government and charged against the particular contract. The Secretary concerned will make certification as required by such section 4 to the Commissioner of Internal Revenue. Such certification would be binding upon the Commissioner of Internal Revenue, subject to such regulations as the President may prescribe. The President has indicated that Treasury approval of the certification will be necessary. In the Treasury Department the duty of considering such certification and of recommending Treasury action thereon will be performed by a Treasury Committee composed of Timothy C. Mooney, Chairman, Herman T. Reiling, Vice-Chairman, John W. Burrus, G. A. Appel, and Dean W. Martin. Under the new procedure the contractor's request for a determination by the Secretary of War or the Secretary of the Navy, as the case may be, shall be filed with the Secretary of the Department concerned. In order to facilitate action along the lines indicated by the President, it is suggested that—

- 2 -

(1) Copies of the contractor's request should be forwarded immediately to Mr. Timothy C. Mooney, Chairman, Room 4002, Internal Revenue Building;

(2) Three copies of the certification by the Secretary concerned (agreed to by the contracting party), together with a copy of the contract or proposed contract shall be transmitted directly to the above-mentioned Chairman;

(3) The certification shall itemize the special additional equipment and facilities, state the necessity and cost (or estimated cost) of each item thereof, and the percentage of cost of each item to be charged against the contract or subcontract;

(4) A certification shall not be approved by the Treasury unless a certification has been made with respect to the first contract or subcontract on which such special additional equipment and facilities are used; and has been made successively thereafter on any intervening contracts or subcontracts.

Following consideration by the Treasury Committee referred to above, the Chairman or Acting Chairman thereof will make his recommendation for approval or disapproval of the certificate direct to the Secretary of the Treasury, whose decision will be forwarded immediately to you.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

cc to Thompson.

HTR/mmc/taw 6-20-40

Enclaved copy returned to Mr. Brookline, Internal Revenue, by Miss Brennan

June 20, 1940.

My dear Mr. Secretary:

Under existing law the Treasury Department determines what portion of the cost of special additional equipment and facilities shall be charged against a contract of the War or Navy Department for the construction or manufacture of a complete naval vessel or army or navy aircraft or any portion thereof. Under a procedure for closing agreements provided for by section 3760 of the Internal Revenue Code, a procedure was adopted whereby the Treasury would, prior to the execution of the contract, fix the amount which under existing law may be determined in advance as chargeable to the contract. Such a closing agreement was entered into only after certification by the Secretary of War or the Secretary of the Navy, as the case may be. In such cases the contractor filed his request for a closing agreement with the Commissioner of Internal Revenue, and a copy thereof was filed with the War Department or the Navy Department, as the case may be, in order to facilitate certification by such department. If section 4 of H. R. 9822 (76th Cong., 3d sess.) becomes law, this practice of entering into closing agreements with respect to special equipment and facilities will be discontinued.

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Following consideration by the Treasury Committee referred to above, the Chairman or Acting Chairman thereof, will make his recommendation for approval or disapproval of the certificate direct to the Secretary of the Treasury whose decision will be forwarded immediately to you.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

cc to Thompson

HTR/emc/kb 6-20-40

*Initialed copy returned to Mrs. Broderick,
Internal Revenue, by Miss Brennan.*

June 24, 1940

Dear Mr. McReynolds:

I am inclosing herewith copy of a letter which I have addressed to the Secretaries of War and Navy outlining for them the basis on which we are prepared to cooperate with them to promptly clear all contracts coming under the Vinson-Trammell Act.

Copy of this letter is being sent to you in order that you can inform the Advisory Council as to the proper procedure to be followed in this matter.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William H. McReynolds,
Secretary,
Advisory Council of National Defense,
Department of State,
Washington, D.C.

Enclosure ✓

By Messenger *45*

June 24, 1940

Dear Mr. McReynolds:

I am inclosing herewith copy of a letter which I have addressed to the Secretaries of War and Navy outlining for them the basis on which we are prepared to cooperate with them to promptly clear all contracts coming under the Vinson-Trammell Act.

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William H. McReynolds,
Secretary,
Advisory Council of National Defense,
Department of State,
Washington, D.C.

By Messenger

June 24, 1940

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Yours sincerely,

(Signed) H. Morganthau, Jr.

Mr. William H. McReynolds,
Secretary,
Advisory Council of National Defense,
Department of State,
Washington, D.C.

By Messenger

TREASURY DEPARTMENT

133

INTER-OFFICE COMMUNICATION

DATE JUN 24 1940

TO Secretary Morgenthau
FROM Mr. Foley

For the Secretary's Diary

At a conference held in the office of Mr. Knudsen, Advisor on Industrial Production for the Council of National Defense, at the Federal Reserve Building on Wednesday, June 19, 1940, the following were present: Messrs. Knudsen, Nelson, Biggers, Foley and Kades.

The conference began about 9:30 in the morning and continued until 1 o'clock in the afternoon. During the conference there was discussed in great detail the memorandum of Mr. Foley to Secretary Morgenthau dated June 17, 1940 which summarized the draft of June 17, 1940 of a proposed agreement between the Defense Finance Corporation (a corporation to be created by the Reconstruction Finance Corporation under Senator Glass' bill now pending in the Senate) and an aviation engine company. This draft agreement was viewed as a model intended to meet a typical situation.

Numerous alternative proposals for financing increased capacity for the production of armament in connection with the national defense program were considered and there was a good deal of intensive debate as the group went through the same processes of reasoning as the Treasury representatives had before they went to the conference.

When the conference adjourned nothing had been decided definitely about the proposal embodied in the memorandum of June 17, 1940, with the exception that it was thought that the remedy of the Defense Finance Corporation in the case of additions to existing buildings or the purchase of machinery should be restricted to demolition of the additions or repossession of the machinery in the event of a default on the loan due to cancellation of orders, in the event that the manufacturing company did not convey the property to the Defense Finance Corporation in the satisfaction of a loan.

After Nelson and Foley returned to the Treasury, they reported what transpired to Secretary Morgenthau who invited them to take lunch with him and Mr. Knudsen. During the luncheon there was a general discussion of what had taken place during the morning.

E. J. 74

JUN 24 1940

Secretary Morgenthau

Mr. Foley

For the Secretary's FILE

At a conference held in the office of Mr. Emswiler, Assistant to Industrial Production for the Council of National Defense, at the Federal Reserve Building on Wednesday, June 19, 1940, the following were present: Messrs. Emswiler, Bolson, Higgins, Foley and Ladd.

The conference began about 9:30 in the morning and continued until 1 o'clock in the afternoon. During the conference there was discussed in great detail the memorandum of Mr. Foley to Secretary Morgenthau dated June 17, 1940 which summarized the draft of June 17, 1940 of a proposed agreement between the Defense Finance Corporation (a corporation to be created by the Government) and Finance Corporation under Senator Glass' bill now pending in the Senate) and an aviation engine company. This draft agreement was viewed as a model intended to meet a typical situation.

Numerous alternative proposals for financing increased output for the production of armament in connection with the national defense program were considered and there was a good deal of intensive debate as the group went through the same processes of reasoning as the Treasury representatives had before they went to the conference.

Then the conference adjourned nothing had been decided definitely about the proposal embodied in the memorandum of June 17, 1940, with the exception that it was thought that the remedy of the Defense Finance Corporation in the case of additions to existing buildings or the purchase of machinery should be restricted to demolition of the additions or replacement of the machinery in the event of a default on the loan due to noncompletion of orders, in the event that the manufacturing company did not convey the property to the Defense Finance Corporation in the satisfaction of a loan.

After Bolson and Foley returned to the Treasury, they reported what transpired to Secretary Morgenthau who invited them to talk lunch with him and Mr. Emswiler. During the luncheon there was a general discussion of what had taken place during the morning.

(Continued) By H. Fox Jr.

CLE:ESPJr:14
6-24-40

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE JUN 24 1940

TO Secretary Morgenthau
FROM Mr. Foley

For the Secretary's Diary

At a conference held in the office of Mr. Knudsen, Advisor on Industrial Production for the Council of National Defense, at the Federal Reserve Building on Wednesday, June 19, 1940, the following were present: Messrs. Knudsen, Eaton, Biggers, Foley and Kades and Messrs. Hotchkiss, Gordon and Finlay of the Wright Aeronautical Corporation.

Messrs. Foley and Kades were requested by Mr. Knudsen to attend this conference at 5 o'clock in the afternoon, the conference having been proceeding for several hours. When they arrived Mr. Knudsen stated that the representatives of Wright Aeronautical Corporation objected to the option in the draft agreement which permitted the Government to purchase tools, jigs and dies financed thereunder for \$1.00. He asked Mr. Foley to justify this provision. Mr. Foley stated that he thought Mr. Nelson would be best qualified to do this in view of the fact that it was at his suggestion that the option had been included in the draft agreement. Mr. Knudsen telephoned Mr. Nelson, explaining the objection of Wright Aeronautical Corporation to the option and after some discussion, Mr. Knudsen announced that Mr. Nelson agreed to the elimination of the paragraph.

Mr. Biggers then dictated a summary of what had been agreed upon at the conference, a copy of which is attached hereto. Mr. Knudsen also handed Mr. Foley a copy of a letter which he stated he had obtained from Mr. Jesse Jones. The last paragraph of the letter was stricken through in pencil as it is on the copy attached by Mr. Knudsen.

On his way home Mr. Foley stopped off at the Secretary's house about 7:20 P.M. and reported that general agreement had been reached by Knudsen, Jones and Wright Aeronautical and everything was proceeding satisfactorily. The Secretary expressed pleasure and said that he would telephone Mr. Knudsen and congratulate him on his progress.

E. H. 76

COPY

June 19, 1940

Steps agreed upon in conference with Curtiss-Wright Corporation:

1. Curtiss-Wright to form separate Corporation for new plant.
2. Curtiss-Wright to negotiate with the R.F.C. for loan to cover cost of plant and equipment in accordance with general terms outlined in Mr. Jesse Jones' letter of June 19.
3. If the Government contract is completed or cancelled before the mortgage has been paid in full, a fair market value of the plant at that time will be determined by the R.F.C. subject to the approval of the President and Curtiss-Wright will have the option of acquiring the plant at that valuation or surrendering the plant to the R.F.C. In either case the R.F.C. will have no further claim against the Corporation with respect to the mortgage.
4. The clause regarding sale of tools to the R.F.C. at nominal price after completion of contract and repayment of mortgage, is waived.
5. Curtiss-Wright will negotiate working capital loan with the R.F.C. including terms of interest and repayment.
6. When satisfactory provision is made for all the above financial arrangements, Curtiss-Wright will negotiate contract with the War Department.

P I

June 19, 1940

Dear Mr. Knudsen:

In order to assist the United States Government in its National Defense Program, the Reconstruction Finance Corporation is willing to lend the Curtiss Wright Aircraft Corporation, or a subsidiary to be organized, owned and operated by it, the cost of a plant and the necessary equipment, including cost of the site, having a capacity to manufacture annually not less than 6000 high-speed radial airplane motors of approximately 1500 horsepower, the cost of which plant and equipment not to exceed \$28,000,000. The loan to be at 4% interest, maturing on or before eight years and to be amortized at the rate of \$600.00 per motor, as the motors are manufactured and sold. A condition to such a loan will be that the Curtiss Wright Company have a contract or contracts for building and selling to the United States Government, or other purchasers acceptable to the RFC, a sufficient number of these motors to justify the RFC making the loan.

In computing its profit the manufacturer shall not include any profit on the plant and equipment investment or their amortization.

The Corporation is also willing to lend the manufacturer up to \$22,000,000 for working capital with which to buy materials and manufacture the motors. This loan to be repaid as the motors are sold and delivered and to bear an interest rate to be agreed upon from time to time as the money is advanced, but not more than 4% per annum.

Should the plant become idle through cancellation of orders or the completion of orders before it has been paid for, the manufacturer shall have the right to a reduction on the unpaid balance of the indebtedness due against the plant to bring the indebtedness to the fair market value of the property at that time, but any such reduction, if agreed to, must be approved by the President of the United States.

~~If the loan is paid and the contract fulfilled and the plant converted to other work, the Government shall have the option to purchase for a nominal sum such tools, patterns or dies that are special to the motor.~~

Sincerely yours,

Administrator.

Honorable William S. Knudsen
Advisory Commission to the
Council of National Defense
Federal Reserve Building
Washington, D. C.

JUN 24 1940

Secretary Memorandum

Mr. Foley

For the Secretary's Desk

At a conference held in the office of Mr. Emden, Adviser on Industrial Production for the Council of National Defense, at the Federal Reserve Building on Wednesday, June 19, 1940, the following were present: Messrs. Emden, Jones, Biggers, Foley and Kados and Messrs. Webster, Gordon and Finley of the Wright Aeronautical Corporation.

Messrs. Foley and Kados were requested by Mr. Emden to attend this conference at 5 o'clock in the afternoon, the conference having been proceeding for several hours. When they arrived Mr. Emden stated that the representatives of Wright Aeronautical Corporation objected to the option in the draft agreement which permitted the Government to purchase tools, jigs and dies financed thereunder for \$1.00. He asked Mr. Foley to justify this provision. Mr. Foley stated that he thought Mr. Nelson would be best qualified to do this in view of the fact that it was at his suggestion that the option had been included in the draft agreement. Mr. Emden telephoned Mr. Nelson, explaining the objection of Wright Aeronautical Corporation to the option and after some discussion, Mr. Emden announced that Mr. Nelson agreed to the elimination of the paragraph.

Mr. Biggers then dictated a summary of what had been agreed upon at the conference, a copy of which is attached hereto. Mr. Emden also handed Mr. Foley a copy of a letter which he stated he had obtained from Mr. Jones. The last paragraph of the letter was written through in pencil so it is on the copy attached by Mr. Emden.

On this day Messrs. Foley stopped off at the Secretary's home about 7:30 P.M. and reported that general agreement had been reached by Messrs. Jones and Wright Aeronautical and everything was proceeding satisfactorily. The Secretary expressed pleasure and said that he would telephone Mr. Emden and congratulate him on his progress.

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

 CLK:ENTJr:t
 6-24-40

P.I
June 19, 1949

Steps agreed upon in conference with Curtiss-Wright Corporation:

1. Curtiss-Wright to form separate Corporation for new plant.
2. Curtiss-Wright to negotiate with the R.F.C. for loan to cover cost of plant and equipment in accordance with general terms outlined in Mr. Jesse Jones' letter of June 19.
3. If the Government contract is completed or cancelled before the mortgage has been paid in full, a fair market value of the plant at that time will be determined by the R.F.C. Subject to the approval of the President and Curtiss-Wright will have the option of acquiring the plant at that valuation or surrendering the plant to the R.F.C. In either case the R.F.C. will have no further claim against the Corporation with respect to the mortgage.
4. The clause regarding sale of tools to the R.F.C. at nominal price after completion of contract and repayment of mortgage, is waived.
5. Curtiss-Wright will negotiate working capital loan with the R.F.C. including terms of interest and repayment.
6. When satisfactory provision is made for all the above financial arrangements, Curtiss-Wright will negotiate contract with the War Department.

Copied 6-22-49 t

June 19, 1940

Dear Mr. Knudsen:

In order to assist the United States Government in its National Defense Program, the Reconstruction Finance Corporation is willing to lend the Curtiss Wright Aircraft Corporation, or a subsidiary to be organized, owned and operated by it, the cost of a plant and the necessary equipment, including cost of the site, having a capacity to manufacture annually not less than 6000 high-speed radial airplane motors of approximately 1500 horsepower, the cost of which plant and equipment not to exceed \$22,000,000. The loan to be at 4% interest, maturing on or before eight years and to be amortized at the rate of \$600.00 per motor, as the motors are manufactured and sold. A condition to such a loan will be that the Curtiss Wright Company have a contract or contracts for building and selling to the United States Government, or other purchasers acceptable to the RFC, a sufficient number of these motors to justify the RFC making the loan.

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The Corporation is also willing to lend the manufacturer up to \$22,000,000 for working capital with which to buy materials and manufacture the motors. This loan to be repaid as the motors are sold and delivered and to bear an interest rate to be agreed upon from time to time as the money is advanced, but not more than 4% per annum.

Should the plant become idle through cancellation of orders or the completion of orders before it has been paid for, the manufacturer shall have the right to a reduction on the unpaid balance of the indebtedness due against the plant to bring the indebtedness to the fair market value of the property at that time, but any such reduction, if agreed to, must be approved by the President of the United States.

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Sincerely yours,

Administrator.

Honorable William S. Knudsen
Advisory Commission to the
Council of National Defense
Federal Reserve Building
Washington, D. C.
Copied 6-22-40 t

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING
WASHINGTON, D. C.

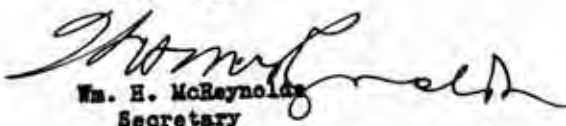
June 24, 1940.

My dear Mr. Secretary:

I have just received your letter of today transmitting a copy of your letter of June 20th. to the Secretary of the Navy and the Secretary of War, outlining the procedure in connection with contracts involving the Vinson-Trammell Act.

Appropriate instructions are being given to the Commission's staff.

Sincerely,


Wm. H. McReynolds
Secretary

The Honorable,

The Secretary of the Treasury.

TREASURY DEPARTMENT

142

INTER-OFFICE COMMUNICATION

DATE JUN 25 1940

TO Secretary Morgenthau
FROM Mr. Foley

For the Secretary's Diary

At a conference held in Mr. Foley's office from 5:15 to 6:45 on Monday, June 24, there were present: Messrs. C. E. Adams (Air Reduction Company) and Volney Forsyth (Solvay Process Company) and Fred M. Eaton, all of the Advisory Commission of the Council of National Defense, and Messrs. Foley and Kades.

The subject matter of the conference was the law and the regulations relative to depreciation deductions under the income tax law and the Vinson-Trammell Act. Mr. Foley explained in detail what could be done and what could not be done, and stated the history of the special amortization allowances permitted by the Revenue Act of 1918. He referred to the Cousens Committee and the Nye Committee both of which had unanimously condemned the theory of permitting any loss to be deducted for value in use of a plant constructed during a preparedness program or a war.

Mr. Adams had to leave because of a previous appointment in the middle of the discussion. It was decided after he left that the Advisory Commission would draft a memorandum setting forth its views on the subject and would submit those views to the Treasury, and the Treasury would study this memorandum simultaneously with its study of a new excess profits tax.

Mr. Foley explained that questions of tax policy and legislation were determined by the Office of the Assistant Secretary in charge of the Bureau of Internal Revenue, under direction of the Secretary, and not by the Office of the General Counsel; and further that what the Advisory Commission's representatives seemed to have in mind required a revision of existing legislation.

S. H. H.

June 24, 1940
2:30 p.m.

RE COFFEE

Present: Mr. White
Mr. Hansen
Mr. Foley
Mr. Bell
Mr. Viner

White: The coffee producers have been meeting for some time in an attempt to see if they can come to an agreement with respect to, (A) coffee production, and (B) the allocation of the market. Having lost the European market, which accounted for a substantial portion of their total coffee sales, their position is more acute than formerly and whereas they have tried formerly to get together, they have been unable to do so, but they hope that under the pressure of the present acute situation, they may get together.

Now, then, after having decided on the allocation of the American market among themselves, they are afraid that if they were to put that into effect it may mean a rise in the price of coffee. That is, they are not afraid, they hope that it will mean a rise in the price of coffee, and they are afraid that with that rise in the price of coffee, African coffee, which now constitutes less than half of our imports, may come in in such quantities as to deprive them of some of the market they hope to get and also prevent the price from rising in the way in which they would like to see it.

H.M.Jr: Is African coffee black coffee?

- 2 -

Hansen: Some of it is robust. It doesn't blend very well.

H.M.Jr: Just for the record, do you remember when we first started talking about the Colombian debt and all that and I made the suggestion that one of the things this North and South American thing should do would be to make a loan to the four or five countries that had coffee in order to stabilize it and one of you gentlemen brought to my attention that Colombia had fallen off 4 or 5% and what it meant to them. I think a cent meant a million dollars in their export.

White: I said coffee didn't fall in price and you said that it had and it was Colombian coffee that had fallen and we were talking about Brazilian.

H.M.Jr: I told you a long time ago. I don't remember these things from day to day when I am right. The point that I was getting at, from that day to this, which is three months, nothing has been done, I take it.

White: No, nothing. How long is this conference?

Hansen: It was last week.

H.M.Jr: Well now, explain this to me, gentlemen. Is this going to be - what formula? Is this a cartel of the coffee producing countries of South America? Who goes into that, Brazil, Colombia?

Hansen: Fourteen countries.

Foley: That is all of them, isn't it?

Hansen: Almost.

H.M.Jr: And they are going to have one central sales agency here?

White: I don't think so. I think all they are doing is agreeing on an export limitation to the United States.

- H.M.Jr: The first thing, if I may make the suggestion, they ought to have a Universal Trading Company.
- White: Well, that is the direction which I thought I would like to see you move in, because that is in line with the previous discussion which would take not only - not only for the purpose of selling in this market which we are interested in probably in an entirely different direction than they are - we are interested in getting out coffee at the lowest price - but rather in the marketing of their surplus crop elsewhere. That is why we want them to have one unit.
- H.M.Jr: Well, they ought to have a Universal Trading Company here which is honestly run and then let us know from the inside what is going on and the whole business. Did it take that trend?
- White: Very definitely. In fact, the motion which was passed this morning at the Executive Committee meeting provided for - provided that a United States representative be named an official of the committee on the basis that we, as the great consuming nation, ought to have a definite hand in the allocation of quotas and in the marketing of the crop, but nothing was said yet of them taking up the other functions which the Universal Trading Company would take. That is in attempting to make deals with foreign countries, swaps, or barter and so on.
- H.M.Jr: I wasn't even going that far. What I was thinking of was what a beautiful job Universal did on tung oil, the way it kept the price down. K. P. Chen always had 10 thousand tons of tung oil on hand so he could feed it to the market. He was always selling to the market.
- White: His problem was different. His problem there, there was a great scarcity of tung oil.
- Foley: He had a world monopoly. These fellows are afraid of the African supply.

- H. M. Jr: Well, these people will have certainly, as far as this Hemisphere is concerned, a monopoly and I don't know in which part of South Africa the thing has grown but it certainly could be found out, who controls it.
- Bell: Harry, how does this program fit into the other program we have been discussing on the whole South American --
- White: That was a good question. It was the very one that was raised this morning. Some of us felt that this should be a part of that larger program or if it weren't taken by itself, that we were going to get nothing but disadvantages of it.
- Bell: Can it be taken by itself and then later fit into that program?
- White: That is what is contemplated.
- Viner: Except you give up most of your bargaining power with Brazil by taking it up by itself.
- White: That is exactly what I said this morning, but it was countered with the statement that the thing was an "as of" arrangement. They could stop it at any moment if they are not able to get additional arrangements and the decision that was made this morning was not definitive. It was merely that if they make an arrangement which this Government finds satisfactory, then this Government will look with sympathy upon it and will attempt to get new legislation if new legislation is required to justify the imposition of quotas here, because they don't want to impose quotas here under the trade agreement program. The State Department seems opposed to it. So they are hoping by that time a larger program will be made clear.
- In the interim, the Latin American countries, and there are 14 of them, will see that the United States is willing to go - cooperate with them in something in which it has an adverse interest and so they are hoping that

- 5 -

that groundwork will make possible collaboration on wheat and corn and cotton, etc. But it is not an assured fact that that will be so, and that still remains a problem. It also remains a problem that by our imposing - aiding them in imposing a quota we are leaving that group with coffee which they can then afford to sell at dumping prices in Europe.

H.M.Jr: To us.

White: And the question as to what terms they will make with their coffee is something that we are vitally interested in.

H.M.Jr: I thought you were going to say they would sell it at dumping prices to Mr. Wallace.

White: That is also true.

Bell: It would be under the larger program.

H.M.Jr: May I say here now - as I said, I was a very good boy the other day. I kept quiet and so forth and so on because we were eliminating a lot of the stuff I didn't want. I have never seen a more half baked or less well thought group than they have over there. It is just unbelievable.

White: I think no one would disagree with you on that. I think there is a great deal of difference of opinion, of confusion.

H.M.Jr: I mean, the size of the thing. And let me just enlarge again - I overheard - I couldn't help it. This is very much in the room. Mr. Wallace turned to Welles after Cabinet and said, "By the way, Sumner, what is all this stuff I see in the paper about my going down to South America as good will ambassador? I would like to talk to you. I don't know what it's all about." Sumner said, "Well, I will be glad to talk to you." To send Wallace down to make a lot of statements and then commit the Government until we know where we are at, I think it is terrible.

- 6 -

White: You are 100% right in saying that the discussion didn't get anywhere, but there were many there who said that. The only thing is that they are rushing the thing off its feet, and the only point that I took it we were interested in doing was to have some powers which were broad enough so that as time - as we have time, something could be worked up.

H.M.Jr: I was going on the theory that the good sense of Congress and the American people and some of the people in the Administration would work it out, but of all the wooly plans, that is a pip.

White: It isn't so much wooly, Mr. Secretary, as it is that it has some repercussions and has ramifications which are so profound.

H.M.Jr: As long as you are aware of it, okay. I can't argue with you.

White: I think it is safe to say that many others were aware of it.

H.M.Jr: Why did they leave Mordecai Ezekiel out of it last time? I was disappointed. I would like to get into a row with him.

White: I don't know. He kind of oversimplifies this problem and I think that is - I would criticize him for that. I think he ignores a lot of the real administrative and political difficulties that stand in the face of any such program as he would like to see.

H.M.Jr: Do you want anything else from Bell and me today?

White: I wanted to know whether - it is a little late to ask for approval, it passed this morning, but it passed in such general terms that I knew you wouldn't have any objections. When they come back with the program, there will be a chance to do it.

H.M.Jr: Did you raise the thing about --

- 7 -

White:

I made a motion to that effect, and it was agreed on that he would get in touch with those two on any matters that were necessary.



DEPARTMENT OF STATE
WASHINGTON

June 24, 1940.

reply refer to
890H.516 National/16

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a note dated June 20, 1940 from the Turkish Ambassador at Washington, together with a copy of the enclosure received therewith, a letter addressed by the Afghan Commercial Agency on June 17, 1940 to the Turkish Minister, regarding the purchase of 50,000 ounces of gold for account of the Afghan National Bank.

The Secretary of State would be glad to receive a suggestion as to the reply to be made to the communication of the Turkish Ambassador.

Enclosure:

From Turkish Ambassador,
June 20, 1940.

The Turkish Ambassador presents his compliments to the Honorable Secretary of State and has the honour to transmit herewith a copy of the letter he has received from the Afghan Commercial Agency in New York.

Mr. Ertegun would be much obliged to the Honorable Secretary of State if He would kindly refer this matter to the appropriate United States Department, as the Afghan Minister seems to have already communicated with the United States Government through the American Ambassador in Paris.

The Turkish Ambassador takes this oppor-

tunity to renew to the Honorable Secretary of State the assurance of his highest consideration.

June 20, 1940.

The Honorable Secretary of State
Department of State
Washington, D. C.

544/9

RECEIVED
TREASURY DEPARTMENT

JUN 21 1940

TO THE SECRETARY
OF THE
TREASURY
DEPARTMENT
WASHINGTON
D. C.

COPY

152

AFGHAN COMMERCIAL AGENCY

226 West 26th Street
New York, N. Y.

Chickering 4-0778

Mohammed Omar

Cable Address "Omarkhan"

Agents for Afghanistan
Producers and Buyers

June 17, 1940
Our Ref: 1023

Turkish Ambassador
Turkish Embassy
Washington, D. C.

His Excellency:

Several cables were exchanged between Banke Millie and the National City Bank in connection with the purchase of gold. I received a cable today from Banke Millie wherein they referred to "information regarding procedure being sent to Afghan Legation; also urgent to approach Turkish Embassy in Washington D. C. to negotiate 50,000 ounces of gold."

For Your Excellency's information, I am sure His Excellency, the Afghan Minister in Paris communicated and arranged with the American Embassy there and the American Embassy agreed that we can buy 50,000 ounces of gold for the Afghan National Bank's account. I shall be very grateful to you if Your Excellency will get in touch with the Federal Reserve Bank through the State Department and make this arrangement for us. We will pay the cost in American dollars.

Assuring you of my sincere appreciation of your kind cooperation, and with all good wishes, I am,

Very truly yours,

AFGHAN COMMERCIAL AGENCY

By Mohammad Omar

DS:RJ

Rio de Janeiro, Brasil, June 24, 1940.

No. 3197

Subject: Inquiry of the Bank of Brasil Regarding Funds of The
Banco Frances e Italiano Blocked In New York.

The Honorable

The Secretary of State.

Washington.

Sir:

I have the honor to report that the Director of Exchange of the Bank of Brasil has requested the assistance of the Embassy to obtain payment of two checks received from the Banco Frances e Italiano here and drawn on their dollar account with the Chase National Bank of New York City.

The branches of the Banco Frances e Italiano in Rio de Janeiro and Bahia have delivered to the Bank of Brasil checks Nos. ----- 130.684/1065 and 171.127/926, in the amounts of U. S. \$376.40 and \$2,250.00, respectively, drawn on the Chase National Bank of New York. These checks are in payment of 30 per cent of official exchange purchased by the Banco Frances e Italiano for the account of the Bank of Brasil.

Please arrange with the Treasury Department to authorize the Chase National Bank of New York to honor the above mentioned checks.

Respectfully yours,
For the Ambassador:

Walter J. Donnelly,
Commercial Attache.

File 851.6
WJD:KF.

June 24, 1940

Mr. Pehle

Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Benulieu telephoned me at 3 o'clock this afternoon that he had received a cablegram dated June 20 from the Financial Attache in the French Embassy at Buenos Aires to the effect that a transfer was to be authorized from funds of the Bank of France in New York to the account of the French Ambassador at Buenos Aires with the Banco Frances del Rio de la Plata on the books of the French American Banking Corporation, New York. This was to pay for feedstuffs purchased in Argentina by France. Leroy-Benulieu also stated that Mr. Marshall, the Bank of France representative in New York, had received a cablegram dated June 20 from Mr. Gariguel of the Bank of France at Bordeaux, authorizing this payment of \$20,000,000 from the Special Account of the Bank of France. Mr. Leroy-Benulieu asked that we expedite the license. In answer to my inquiry, Leroy-Benulieu stated that Mr. Marshall had already taken this matter up with the Federal Reserve Bank at New York.

At 3:15 I telephoned the above information to Mr. Pehle. In answer to his request for my recommendation, I told him that I favored facilitating this transaction. I added gratuitously that I thought we should refrain from interfering unduly with international financial transactions.



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Bordeaux

DATE: June 24, 1940, 10 p.m.

REC'D 11:37 a.m., 27th.

NO.: 90

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Reference is made to telegram of June 21, 3 p.m.,
No. 52 from the Embassy.

I report below an incident which Cariguel told me
today - as a side light on the present fantastic situation:

The Under Governor of the Bank of France, Boisanger,
was permitted to go through the German lines to some point
south of Chatel Guyon. From there he telephoned this
morning to Governor Fournier here at Bordeaux. Two days
ago, Boisanger said, he had arranged to send a truck to
some point (?) occupied territory, in response to an urgent
demand for bank notes. He had been worried as to the
safety of the truck until the Germans arrived and offered
to help. A German military escort was furnished for
the shipment, which arrived safely at its destination.

The Under Governor also reported that at Chatel
Guyon while the Bank was burning its notes the Germans
arrived, and made the suggestion to him that he should
not bother doing that, he was merely wasting his time.

Today

- 2 -

Today feeling against the British is running high at the Bank of France.

Preparations are being made for the Governor and his staff to leave in the next day or two with the Government for Clermont Ferrand or thereabouts. Bank notes and records are already being sent out of Bordeaux.

Telegraph money transfers within France are impossible, in view of the present confusion.

END MESSAGE.

BIDDLE.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

12 5 PM 53

RECEIVED
RECEIVED

EA:LWW

TELEGRAM SENT

JT

GRAY

June 24, 1940

noon

AMERICAN EMBASSY

BORDEAUX

35

FOR MATTHEWS FROM COCHRAN.

Reference your No. 64, June 22, 2 a.m.

Free market rate for sterling this morning opened 3.68, at 11 a.m. 3.67. French franc not quoted in free market since June 17. Last actual quote .0209-1/2 mid-morning, June 10. From that time up to close of business June 15 franc quoted only nominally in free market. During that period low .0198-1/2 June 10 high .0218-1/2 June 11.

HULL
(HF)

EA:HF:LWW

JT

PLAIN

OSLO

Dated June 24, 1940

Rec'd 4:10 p.m.

Secretary of State,
Washington.

643, twenty-fourth.

Bennetts Travel Bureau, Oslo, requests license from Treasury transfer \$4,400 from National City Bank, New York to Nordisk Reisebureau, Goteborg, Sweden for use payment tickets American evacuees from Norway. Norges Bank has authorized Christiania Bank Kreditkasse in whose name account held dispose amount this manner.

PRESTON

NPL

Gov. Torrey H. H.
J. H. H. H. H. H.
J. H. H. H. H. H.
COPY FOR SECRETARY
J. H. H. H. H. H.

14550

160

PLAIN

Ottawa

Dated June 24, 1940

Rec'd 1:50 a.m., 25th.

Secretary of State,
Washington.

150, Twentyfourth.

In today's budget speech Mr. Ralston revealed that notwithstanding a total revenue of over 562,000,000 during the fiscal year 1939-40 the government had incurred an overall deficit of over 118,000,000 dollars owing largely to special war expenditures approximately equalling this total deficit.

In his budget forecast for 1940-41 aggregate expenditures are estimated at 1,148,000,000 plus 150 to 200,000,000 extra for which recent new commitment made. Total revenue estimated at 650,000,000. Deficit estimated at about 500,000,000 plus an indeterminate amount which may easily bring that deficit up to 700,000,000.

Budget resolutions provide for a war exchange tax of 10% to be imposed on the value for duty purposes of all imports free and dutiable except those products entered under the British preferential tariff. This tax will be subject to drawback for export as in the case of customs duties. Its purpose is described as "an exchange tax and not a protective duty".

Other major changes include heavily increased excise
taxes

-2- #150, Twentyfourth, from Ottawa.

taxes on sales of both foreign and domestic automobiles ranging from 10% on 700 dollars value up to 80% on value exceeding 1200 dollars; new national defense income taxes of a flat 2 % on salaries of over \$600 for single persons and of over \$1200 for married persons; excess profits tax raised to 75%; and heavy increases in personal income taxes in all brackets; tax on tires and tubes increased to five cents per pound; new 10% tax on phonographs, cameras, radios and radio tubes; new ten cents a pound tax on raw leaf tobacco; tax on cigarette papers and tubes increased from two cents to five cents per hundred; manufactured tobacco tax increased from twenty five to thirty five cents per pound; cigarette tax increased from five dollars to six dollars per thousand.

In his budget speech Mr. Ralston referring to 10% war exchange tax said, "We regret that the exigencies of war make any such restrictive action necessary," and expressed hope that return could be made to long run policy of Government, that is, the "progressive lowering of trade barriers and the encouragement of trade not only with the United States but with all peaceful nations."

Copy to Commerce and Agriculture.

MOFFAT

EMB

Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury
at 1 p.m., June 24, 1940.

Secretary of the Treasury
may care to know that the Bank of England
have consulted the Federal Reserve Bank
on the possibility of assuring that all
the business is done at the official rate
and that free rate should no longer be
quoted. On their suggestion, Bank of
England are pursuing the discussions with
American Banks in London with a view to
making the necessary technical arrangements,
and they hope that they will shortly reach
agreement on all points.

BRITISH EMBASSY,

Washington, D.C.

June 21st, 1940.

State Dept. 168
noted in cable copy
COPY FOR SECRETARY
Section with Burdick
DSAM 4/15/60

June 24, 1940

Dr. Herbert Feis
Henry Morgenthau, Jr.

Will you please transmit for me the following cable to the American Embassy, Bordeaux, France, attention of Mr. Matthews:

"If my information is correct, there are hundreds of sacks of American securities in Bordeaux and they do not have time or freedom to destroy them. It is suggested that they immediately dip these sacks bodily in a dye which will penetrate the sacks and will tint the securities indelibly.

Our chemists suggest the following readily available chemicals, one percent solutions, balance water, in each case, as alternative possibilities: one, fuchsin — if color appears too deep modify solution; two, resaniline hydrochloride; three, methyl orange. If above not available dry red wine undiluted would probably serve. Bags should be punctured to facilitate penetration."

(Init.) D.W.B.

Init:
HMC:JV:LWB

HMC:enk:6.25.40

C O P Y

DRAFT OF BILL
RELATING TO THE ESTABLISHMENT OF AN
INTER-AMERICAN BANK

A Bill

To create the Inter-American Bank, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That:

TITLE I - CHARTER OF THE BANK

Sec. 1. There is hereby created a body corporate with the name "Inter-American Bank", hereinafter referred to as "the Bank".

Sec. 2. The structure, operations and activities of the Bank shall be as defined by the By-Laws, which are annexed to the Convention relating to the establishment of the Bank. The Bank shall also have all incidental powers necessary and proper to carry out the powers now or hereafter expressly authorized herein or in the By-Laws of the Bank.

Sec. 3. The Bank may begin operations when at least a total of 145 shares of stock of the Bank are subscribed for by at least five governments which have also deposited their ratifications of the aforementioned Convention with the Pan American Union.

Sec. 4. The Bank shall have succession for a period of twenty years from the date of enactment hereof or until such earlier time as it shall be lawfully dissolved. The United States agrees not to repeal or amend this Charter except upon the request of the Bank pursuant to

a four-fifths majority vote of the Board of Directors of the Bank. The United States may extend the charter for additional twenty year periods upon the request of the Bank pursuant to a four-fifths majority vote of the Board of Directors of the Bank.

Sec. 5. Amendments to the By-Laws of the Bank, consistent with the aforementioned Convention, this Charter, and the purposes of the Bank as now set out in Article 5 A of the By-Laws of the Bank, may be adopted by the Bank pursuant to a four-fifths majority vote of the Board of Directors, provided, however, that Article 5 A of the By-Laws may not be amended, and provided further, that a unanimous vote of the representatives of all the participating governments (and not merely unanimity of the votes cast) shall be required to increase or decrease the minimum holdings of participating governments in the stock of the Bank and to amend the provisions of the By-Laws relating to the manner and effect of the making of a timely objection by a participating government. As used in this act four-fifths majority vote of the Board of Directors shall mean four-fifths of the votes cast.

Sec. 6. The Bank shall have power to adopt, alter and use a corporate seal; and to make such contracts and to acquire, own, hold, use or dispose of such real and personal property, as may be necessary for the transaction of its business.

Sec. 7. The Bank may sue and be sued, complain and defend, in any court of competent jurisdiction. Any civil suit at law or at

equity, brought within the United States, its territories and possessions, to which the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and the Bank in any such suit may, at any time before the trial thereof, remove such suit into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law.

TITLE II - PARTICIPATION OF UNITED STATES

Sec. 201. The United States of America grants the rights, privileges, immunities and exemptions enumerated in Article II of the Convention for the Establishment of an Inter-American Bank.

Sec. 202. There is hereby created the Inter-American Bank Committee (herein called the "Committee"), which shall consist of the Secretary of State, the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Federal Loan Administrator. Each such official may from time to time appoint a representative to act for him. The Committee shall appoint a person to serve on the Organizing Committee of the Bank and shall also appoint and fix the compensation (if any) of the director and alternate, and any nominee or proxy, to represent the United States on the board of directors of the Bank; and nothing in this or any other law shall prevent any member of the Committee or any other officer or employee of the United States or any director, officer, or employee of any Federal Reserve Bank or of any corporation a majority of the stock of which is owned or controlled, directly or indirectly, by the United States from being eligible to serve also on such Organizing Committee or as such director, alternate, nominee, or proxy, or in any other capacity, with the Inter-American Bank. The director and alternate shall serve for a period of two years, subject to the pleasure of the Committee; and the nominee or proxy shall serve at the pleasure of the Committee without

a fixed term. The director, or an alternate, nominee or proxy serving in his stead, shall have full power to represent the United States on the Board of Directors, and to decide whether or not to enter a timely objection on behalf of the United States where provision is made for such objection under the By-Laws of the Bank; but such director, alternate, nominee or proxy shall keep the Committee informed with respect to matters involving the Bank and shall in any event enter a timely objection pursuant to the by-Laws of the Bank when directed to do so by the Committee.

Sec. 203. Notwithstanding any other provision of law, the shares of stock of the Bank to be acquired by the United States shall be subscribed and paid for by the Reconstruction Finance Corporation, and the Reconstruction Finance Corporation is authorized and directed to subscribe and pay for at least fifty shares of the stock of the Bank and such additional number of shares as the Committee may from time to time determine: Provided, That the Reconstruction Finance Corporation shall not at any time hold shares of the Bank's stock of an aggregate par value of more than twenty-five million dollars. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by an amount sufficient to carry out the provisions of this section, and of section 204 of this Title. The compensation and expenses of the director,

alternate, nominee and proxy, may be paid by the Reconstruction Finance Corporation out of any funds at its disposal.

Sec. 204. Notwithstanding any other provision of law, the Reconstruction Finance Corporation and the Export-Import Bank of Washington are each authorized to purchase and sell debentures and other obligations of the Inter-American Bank and to make loans to the Inter-American Bank upon such security and upon such terms and conditions as their respective governing boards may determine.

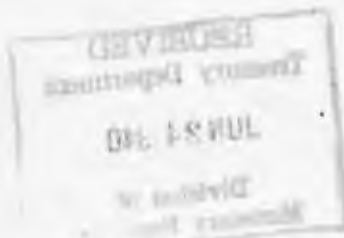
Sec. 205. Moneys of the Bank, including gold and silver coin or bullion, may be deposited with the Treasurer of the United States subject to check by authority of the Bank: Provided however, that no interest shall be paid on any such deposits.

Sec. 206. Section 14 of the Federal Reserve Act is amended by adding the following paragraph at the end thereof:

"(h) With the consent of the Board of Governors of the Federal Reserve System and subject to such regulations and limitations as the Board of Governors may prescribe, each Federal Reserve Bank shall have power to act as depository, custodian and financial agent for the Inter-American Bank, to establish correspondent relationships with and open and maintain banking accounts for and with the Inter-American Bank, to purchase, sell and deal in, any obligations of the Inter-American Bank, and to effect for

or with the Inter-American Bank any transaction which such Federal Reserve Bank could effect if the Inter-American Bank were a member bank of the Federal Reserve System or a bank located in a foreign country."

Sec. 207. This Act may be cited as the "Inter-American Bank Act".



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 24, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, today delivered to me a memorandum dated June 20, 1940, which reads as follows:

"The blocking of French balance applies to accounts of persons and concerns in France itself but not at present in French overseas possessions. Payments to and from accounts at United Kingdom banks of United Kingdom branches of French banks are permitted, but assurances are being obtained from branches that they will not accept instructions from enemy-occupied territory whether from their head offices or otherwise and that they will refer doubtful cases to Bank of England."

Mr. Pinsent observed that the information on which he had based this note was received last week, and that it may therefore be somewhat out of date.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to my memorandum dated June 14 in which I reported the interest of Mr. Pinsent in learning whether the British Embassy might properly approach the F.B.I. with a view to obtaining information which the latter receives from American banks and corporations in regard to suspicious German and Italian banking transactions. After discussing this matter with the Secretary, I have told Mr. Pinsent that this is a question on which the Treasury Department was obliged to refer him to the Department of State for guidance. I frankly stated that the Treasury Department could not officially condone any action which might be interpreted as counter espionage.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 24, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

On June 21 I telephoned to Mr. Knoke at New York the text of cablegram #1752 of June 20 from London in regard to the transfer of Bank of England accounts into Government accounts with the Federal. At that time it was agreed that Mr. Knoke would have the text studied by his institution and would then let me know whether a communication based thereon from this Government would meet the Federal's requirements for the opening of the accounts in question.

Having had no word from Mr. Knoke on this subject, I reminded him of the cablegram at 10:30 this morning. He replied that the matter was still having the attention of his lawyers, and that he would let me know their decision as soon as possible.

When Mr. Pinsent called on me at 12:30 today he inquired as to the status of this matter, and I gave him the above information.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At twelve noon today, Mr. Pinsent, Financial Counselor of the British Embassy, called on me by appointment. I referred to his letter dated June 18, 1940, inquiring as to whether the U.S. Treasury would be in a position to purchase £100,000 worth of silver to be taken from the deposit in Tientsin, under the terms of an agreement recently reached between the British and Japanese governments over the Tientsin dispute.

I told Mr. Pinsent that I had discussed this matter with the Secretary of the Treasury but that in the circumstances, including the development of sentiment in Congress toward restricting purchases of foreign silver, Mr. Morgenthau preferred not to acquire the silver in question. I reminded Mr. Pinsent that silver had recently been shipped from the United States to India, which might be expected to provide a normal market for the silver still held in the concession at Tientsin. I agreed with him that this would not provide dollars which might be spent in the United States, but that the Treasury's decision was as above indicated, nevertheless.

I have telephoned Mr. Livesey of the Department of State this afternoon asking that he inform the Far Eastern Division as to the Treasury's decision.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 24, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

After opening at 3.68, sterling moved erratically upward, reaching a high of 3.73-1/2 in the mid-afternoon. It subsequently eased to close at 3.69-1/2, as compared with Saturday's final rate of 3.73-1/2.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £369,000, from the following sources:

By commercial concerns.....	£ 74,000
By foreign banks (Europe, South America and Far East).....	£270,000
By Federal Reserve Bank of New York (for Yugoslavia).....	£ 25,000
Total.....	£369,000

Purchases of spot sterling amounted to £163,000, as indicated below:

By commercial concerns.....	£163,000
By foreign banks.....	£ -
Total.....	£163,000

The National City Bank reported that it had sold cotton bills totaling £2,000 to the British Control on the basis of the official rate of 4.02-1/2.

There were no reported purchases of sterling from the British Control at the official rate of 4.03-1/2.

The other currencies experienced little movement and closed as follows:

Swiss franc	.2261
Canadian dollar	19-1/4% discount
Lira	.0505
Reichsmark	.4000
Cuban peso	9-15/16% discount
Mexican peso	.1818 bid, .2000 offered

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$ 700,000	from the Central Bank of the Colombian Republic.
210,000	from the National Bank of Nicaragua.
185,000	from the Central Bank of Chile.
\$1,095,000	Total

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

\$56,007,000	from England, representing four shipments by the Bank of England, to be earmarked for its own account.
\$2,006,000	from Canada, shipped by the Bank of Canada, to be earmarked for account of the Bank of England.
\$6,140,000	from Canada, shipped by the Bank of Canada for its own account, for sale to the U.S. Assay Office at New York.
\$7,333,000	from England, representing two shipments by the Bank of England for account of the National Bank of the Kingdom of Yugoslavia, disposition unknown.
\$3,041,000	from England, representing two shipments by the Bank of England for account of the Royal Norwegian Government, disposition unknown.
\$2,012,000	from England, representing two shipments by the Bank of England for account of the Swiss National Bank, disposition unknown.
\$1,030,000	from England, shipped by the Bank of England for account of the Bank of Portugal, disposition unknown.
<u>\$130,622,000</u>	Total

The Federal also reported that the Barclays Bank, Cape Town, shipped \$7,000 in gold from South Africa to the New York Agency of the Barclays Bank, for sale to the U.S. Assay Office at New York.

The State Department forwarded to us cables stating that the following shipments of gold would be made:

\$4,185,000	from Australia, shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.
\$1,127,000	from England, shipped by the Lloyds and National Provincial Foreign Bank, to the Bank of London and South America, New York.
\$141,000	from Australia, shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.
\$18,000	from England, shipped by the Swiss Bank Corporation, London, to its New York agency.
<u>\$5,471,000</u>	Total

The shipments coming from Australia will be sold to the U.S. Mint at San Francisco, and the ones coming from England will be sold to the U.S. Assay Office at New York.

The Bombay gold price declined the equivalent of 58¢ to \$34.64.

Spot silver in Bombay was equivalent to 43.22¢, off 9/16¢.

A substantial decline took place in the London silver prices today. Spot silver was fixed at 21-1/8d, off 1-5/16d, and the forward quotation was 21d, off 11/16d. The U.S. equivalents were 38.41¢ and 38.18¢ respectively.

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

CONFIDENTIAL

- 3 -

We made three purchases of silver totaling 200,000 ounces under the Silver Purchase Act, all of which represented new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be "J. M. S.", is centered on the page below the typed text.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 24, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending June 22, 1940.

Conclusions

(1) Indexes of business activity continue to rise rapidly. In the week ended June 15 the FRB equivalent of the New York Times index gained a full 5 points, reaching 117. As steel operations approach capacity, the business gain attributable to this factor will of necessity be more gradual. Other industries, however, are beginning to make a more substantial contribution to the business rise.

(2) A pronounced upturn in orders for products other than steel, which raised our new orders index in the week ended June 15 to a new high since last October, apparently fore-shadows an expansion in other industries. Orders for textiles, electrical equipment, and construction materials have shown noticeable increases.

(3) The collapse of France has had certain repercussions on our business situation. Some steel companies have suspended work on French war orders pending definite assumption of these orders by Great Britain. Tin, copper, and other metal prices have weakened on the cessation of French buying.

(4) The plant expansion program of American industry, which recently got under way, has gained further momentum. Industrial construction awards have reached the highest level since June 1937, with the inclusion of large private and Federal projects during the past week.

- - - - -

Business indexes rise more sharply

An unusually sharp gain in adjusted indexes of business activity during the week ended June 15, again due in large part to the rapid contra-seasonal expansion in steel activity, has carried the New York Times index to an FRB equivalent of 117.

Secretary Morgenthau - 2

(See Chart 1.) This represents a rise of 5 points in a single week, and carries the index close to the level of last January, when the FRB index was 119.

Gains after this month may be somewhat slower, unless activities in other industries than steel advance more strongly. It will be more and more difficult to expand steel production as the rate approaches practical capacity; the "seasonal" during July will rise slightly instead of declining as at present; and some hesitancy in steel production during the next few weeks may result from the present uncertainty over the status of French war orders.

On the other hand, other industries seem likely to advance more rapidly in the months just ahead. Textile production (second to steel in importance in the FRB index) has already begun to increase. The FRB adjusted woolen goods index rose to 91 in May from 76 in April. The cotton goods index in May rose 3 points to 116. Sharply increased orders for both types of textiles in recent weeks, partly representing heavy Government purchases of wool textiles, point to further expansion of activity in the textile industry.

Activity in leading industries

The recent trends of production in selected leading industries are shown in Chart 2, in comparison with the New York Times composite index of business activity. The extent to which the rise in the composite index so far has been due to the increase in steel activity is indicated by the similarity between the trends of the two indexes. Now the cotton mills (as shown on the chart) are beginning to increase production. The index of cotton mill activity has recently been revised upward.

Lumber orders have not yet shown any significant increase, and lumber production (see chart) has risen but slightly. A recent tendency toward industrial plant expansion, together with the present high level of residential construction, however, will doubtless lead to increased production of lumber.

Secretary Morgenthau - 3

Further gains in industrial plant expansion are indicated by the Engineering News Record figures for the week ended June 20. Construction awards for industrial purposes in that week, totalling \$25,949,000, increased 44 per cent over the previous week, and for the second week in succession established a new high level since June 1937. The total for the week was sharply raised by the \$15,000,000 award for the new Tennessee Powder Company plant at Memphis. Other awards included a \$3,000,000 aluminum reduction plant at Vancouver, Washington, a \$3,000,000 telephone exchange at Chicago, a \$1,000,000 Chrysler Corporation machine shop at Highland Park, Michigan, bridge awards totalling \$1,184,000 for the Texas and New Orleans Railroad Company, and 4 other awards over \$500,000. In the Government classification, the largest award was \$23,000,000 for a naval air base at Corpus Christi, Texas.

Automobile production (as shown on the chart) has apparently started its summer decline in preparation for a shift to new models. Output last week declined to 90,060 units, as compared with 93,635 in the previous week.

A further increase in new orders for products other than steel supports our expectation of a rising trend of production in a number of industries. Our index of new orders in the week ended June 15 rose to a new high since last October, despite a sharp downturn in reported steel orders. (See Chart 3.) Increased orders for textiles, electrical equipment, and building materials were responsible for the upturn in the index in that week. Our index of orders for products other than steel and textiles, the most important of the three major groups, has risen above its high of last October.

Status of French orders affects steel rate

A reduction in the rate of steel output, which is scheduled this week at 86.5 per cent of capacity versus 87.7 per cent last week, is attributed in part to uncertainty over the status of French war orders. While it is assumed that the greater part of these orders will be taken over by Great Britain, differences in types of steel and semi-finished products required by British plants, and in measurements on finished products, have led to some doubt on this point. Work has therefore been suspended on French orders by some companies, awaiting a clarification of the situation.

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New orders reported by the U. S. Steel Corporation declined to 78 per cent of capacity during the week ended June 13, as compared with 107 per cent in the previous week. The drop in orders may have been due in part to the effect of the recent Allied reverses on new buying, and in part to a temporary falling off in specifications on automobile steel after the steel companies had decided to postpone the deadline on "margin price" orders until July 31.

A further increase of \$.75 a ton in the Iron Age composite price of steel scrap reflects the urgency of current demand from steel mills. Mills can step up production of steel more rapidly by using scrap than by going through the process of making pig iron, hence the consumption of steel scrap tends to increase more rapidly than the consumption of pig iron during a rapid rise in steel output.

The steepness of the rise in steel scrap consumption during May, following several months in which scrap consumption was low relative to pig iron consumption, is indicated in Chart 4. The increase in the consumption of steel scrap during May compares with similar sharp increases in the fall of 1938 and the fall of 1939, when steel output was expanding rapidly.

Railroad equipment orders increasing

After an extended period of dullness following the active buying of last fall, railroad equipment orders, particularly for freight cars, have recently been showing signs of improvement. Domestic freight car orders in May increased 270 cars over the previous month, making the May total of slightly over 2,000 cars the best monthly figure thus far this year. While this number is far below the 1939 peak figure of more than 24,000 cars ordered last September, nevertheless it appears to have been the forerunner of increased ordering during the current month. Thus the Iron Age of June 20 had already reported new domestic freight car orders in June totalling 3,934 cars (including 1,000 box car bodies), nearly double the total for the entire month of May. Similarly, according to the Railway Age, orders for new locomotives in the first half of June totalled 27 as compared with 20 in the entire preceding month.

Increased equipment buying has doubtless been stimulated by a recent more encouraging showing of freight car loadings, as well as by a tendency to anticipate requirements that may develop in connection with national defense plans.

Secretary Morgenthau - 5

Freight cars owned at the end of last April totalled 1,648,000, as compared with 1,662,000 at the end of April 1939. On the other hand, as indicative of progress in the repair program of the railroads, only 10 per cent of the total were undergoing or awaiting repairs as compared with 14 per cent at the end of April 1939. Likewise only 16 per cent of all locomotives were undergoing or awaiting repairs, as compared with 19 per cent a year earlier.

According to a recent statement of the president of the Association of American Railroads based on a survey of June 1, the railroads expect by October 1 to have an increase over year-earlier levels of 148,000 serviceable freight cars, even though only 3,425 additional new freight cars were definitely scheduled for purchase as of the date of the survey. This is expected to be accomplished by the delivery of cars previously ordered as well as the prospective orders mentioned, the rebuilding of 13,000 cars, and the addition of nearly 81,000 serviceable cars by the repair program being carried out.

Metal prices weaker

The cessation of French buying, and the possibility of a reduced volume of nonferrous metal consumption after the German occupation of France, brought a sharp decline in tin prices last week and weakness in prices of copper and zinc. Heavy selling of tin by Chinese producers on reports of possible Japanese intervention in French Indo-China was a factor contributing to a break of £27 per ton in tin prices at Singapore last Tuesday, the market closing at £258. Prices at New York did not reflect the full Singapore decline, but the close last Thursday at 54½ cents a pound was 3½ cents lower than a week earlier.

Copper prices were reduced ¼ cent during the week, and futures prices of zinc and lead showed some weakness, although producers of these metals held spot prices unchanged.

Prices of basic industrial materials as a group, however, continued during the week the gradual improvement that has been noticeable since the beginning of the month, while prices of foodstuffs held about unchanged from the previous week. (See Chart 5.) Rising prices of cotton and wool, rubber, hides, and steel scrap contributed to the upturn in the industrial materials group last week.

Secretary Morgenthau - 6

Weekly business indexes sharply higher

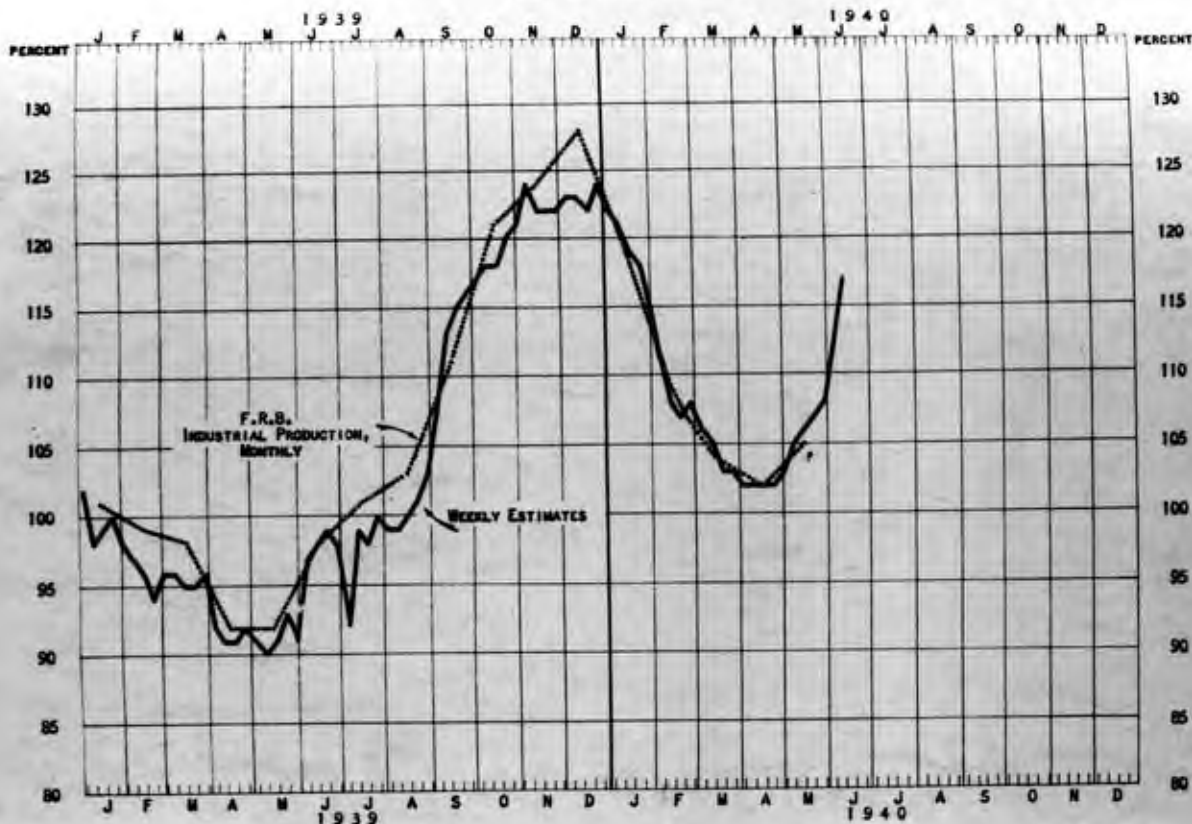
Continuing its rise for the seventh consecutive week, the New York Times index of business activity for the week ending June 15 moved ahead more sharply than in any other week since July 1, 1933. The gain, amounting to 3.1 points, carried the index up to 102.4, which is 9.6 points above the low reached in the first week of April. Nearly one half of this aggregate gain since early April has been accounted for by the index of steel ingot production.

The principal factors in the rise during the week ending June 15 were marked contra-seasonal gains in electric power and steel ingot production. Freight car loadings also showed a contra-seasonal rise with both total and miscellaneous loadings reaching new highs for the year. The index of cotton mill activity also rose, despite the fact that the previously reported figure for the preceding week was revised upward by over 10 points. The only component which declined was automobile production, and that decline was very slight.

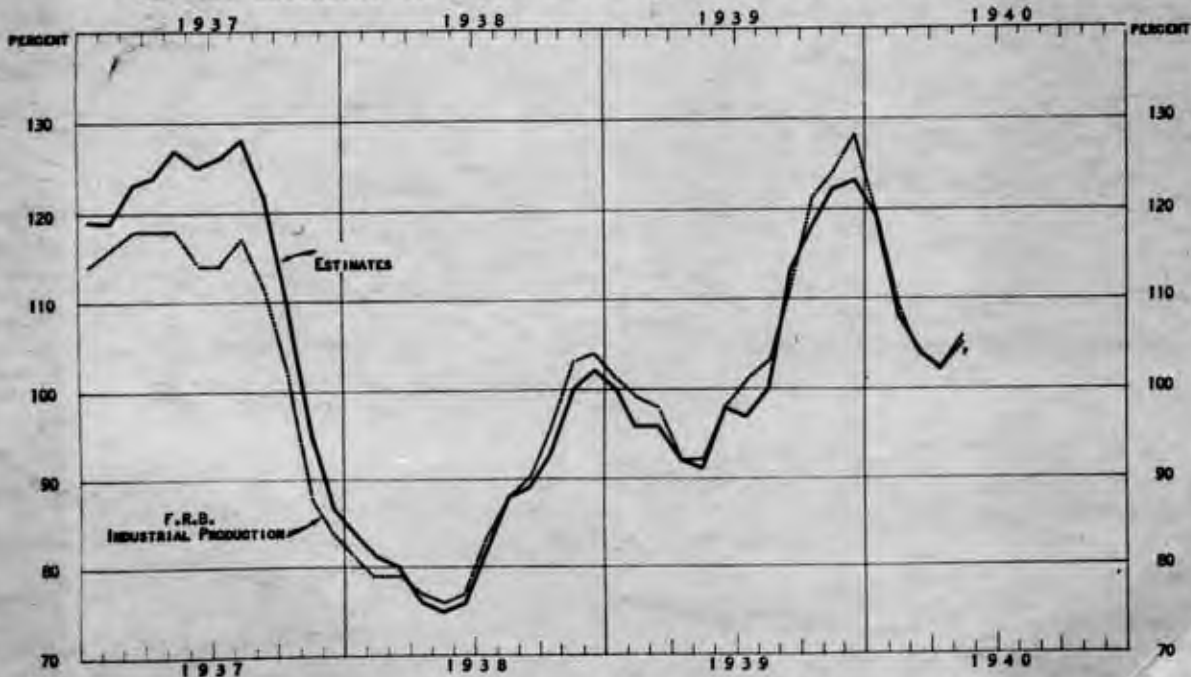
Barron's index of business activity for the week ending June 15 moved in line with the Times' index although at a somewhat slower pace, a rise of 1.6 points carrying the index up to 110.2.

Preliminary data thus far available for the week ending June 22 reveal (1) another contra-seasonal gain in steel operations, which will result in a further advance of around 5 points in the index of steel ingot production, and (2) a more than seasonal decrease in automobile production, which will reduce the index of automobile production by about 4 points.

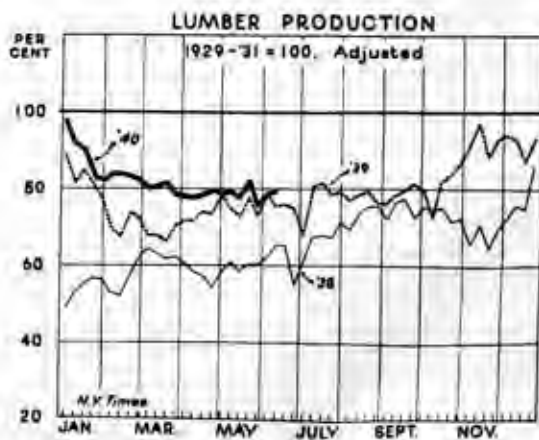
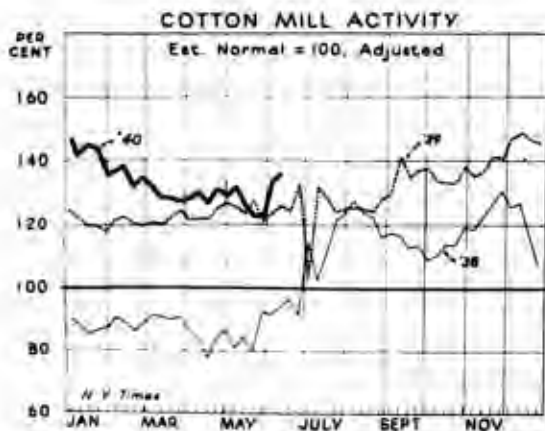
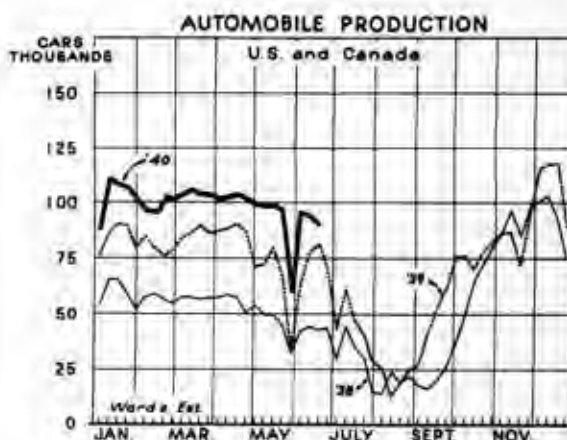
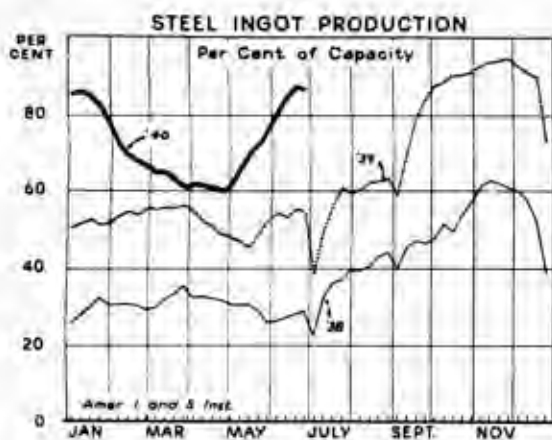
WEEKLY ESTIMATES OF F.R.B. INDEX OF INDUSTRIAL PRODUCTION BASED
ON N.Y. TIMES INDEX
1923 = 25 = 100, ADJ.



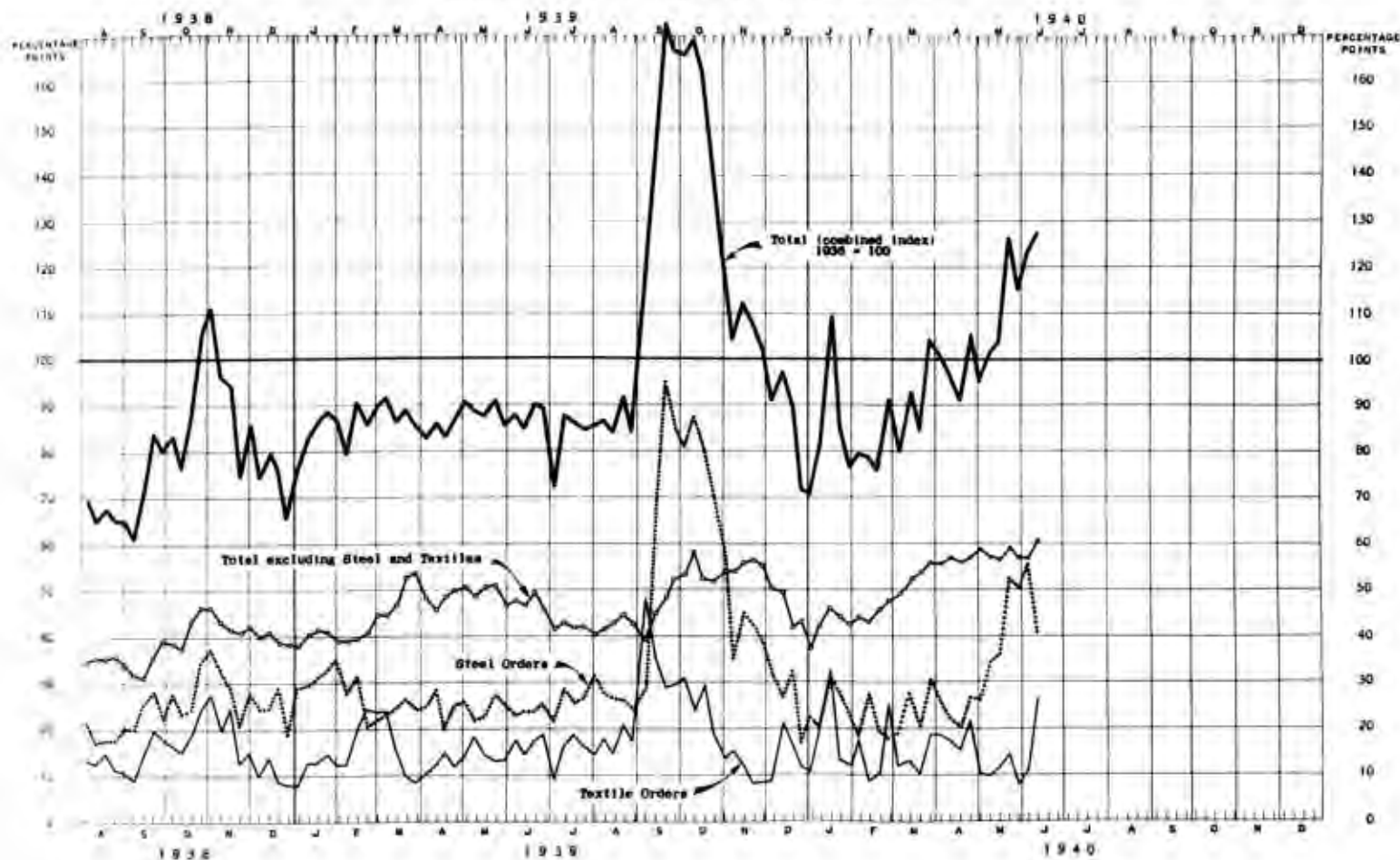
MONTHLY ESTIMATES OF INDUSTRIAL PRODUCTION, BASED ON N.Y. TIMES



SELECTED BUSINESS INDICES

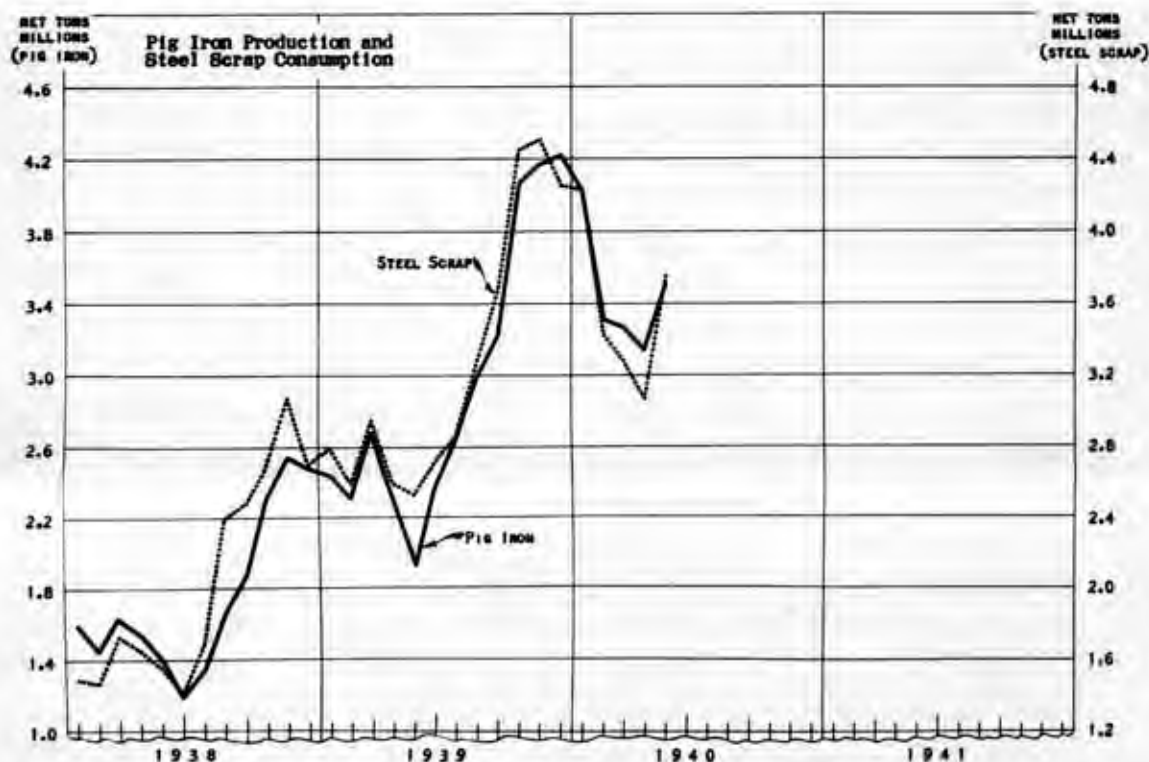
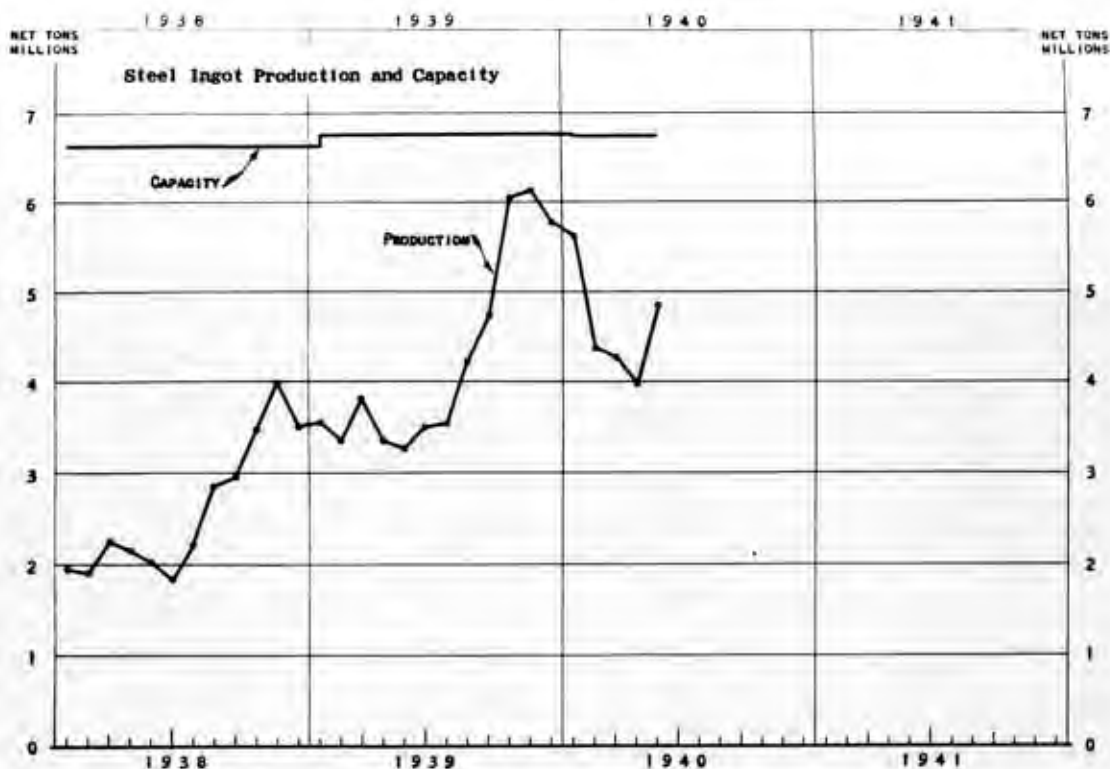


INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components

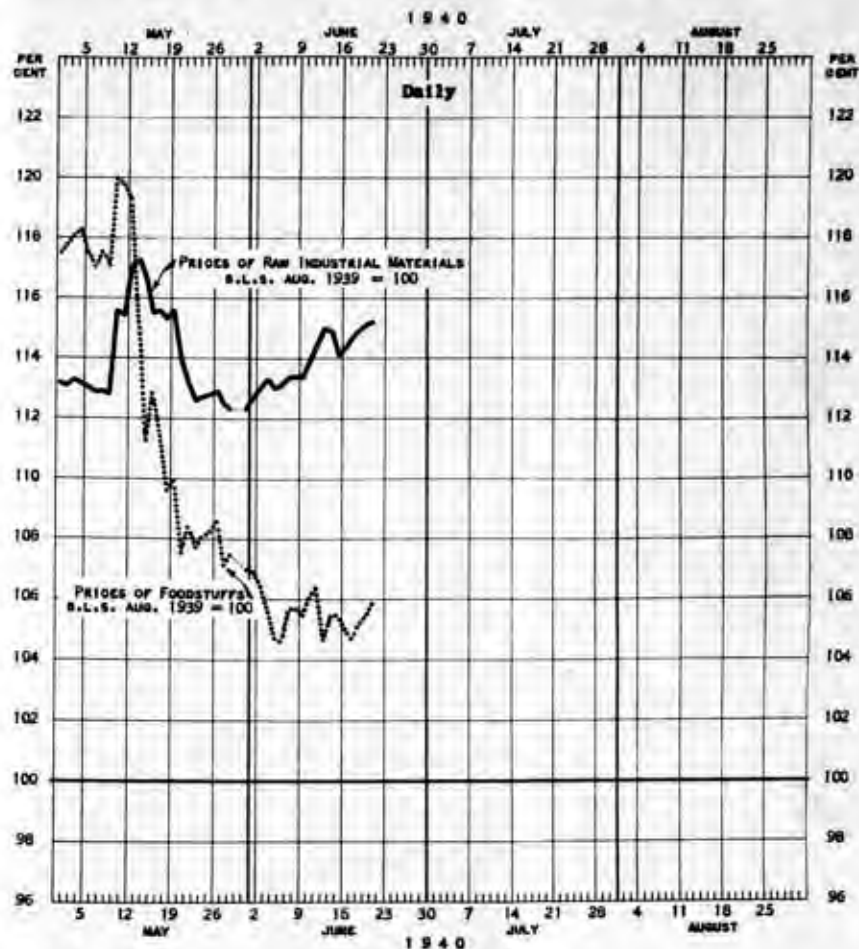
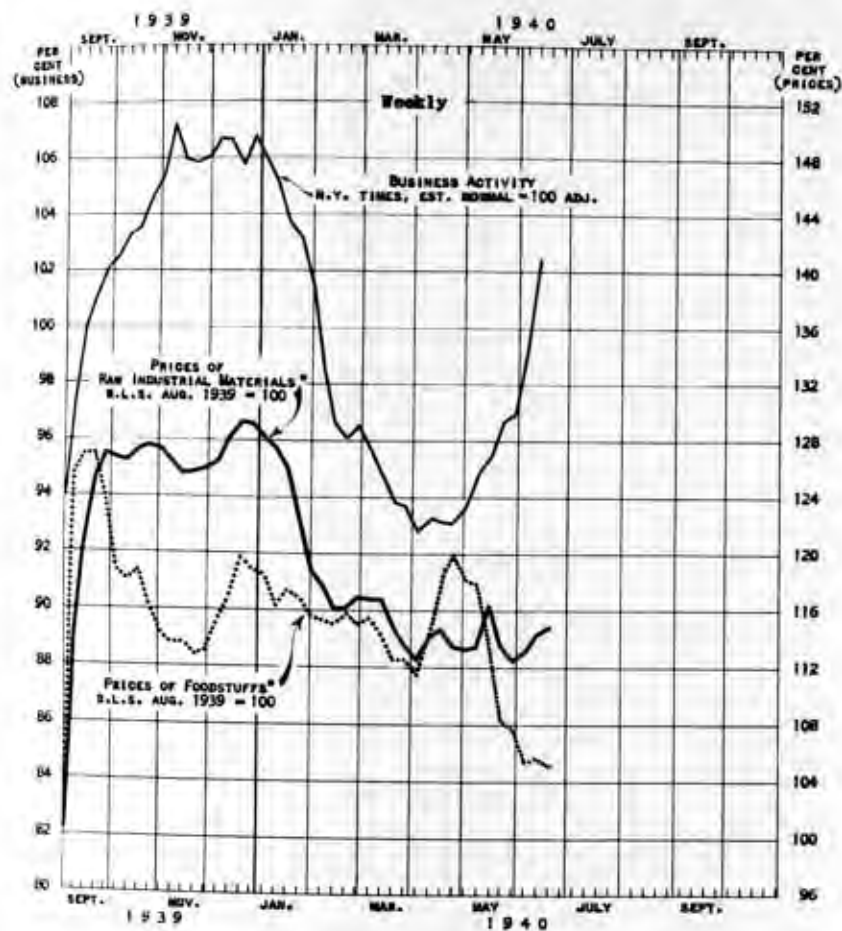


Source: Bureau of Economic Warfare
and War Relocation Authority

PRODUCTION OF STEEL INGOTS AND PIG IRON AND CONSUMPTION OF STEEL SCRAP



BUSINESS ACTIVITY AND PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



* FIVE DAY AVERAGE FOR PRICES



TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

24 June, 1940.

HEADQUARTERS

SECRET

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

Message from Mr. K. P. Chen.

I arrived Hongkong on the twentieth from Manila. Had originally planned to proceed via Rangoon, Irrawaddy Waterway, and Burma Road to China interior. However, I received a cable in Manila from Chiang Kai-Shek and H. H. Kung requesting me to change my plan and proceed to Chungking first. The change necessitates postponement of the Irrawaddy Waterway and Burma Road inspection trip until after a brief Chungking visit. I will keep you informed. Best personal regards.

*Back
White
Cochran*

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, called on me at 12 noon today by appointment. He showed me a copy of a cablegram which his Ambassador had sent under date of June 21 to London. Mr. Pinsent permitted me to copy the following text of the message:

"Mr. Welles has now given following reply in writing.

Begins.

With reference to the inquiry concerning contingencies which might arise if an agreement to hand over French assets in the United States to Germany were entered into by France, it may be pointed out that an order subjecting such assets to license was issued by the United States Government as recently as June 17. In the event of an armistice or other agreement being entered into on the part of France, there would no doubt be many questions of fact and policy requiring careful consideration before any decision by this Government to license the disposition of French assets in the above-mentioned sense could be reached. This Government cannot at the present time forecast all the contingencies of the situation.

Ends.

After reading me this statement Mr. Welles went on to say that, while the President was unable to make any explicit commitment as to the future in writing, His Majesty's Government could rest assured that so far as his Administration was concerned no French Government dominated by Germany would be allowed to get control of balances or assets in the United States which could be used in the war against Great Britain. It was the intention of the United States Government to treat any government in France which was dominated by Germany exactly as it treated the government in Denmark today."

It will be recalled in the above connection that on June 18 Mr. Pinsent had given me the following text of a secret message which his Embassy had received from the British Government:

"Please inform United States Government that in view of obscurity of position and uncertainty whether French offer of armistice will be accepted we did not to-day take steps to block French gold [?] balances before banks closed. We shall consider what will be appropriate steps to take tomorrow.

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"2. We should be glad to know what steps would be contemplated by U. S. Government to prevent French gold held in U. S. A. by French Government or Bank of France or gold in transit being handed over to Germany and French balances being used for benefit of Germany."

This Treasury had given its oral comment on the above message to Mr. Pinsent, and the above quoted communication represents the reply of the State Department, to which Department the matter had also been taken by the British Embassy.

Mr. Pinsent told me in strictest confidence that Lord Lothian saw Secretary Hull this morning and suggested that the United States withdraw recognition of the Petain Government. Mr. Hull is stated to have replied that the Department of State would take no precipitate action but assured Lord Lothian that the situation here was absolutely safe. The Ambassador took this to mean that French assets in this country were safe.

In regard to this question of French assets, Pinsent gained the impression from his last talk with Leroy-Beaulieu that France now has approximately \$500,000,000 of gold, \$600,000,000 in Ottawa, \$150,000,000 in London, and approximately \$200,000,000 in gold on the high seas. These, as I recall them, are about the figures which Leroy-Beaulieu gave to me last week, so there may be some change therein by this date. N.Y.:

Pinsent volunteered a story to me about the French gold which arrived in Halifax a few days ago on a French warship, which differs a little in detail from Leroy-Beaulieu's account. Pinsent stated that before the ship had begun to discharge its gold cargo at Halifax, instructions were received to take the gold to Martinique instead. The Canadian government, however, blocked the departure of the warship from Canada. This immediately caused an incident which the Prime Minister of Canada and the French Minister were endeavoring to solve. As far as Pinsent is aware, no decision has yet been reached. The French Ambassador in Washington was quite angry over what he calls a "seizure" by the Canadians of a French warship.

On Saturday last Pinsent had referred to the matter of the contemplated transfer of French gold from New York to Ottawa, and told me confidentially that word had been received from his Government endorsing this idea. He is aware, however, that the French Ambassador in this country is opposed to the idea.

Pinsent is not at all optimistic as to the chances for Great Britain to receive much help from the French Navy or from French citizens or dependancies outside of continental France.

June 24, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Young
Mr. Gaston
Mr. Haas
Mr. Bell
Mr. Graves
Mr. Viner
Mr. Thompson
Mr. Schwarz
Mr. Cochran
Mr. White
Mr. Foley
Mrs. Klotz

H.M.Jr: Will you (Thompson) see that Dr. Parran for the next 24 hours gets a good car? I know where there is a 1939 Buick that could be used, but I don't like to take it away, but otherwise, if you could get him a good car for the next day or two - tell him it is from the President and me personally.

White: It is already available.

H.M.Jr: All right. Will you?

Thompson: Because I just - could I clear myself just a little bit? I think this. Sullivan has really been sick. He is going to have to work on this tax bill. Why wouldn't it be a good idea to tell him to stay up there for two weeks now, because he has got to work all summer getting this thing ready. What do you think?

Bell: I think it would be a good idea. He isn't well.

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H.M.Jr: Then he will have had his summer's vacation. What do you think, Herbert?

Gaston: I think it is all right. I think he should take some time off.

H.M.Jr: Isn't this as good a time as any? Because he is going to have to work on the tax bill.

Gaston: Yes, I think so.

H.M.Jr: Don't you think so? Does that fit in with the rest of you? I told him to take four or five days, so he might just as well take two or three weeks.

Bell: It is all right with me.

H.M.Jr: I am serious. Then he will have to come back and work on the tax bill. After all, he left here on the night of the 22nd. We will give him the week of the 4th of July. I will give him that week and he can come back on the 8th. How is that?

Bell: Very good.

H.M.Jr: I will call him up.

The other thing which I wish you people would be thinking about is this: I think we are going to have some very, very difficult decisions to make on this gold, and the outstanding person, as far as I know, is Professor Joseph P. Chamberlain. Do you know him?

Foley: No, I don't know him.

H.M.Jr: You don't?

Foley: Do you want me to check it with Eddie?

Viner: I know him.

H.M.Jr: Do you know anybody who would carry any more weight?

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Viner: Quasi legal decisions?

H.M.Jr: Yes.

Viner: He would carry a great weight with the Hill, you know. He was expert adviser on drafting for years. But he is - I would say he is a person with an absolutely first class reputation, but he is quite an old man now.

H.M.Jr: But they say he has an assistant up there by the name of Philip Jessup.

Viner: Yes, he is down here, too.

H.M.Jr: Who could be down here permanently, but Chamberlain would be the front man.

Viner: What do they call him?

Cochran: Professor of Public Law at Columbia.

H.M.Jr: Do you want to check it off? Would you like a half a day on it?

Cochran: Jessup is carried as professor of International Law.

Foley: Well, I will make some inquiries.

H.M.Jr: Make some inquiries. I called up. He is in California now. I will call him after lunch. You must know him. I worked with him on the narcotic thing. He is head of this committee on narcotics. He is quite an old man. He must be over 70.

Foley: Yes.

H.M.Jr: But I think he has a great name backed by brains. I think he would be - Eddie agreed. I first asked Eddie. He couldn't make any suggestions, and I said, "What about Chamberlain?" He said, "You couldn't get a better man." He is the head of the Non-Sectarian Refugee Committee. He had a chair in Oxford.

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White: I suspect the determining factor in the determination of international law right now unquestionably is policy, so that unless you already know it might be well to find out what his policy is before you have his reputation behind the decision you make.

H.M.Jr: I know what it is. He is the head of the Non-Sectarian Refugee Committee. I mean, I guess he is about as good a man as you could get. But you do a little inquiring around, will you?

Foley: Yes.

H.M.Jr: Because I think that - well, this thing, for instance, about turning over the gold owned by individuals, Dutch individuals, to the Dutch Government - I mean, I think fellows like Ed and myself who are on the firing line every minute and yourself (Bell) just don't get time to sit down and look a month or two ahead. It is a very difficult thing. If we had a man like that, I think it would be fine. After all, we are doing so much every minute you can't stop and think. I worked with him on narcotics. He is a grand fellow. He is head of this committee.

Foley: I am sure I can find out about both of them.

H.M.Jr: George, would you send your railroad statistics - the first one I will send with the letter both to Budd and Harriman as they come in on the Port of New York. They have nothing over there.

Haas: I see.

H.M.Jr: They came down - they would love to have them. Don't we get them daily?

Haas: Well, I make a report to you once a week, but there is a daily one from New York.

H.M.Jr: Well, I would send the daily one over to

them, but the first ones, in the thing say, "If you want anything more, if you will contact George O. Haas," and so forth and so on.

Haas: That is Budd and Harriman?

H.M.Jr: Yes. And you might put in the letter if they care to take this over themselves, I would be delighted, or we would be glad to continue it. You stay behind a minute, Ed, and I want to write a letter on this stuff.

Thompson: The Treasury Appropriations Bill for next year changes our Division of Appointments to Division of Personnel. It is therefore necessary to issue a formal order establishing the new division. This is a short one.

H.M.Jr: Does this appoint the head of it?

Thompson: Yes, the Director of Personnel.

H.M.Jr: Did it name a name?

Thompson: No, sir, just the Director of Personnel.

H.M.Jr: You know, I have told you fellows I want to talk about that.

Thompson: This really should go out to get the division established.

H.M.Jr: Well, it leaves it to me to appoint the fellow?

Thompson: You already have one.

H.M.Jr: But I mean, it still leaves it to me?

Thompson: That is right, it doesn't change that provision in the slightest.

H.M.Jr: Well, I may want to put Louie Brownlow on it.

Thompson: He will be a good one.

Gaston: That would be a good idea, get him out of his present position.

Thompson: There is one more Mr. Bell wanted to promote, Mr. Bartelt.

H.M.Jr: Eddie Bartelt? Wonderful. I would like to give Eddie that myself. He is a good boy.

Klotz: Who is the Director of Personnel now?

H.M.Jr: I am. I know all about it. See that panel there (Thompson, Bell, and Graves)? They even rotate together. They are all sitting on the same fence. They just go like that (waving arm). Have I got a chance? I guess not. Do I know when I am licked? Yes. Just go through the formality of consulting me, will you?

Thompson: Yes, sir.

H.M.Jr: What else?

Thompson: That is all.

H.M.Jr: Dan?

Bell: Doughton called Saturday and tried to get you. He said he had heard a rumor that Mr. Hathcock is going to be dismissed on July 1st and he wanted to call attention to your promise and Mr. Sullivan's promise that nothing would be done in this case until he had an opportunity to confer with you.

H.M.Jr: Well, I asked John to handle it.

Bell: I said I didn't know a thing about it.

H.M.Jr: Don't we have a committee on that? Wasn't there a committee? Well, I asked John definitely to handle it. Well, John gets two weeks' vacation. You will have to leave it until he gets back. It is his problem.

Bell: Well, he said he was going out of town on

- 7 -

Saturday night for ten days, and he hoped nothing would be done until he got back. I told him I thought if that promise had been made that nothing would be done. I promised him nothing would be done unless we got in touch with him.

H.M.Jr: You had better tell it to Guy Helvering to make sure.

Thompson: He went before a Senate Committee last week.

H.M.Jr: There are the things I handed to John. I handed him that, which is definitely his problem, and there were several other things.

Bell: I think if John promised him that, he will do it.

H.M.Jr: I promised him.

Bell: Well, he said Sullivan did too.

Mr. Schramm called also and said he had seen in the paper where you had worked out some program or plan in connection with the financing of plant expansion. He would like to get some information on that because it would be quite helpful to them in a case where they had to make loans.

H.M.Jr: Ed works it all out, does a magnificent job with Knudsen, but Mr. Biggers never heard of it and Mr. Biggers is Mr. Knudsen's right hand man, so it takes $\frac{3}{4}$ hours, to be exact, and they have got to go all over it again with Biggers. Now, Jesse Jones has written a letter approving the plan.

Bell: Yes.

H.M.Jr: Here is a letter approving the plan, and I only made my statement after Ed Foley came to my house, got me out of bed at 7:30 - at night --

White: Yes, we know you have never been in bed at 7:30 in the morning.

Foley: It wasn't even necessary to make that remark, was it, Harry?

H.M.Jr: He was just going to work. I met him with his milk pail going to work. Well, anyway --

Bell: Well, if that is the case, I will tell him to get it from Mr. Jones.

H.M.Jr: Do you think it is worthwhile to get hold of Schramm and tell him the whole story?

Foley: I will call him up and tell him. I will be glad to do it, if you would like me to.

H.M.Jr: I think it would help.

Foley: Sure.

H.M.Jr: Incidentally, I had breakfast with Averill Harriman and he said the whole crowd over there is most enthusiastic about the Treasury and they couldn't ask for more cooperation than what we are giving them. It is sort of a club over there. If you weren't in the NRA, you can't go to work over there.

Foley: That is right.

H.M.Jr: It is true.

Foley: The fellow they have asked us to lend them is Larry Bernard, who was in NRA. They wanted to borrow him for the summer.

H.M.Jr: Nothing doing, you know.

Foley: I know.

H.M.Jr: I mean that still holds true, Norman. They don't borrow anybody without my signature. Go ahead.

Bell: I was wondering if somebody was working on the request for the Wagner Committee in connection with this banking legislation.

White: Oh yes.

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Bell: I hadn't seen anything.

H.M.Jr: What are you going to say, Harry?

White: Oh yes, they are working.

H.M.Jr: Yes, they are working. Harry wrote all the questions.

Bell: He ought to know all the answers, then.

H.M.Jr: I hope he does.

White: No, it is an old professorial custom. You ask the answers to the questions you don't know. You expect the students to give them.

H.M.Jr: You say you didn't write them all?

White: No.

H.M.Jr: Which ones?

White: I stand on my first statement.

H.M.Jr: You see, Harry White has even spotted a man up there. Talk about your Fifth Columnists!

White: They are not eager to go forward rapidly with it and so we want to cooperate with them.

Bell: I would hate to wait until the last minute and then have to rush in a lot of answers.

H.M.Jr: Will you send for Professor White?

Bell: Yes, I will send for him. I have a resolution --

H.M.Jr: By golly, they set up about 2,000 questions. Wagner is very sensitive about the fact that White did all this work and has one of his own White men up there as a principal fellow. Don't let it out.

White: There is some resemblance.

H.M.Jr: Is the fellow up there or isn't he?

White: Yes.

H.M.Jr: Okay. These yes or no answers are terrible. What else?

Bell: I have a resolution here for the Board of Trustees of the Postal Savings system. Heretofore they have taken the profit which we have made on sale of Government securities after setting aside enough money to pay the interest and their expenses, and turned it over to the Post Office Department for Postal Revenue. I thought it might be a good thing if they used that profit to write off the premium, at least on the bonds, and this is directed to that over the next three years and any subsequent purchases --

H.M.Jr: I think it is a good idea.

Chamberlain was born in '73. How old does that make him?

Bell: Sixty-seven.

H.M.Jr: He is younger than I thought. He was High Commissioner for refugees coming from Germany from '33 to '35.

Viner: He worked on the treaty of Versailles, if I am not mistaken. He was one of the parties on the American side so that is either for or against him.

White: How would the State Department feel about you getting these men down?

H.M.Jr: Well, they fooled around here for a couple of years and they had to shove the airplanes across and then the Treasury decides that the title can pass in the air.

White: Well, that is your regular staff. I am just asking the question. It seems to me they are definitely in the field in which presumably the State Department has authority over.

H.M.Jr: I am surprised, Harry. I am not going to wait for the State Department. You and I agreed it

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would be a swell thing to buy up all the strategic war materials a year ago and not give them to anybody to make war. Now they come along after all of Europe except England is lost and they want to spend a couple of billion dollars in South America. If they had spent it a year ago, they would have been a lot better off. I am not going to wait for anybody or anybody's feelings, with the exception of the President's.

Jessup was born in '97. That makes a good average.

Am I still on you?

Bell: You have to sign those letters. Senator Thomas sent you a little note about birthday greetings and enclosed a telegram he had received from a man by the name of England out in Logan, Utah, suggesting that we take a mortgage on the fleets of Germany and France - England and France against their war debts. I don't know whether that requires a reply. It doesn't say much.

H.M.Jr: Why didn't you decide it Saturday?

Bell: Well, it was a personal note.

H.M.Jr: Okay. Thank you. What else?

Bell: That is all.

H.M.Jr: All right. Dan?

Bell: Yes.

H.M.Jr: Harold?

Harry?

White: I think there ought to be a conference here and then if you will set some time aside within the next couple of days to reconsider the question of a method of silver purchasing. There is some press comment and some information that we are picking up which indicates that Germany

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is picking up silver and Italy is picking up some silver, and if we can rearrange our purchases, we may be able to avoid buying that sort of thing.

H.M.Jr: Well, what happened on that, the New York Times man evidently had a story out of Mexico that this stuff was coming in and asked me about it, and I said I didn't know anything about it, but we will be glad to look into it. Dan asked me Saturday if I was doing anything about it, and I said no, and he said he would start.

White: Well, he asked me to prepare something but I am raising a different question, not so much of answering, but of really reexamining the way of buying this stuff.

H.M.Jr: Well now, if Dan and you would - and Cochran, I will appoint you a committee of three. If you will give me something on this, I would like very much to have it; and if you will let Professor Viner sit in on it, I would like it.

White: Okay. There is a meeting of the Executive Committee on Commercial Policy this morning at eleven o'clock, at which there is to be taken up the question of a coffee cartel which the coffee growers in this Hemisphere have been working on and the State Department approves of their request that - to limit the imports of non-American coffee, that is, coffee from Africa, which is Dutch and British and French. It will also raise the price here. It is coming up at the meeting this morning and I wondered whether you would like to have a little conference here before to determine your attitude on the question before the meeting. They claim they want to work very fast.

H.M.Jr: Well now, they are working too fast. Now, wouldn't it be good to have a fellow like Leon Henderson and Mrs. Thingabob sit in on the thing?

White: Very good.

H.M.Jr: From our standpoint.

White: Very good idea, because coffee particularly --

H.M.Jr: I mean, that is the first thing. I would be ready by eleven thirty.

White: The meeting is eleven o'clock this morning.

H.M.Jr: Oh, gosh!

White: I can withhold comment and ask them to have another meeting later. The notice was Saturday and they said they wanted immediate action so they can start the arduous task of distributing quotas, etc. This request comes from the Latin-American countries more than ourselves.

H.M.Jr: Well, it is ten o'clock now. I don't suppose --

White: Why might I not at the meeting say that we want to go into the matter a little more carefully and they can have another meeting or we can telephone them our views, and if they are not in accord with the views expressed then, then this afternoon we can have a meeting here.

H.M.Jr: Why not have a meeting here at two thirty, and I would like to have Henderson and this Mrs. Elliott. Ask McKay.

White: Two thirty?

H.M.Jr: Yes, I think they ought to be here, don't you, Jake?

Viner: I don't know. Neither of them knows anything.

H.M.Jr: Well --

White: Well, the President appointed them for that job.

Viner: That is the committee's responsibility, not the Treasury's.

White: No, but they might have some light to throw on our decision. I take it our decision would

want to be in accord with the protection of the consumer.

H.M.Jr: I would like to have them. Now, are you (Bell) interested in this?

Bell: Not particularly. I might sit in on this.

H.M.Jr: Who else? Herbert?

Gaston: I have a meeting at two o'clock on another matter.

Viner: Who is the person in town?

Haas: Over at Agriculture.

Viner: Montgomery.

H.M.Jr: You be here, Ed, to keep me straight legally. Mr. Viner, will you be here, please?

White: I thought George might be interested.

H.M.Jr: George Haas?

White: Yes.

H.M.Jr: Fine. George?

Haas: I will be glad to come in.

H.M.Jr: Yes, I would like you to come in. Two thirty, coffee.

White: There is a meeting --

Viner: If I may say one word there, I don't think that is the correct procedure, Mr. Secretary. That is an inter-departmental committee and you are setting up another inter-departmental committee to parallel their activities. If those people are to be called in, the suggestion might come from the Treasury that they be represented at the inter-departmental committee.

H.M.Jr: I think you are right.

White: There is this difference. This is a Treasury opinion which you are going to present and I take it all you are going to do with respect to them is to get their views on it to enable you to come to some conclusion.

H.M.Jr: Supposing when you go over there you say I feel that Leon Henderson and Mrs. Thingabob should be brought in on this. Who is chairman of that?

White: Grady.

H.M.Jr: I think Viner is right.

Viner: They are acting under an executive order of the President, and they have been given the inter-departmental function.

H.M.Jr: I think that is quite right, so Grady should invite them in. We will just make this a Treasury decision.

Viner: The Treasury can advise that they call in any other agency of the Government, that is perfectly appropriate.

White: That will also make possible a later meeting?

Viner: Then informally you can take advice from anybody you like, but you oughtn't to set it up at the meeting.

H.M.Jr: I think he is right. When you go over this morning, tell them they ought to invite these two people. That is my opinion.

White: I will do that.

H.M.Jr: What else?

White: There is a meeting this afternoon at three o'clock of that group who is continuing to work on that Latin American matter. Do you want me to continue to work on that or would it --

H.M.Jr: What is your own inclination?

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White: My own inclination is to work with them.

H.M.Jr: Okay.

White: That is all.

H.M.Jr: George?

(Mr. Haas handed report to the Secretary.)

H.M.Jr: Ed, do you want to look at this Who's Who article about Chamberlain yourself?

Would you (Haas) again let me have the latest thing on Allison?

Haas: Yes. They doubled last week, from a small base.

H.M.Jr: Well - to make it for the record - I sent that telegram. You have got a copy (Mrs. Klotz) of that telegram I sent to the President on the Allison thing. Mr. Sloan called me in the country. He is not yet ready to put the staff of General Motors on the Allison engine, and he won't be still for several days. I covered the whole thing in the telegram to the President.

Klotz: Do you want the copy?

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

White: Before Chick begins, there is something that you doubtless have in mind with respect to calling these men down. I wonder whether you want to get some group conversation started here on this question of whether or not the committee which Churchill referred to may possibly be the French Government that we may have to deal with. It is going to make a difference.

H.M.Jr: What I want to do is to get the very best brains I can in this very technical and very difficult field of international law. If I can get a couple of people --

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Foley: International law is kind of obsolete, Mr. Secretary. Nobody pays any attention to the precedents of the past. It is what you want to do. I think Harry is right when he says it is policy more than law.

Viner: I think what they can do for you, they can find the sweetest language to put any decision departing from the old precedents.

H.M.Jr: Ed, I am thinking of you and me together. If we can get somebody down here like this man whose motives are good and are the same as yours and mine, take my advice, my hunch, that it is good for you and me. I have never advised you anything yet, or you me. It is good for both of us.

Foley: It is perfectly all right with me.

H.M.Jr: And if you will stay behind a minute, I will tell you everything I have in my mind. I will tell you everything. But take the old man's advice. I am 49 now.

White: They will be here soon enough so that you would wish to postpone discussions?

H.M.Jr: No, go right ahead.

White: Maybe Danny will raise that.

H.M.Jr: Dan is in this thing just as much as I am. How do you feel about it?

Bell: Well, I am a little at loss.

H.M.Jr: On what?

Bell: What the decisions are.

H.M.Jr: So am I.

Bell: And the problems.

H.M.Jr: Wouldn't you be glad to have them here, available?

Bell: I don't know much about them.

H.M.Jr: Well anyway, I would be. I would like to have him and I am sure I am right.

Bell: We had this question up last week of getting legislation on this turning gold over.

H.M.Jr: What is this legislation I read in the paper? Was that stuff you wanted?

Bell: Yes.

H.M.Jr: Did you want that? Nobody told me about it.

Bell: Well, the publicity about it was very bad. It wasn't true at all.

H.M.Jr: It is okay?

Bell: Yes.

White: Just passed the House.

Bell: It only applies to the Central Bank and Government funds with the Federal Reserve Banks. It doesn't apply to any others.

H.M.Jr: Where were we?

White: Chick Schwarz.

Schwarz: I had a number of queries over the week-end about a reported shipment of French gold to New York. I just wanted you to be prepared for further queries this afternoon at the press conference. They gave a figure of 200 million. I called the Navy and asked if that ship was there and they told me the Navy said the ship was in Portugal, but 5,000 people saw it in New York.

H.M.Jr: The Navy is good, aren't they?

Schwarz: They did all right on that.

H.M.Jr: Do you know anything about it?

Schwarz: No.

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H.M.Jr: Neither does the press section of the Navy. You and they are exactly the same. You don't know anything and Admiral Stark assures me the press section of the Navy knows nothing and he refers all things to the press section of the Navy and I will refer all things to you. Stark assured me he hadn't told the press section anything and referred all queries to them.

Schwarz: They referred them over here.

H.M.Jr: And they say after all the Navy never gives out ship movements. Who am I to give out ship movements? Just sit tight.

Bell: It was all cleaned up Saturday at two o'clock.

H.M.Jr: Did you do a nice job?

Bell: About two o'clock they finished delivery.

White: If there is any danger of that "Normandie" slipping out without anybody knowing, maybe we ought to revoke that license on the 300 thousand dollar claim. As it is now, it is free to go out.

H.M.Jr: The question is, to who is she going to slip to?

White: The way it looks now, it won't get to the British. I think the owners of it - there is a definite split in the attitude of the French and there are any number who might prefer that the "Normandie" might not go to the British and they might respond to pressure from the German Government in response to articles of the Armistice which require them to call home all merchant vessels they can. The "Normandie" is pretty fast, and if it slips out all of a sudden, we may have done just the thing we don't want to do.

H.M.Jr: Well, at 9:27, it said the "Normandie" had no plans current for the sailing of the French Line "Normandie", which is expected to remain in the Hudson River for the present. I would still like to - this suggestion we buy the

"Normandie" and the "Queen Mary" and Mr. Sumner Welles told me I didn't know my etiquette. I got slapped on the wrist for wanting to buy the "Normandie" and the "Queen Mary" in September.

White: I still think there is nothing to be lost by revoking that license.

Foley: I don't think it is necessary to revoke it, Harry. All we have to do is tell Harry Durning that we don't want her to go out without a little notice.

H.M.Jr: Where is Basil Harris?

Gaston: We have been working him pretty hard on doing things in which he has no --

Foley: He can give us notice, that is all we need. We will only need a few hours, if that is what we want to do. We can notify the British.

White: Except that this way you are safe. This way you are legally tying the boat up.

Foley: I don't think so, Harry, because they may be able to get the money somewhere else to post as a bond so that they can lift that libel.

White: I didn't realize that.

Foley: I don't think that is a very secure thing to hang on. I think it is much safer to have a caveat with Harry Durning.

H.M.Jr: Is there any left on board?

Foley: I don't think so. The rats have eaten it all up.

Gaston: That is Russian anyway.

H.M.Jr: How far did I get? Oh yes, Schwarz. Are you all right, Schwarz?

Schwarz: Fine.

H.M.Jr: Mr. Viner?

Viner: The suggestion has been made to me that if we were alert we would pick up a couple of hundred of these French ordnance experts, engineers, designers, and so on, and get them out and Toulon is an important ordnance manufacturing place so they probably are still available.

H.M.Jr: It is funny, I had the same idea. It must be good. I wondered whether we really couldn't get some top flight people.

Young: I talked about that with Mr. Purvis last week, the suggestion they take some in Canada.

H.M.Jr: I will see what I can do. What else, Jake?

Young: Dr. Mead is still Rolls Royceing and has enlisted the aid of the Rolls Royce lawyer in New York, who has been on my neck.

H.M.Jr: To do what?

Young: I would like to see you about that some time for a moment.

H.M.Jr: You mean he is still doing that?

Young: No, he has transferred me directly over to the Rolls Royce lawyer in New York now, so that he doesn't come in between, but we also have a letter from Maurice Wilson through Air Commodore Baker, authorizing the release of other items to the Rolls Company. I would like to see you about that for a minute some time today, if I could.

The Drew Pearson story of last Friday, Customs assures me there is not the slightest foundation for the criticism in it.

H.M.Jr: Well, you and Chick get together and draw up a little memorandum and let's send it to Pearson and let Chick handle that, will you?

Schwarz: I will get it done.

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Young: By five o'clock Saturday afternoon, we had this new two million dollar sale contract, the details worked out, and the stuff should be moving by now from Navy.

H.M.Jr: Well, give me two memoranda. One memo on what the 93 planes - if that is finished and what went with them, you see, in the way of bombs. The bombs were being furnished by the Navy, weren't they?

Young: Yes, they were.

H.M.Jr: And then whatever this other thing you are talking about - give me another one, and in each case indicate who was helpful - who in the Army and Navy were helpful. I was surprised. I wrote a letter to the President in which I commended the people in the Navy and Admiral Stark was very much pleased and put it in the record and everything else.

Incidentally, for good news, the U. S. Steel will deliver all of these thousand pound bombs before December 30, 1940, the new ones, on the 37 million dollar contract. U. S. Steel will make these thousand pound bombs for the Navy and they will all be delivered before --

Young: Those are the complete bombs, or just the casings?

H.M.Jr: It says Navy bombs. It doesn't say if they are complete.

What else, Phil? Tell McKay to fix you up.

Young: I also have a statement for you on what happened to the materiel that has already been shipped out of Raritan.

H.M.Jr: You have that? I am not going to Maurice's word on anything. I am not going to take anything other than through Kennedy from Lord Beaverbrook.

Young: Shall I tell Air Commodore Baker that?

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H.M.Jr: Yes. The only authority that I will recognize is word to Ambassador Kennedy directly from Lord Beaverbrook. I won't recognize any other.

Young: I think it might be better to do it through Purvis to Baker, rather than direct.

H.M.Jr: Okay. But Mead has gone and got the Rolls Royce lawyers and all that.

Young: Evidently the Rolls Royce lawyer has been upset continually. He still wants the release of plans to the - the "G" plans to the Rolls Company.

H.M.Jr: Well, I wouldn't take anything other than from Lord Beaverbrook, Kennedy to me.

Young: Also there is one other angle on that which is that they are very anxious to have these five men come over from England to work on the Rolls production. The Rolls Company in England has advised Olley they will not release them until the British Government has a request from the American Government for them.

H.M.Jr: Well, let's clean up all that stuff. I will see you later on it.

Cochran: I have nothing.

H.M.Jr: Ed?

Foley: Nothing.

H.M.Jr: Herbert?

Cochran: Guy Helvering called me up Saturday and went over again this question of special stamps. It got down to only two things, that they could put stamps on playing cards or documentary stamps, so they think it is not worthwhile. The rest of the stuff is - you see, cigarettes have been eliminated and the rest of the stuff, the tax is paid by the manufacturer and no stamp is on the articles.

H.M.Jr: Well, I am not satisfied. I won't take it. Harold, I give you the assignment. I want a stamp or a piece of paper to go on every single item in this billion dollar tax to show it is national defense. It is your assignment, and I want it personally to go on this thing and I won't take a no. Every single item that goes in the billion dollar national defense, I want the person to know he is paying it, to have a national defense receipt or something.

Graves: You mean items that are paid by stamps?

H.M.Jr: I don't care. I want an entirely new technique worked out. There is a billion dollars for national defense. Whatever my contribution is toward that billion dollars, I want some kind of a receipt from the United States Government to show that that goes to national defense.

Thompson: I understand that Mr. Helvering is working on that.

Gaston: That is one thing I wanted to mention. He said they suggested they could use a stamp that said, "Defense Tax Paid". I want to add that I don't think his idea is a good one.

H.M.Jr: Well, I am in a hundred percent disagreement with you and I have tried it out on a number of people, and everybody that I have talked to thinks it is a good idea. Why don't you like it?

Gaston: I don't think it is necessary. I don't know what good it accomplishes. It tends to freeze these particular things as defense taxes so that if you want to adopt those same taxes later - how long are you going to continue the defense stamps - and then -

H.M.Jr: The rest of my lifetime.

Gaston: It leads to jeers that this thing is totally inadequate, that it is just an alibi for

partially meeting your deficit. I just don't think it is any good from any aspect.

H.M.Jr: I am sorry. I had to take it before Ways and Means and I think it just lays the ground for a much, much more severe tax as the years go on and people will become more and more conscious of what it is for.

White: Herbert, there may be this merit in it - excuse me.

H.M.Jr: What?

White: What were you going to say?

Bell: Nothing.

White: I was sympathetic to some of the things Herbert said, but I think there may be this merit in the stamp tax, that it is possible that we may have to go very much further, very, very much further in this direction than we have in the past, and we may be involving expenditures totalling anywhere from 10 to 15 billion dollars a year in the next few years, in which case there would be much to be said for a separate tax.

Gaston: Later on, but not now.

White: I mean if you began now, I think it might make it easier for additional taxes, that may be called forth by the expenditures. If this were the only amount we were going to spend, I would be inclined to agree with you, Herbert, but I don't think it is.

Gaston: I think it makes it more difficult.

H.M.Jr: Well, I will try it out - every person I have tried it out on likes it. Did you want to say something?

Bell: Harry has raised the point I was going to raise except I was going to argue it the other way, that I think it would be rather

difficult on a 15 or 20 million dollar program to earmark your revenue. I would like to see this whole thing thrown out in the next Congress if we are going to revise the tax structure.

Gaston: I think the whole program, the earmarking of bonds, and the taxes, are a mistake.

H.M.Jr: All right, but it is a fact. The bill passed. The fact remains that - let's say, why did Mr. Roosevelt hold up his national defense program? Because he thought - he was told he couldn't raise the debt limit and the only way we could raise it is this way and we have accomplished what was considered was impossible and I had to ask him and beg him to let me go on my own and try to do this thing and he said, "All right, Henry, you try it," and everybody told me it couldn't be done and the only thing he has had to do with it is two telephone calls. Nobody could get the debt limit raised unless we did it this way. Whether a person likes it or not, we have accomplished it and it is a good bill and the only hope you can give these people is as it gets higher and higher that if and when the day should come that we don't have to do it, these kind of taxes disappear.

Gaston: But here you have got a tax you are always going to have. This billion dollars increase is something we should have done without the defense program, anyway. We are going to have to have taxes on this scale so why advertise these as defense taxes?

H.M.Jr: But could you get it?

Gaston: But you don't need to put this special stamp on now.

H.M.Jr: But could you get it?

Gaston: Yes.

H.M.Jr: No, you couldn't. The answer is, you couldn't. It was impossible to get the debt raised or a

tax bill through except for national defense. You couldn't get it any other way.

Gaston: But that is not an argument for putting a special stamp on.

H.K.Jr: Well, I feel very, very strongly on this thing. I took the brunt on the Hill. Everybody else said, "Well -", I fought continuously and as recently as a month ago. We went to bat with the President on earmarking tax revenue for the Virgin Islands and the President wrote back, "Let me do it this time but I won't do it again."

White: Mr. Secretary, I think this thing --

H.K.Jr: How long ago was that, a month ago?

White: I think we need to have much more discussion of this point for this reason, Mr. Secretary. It is your idea and you will be responsible for it, and there will be millions and millions of people from now indefinitely. I think it has very good advantages. I think it has some disadvantages, but I think in justice to yourself in view of the fact it is something that is going to go on and receive a lot of publicity at one time or another, in view of the fact you are going to be held directly responsible, I would like everybody to have an opportunity to thrash this thing out independently and see whether there is any consensus that is opposed to your position and then bring it to you, but I think it needs --

H.K.Jr: We can discuss it again tomorrow. It is all right. We will discuss it at 9:30 tomorrow. I will always listen. You can discuss it again tomorrow, but Herbert is the first fellow, and he may be right, but he is the first fellow that said he didn't like it. But Bell doesn't like earmarking special funds. He doesn't like that at all, but that has got nothing to do with the fact that it is accomplished. It is history now.

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White: But this other, there is a decision that has to be made and if, after having seen all the arguments and having discussed it, you still are of the opinion, that is fine.

H.M.Jr: You can bring it up again tomorrow morning at 9:30. Is that fair enough?

Gaston: Yes. I agreed that everybody else was with you. I started the fight on this after the meeting on it Thursday.

H.M.Jr: But that has nothing to do with the fact, Harold, that if, after listening to everybody - I still want to do it. You should work out a way that it can be done. It has got nothing with it.

Graves: I will work on it.

H.M.Jr: And thank you (Gaston) for bringing me your opinion.

Gaston: All right.

H.M.Jr: I will give you another chance on it tomorrow. How is that?

Gaston: I will be delighted to have another chance at it. I firmly believe it is wrong.

H.M.Jr: Okay.