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August 6, 1941
9:00 a.m.

RE TAX STATEMENT

Present: Mr. Kuhn
Mr. Gaston
Mr. Sullivan
Mr. White
Mr. Eccles
Mr. Foley
Mr. Blough
Mr. Magill
Mr. Currie
Miss Michener

H.M.Jr: Do you want to start reading, Roy?

Blough: All right. This is a draft of mine, or revisions, principally, in organization.

H.M.Jr: Do you want to read a page and then stop?

Blough: "Mr. Chairman and members of the Committee: I am here today to discuss the pending tax bill H. R. 5417. This bill was designed by the House Committee on Ways and Means to produce \$3,500,000,000 annually in additional revenue for the defense of our country. An amendment adopted in the House has reduced that amount by \$300,000,000.

"When, on April 24, I made my statement before the House Ways and Means Committee on this Bill the defense program was about \$39 billion including the lend-lease appropriation. Since that time there have been further authorizations and appropriations so that the total program at the present time has risen to _____ billion dollars. Of course, not all of this amount is going to be spent during the present fiscal year,

but as these appropriations are spent the fiscal problems of the Government and the economic effects of the defense program will both increase."

We will get from Mr. Bell the figures on --

H.M.Jr: Where is Mr. Bell?

Blough: I don't know whether he knew about the meeting or not. That is a good place to break here.

H.M.Jr: Anybody want to say anything?

White: Well, I don't know whether you want any questions brought up now. If this is the last time over it, I would think that last sentence in the second paragraph is unnecessary, and there is a hiatus between the second paragraph and the third paragraph that I think needs an introductory sentence, but I take it there will be an opportunity to smooth that off.

H.M.Jr: Yes, there will be.

Blough: "Our great problem in providing for the defense of the nation is fundamentally the problem of production; of actually building planes and tanks, ships and guns with the labor, management, machinery and raw materials which we have in our country."

(Mr. Bell entered the conference).

H.M.Jr: Wait a minute, for Professor Bell. We have just covered one page. I don't know where we stopped.

Blough: It is at the top of page two, the first sentence. "Although we can and should" --

H.M.Jr: Wait a minute. Let's give Bell a chance to read page one.

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- Bell: It hasn't been changed much since yesterday, has it?
- Blough: Page one has been changed very little.
- Bell: O.K., that is all right.
- Blough: "Although we can and should simultaneously increase the production of civilian goods that do not compete with the defense program, we shall find that as we increase defense production it will be necessary to divert to defense uses more and more of the resources now engaged in satisfying our civilian needs and wants. The pinch of scarce resources and plants is already being felt and may be expected to become more aggravated."
- H.M.Jr: Just a moment. Yes. Is that perfectly clear?
- Kahn: In a pinch become aggravated - wouldn't it be better to say the pinch is already being felt and may be expected to grow worse or become tighter?
- Currie: I was just trying to picture a pinch becoming aggravated.
- H.M.Jr: All right. Go ahead, Roy.
- Blough: "At the same time that this diversion of production is taking place, the amount of purchasing power in the hands of the people of the country will continue to increase due to the large amounts being spent by the Government and to resultant fuller employment. The result of the pressure of this increased purchasing power on the limited amounts of goods and services for which it may be spent threaten, in the absence of vigorous action, to sweep us into a spiral of rising prices."

White: It is the large amount of borrowed funds spent by the Government, I take it, that you want to stress.

Blough: Well, later on the stress is placed on the deficit financing. Perhaps it should be here.

Gaston: The word is "threatens", not "threaten". You are talking about the result threaten.

Blough: Yes, correct.

White: And it isn't - all right.

Gaston: And aren't you really attempting to say that the pressure threatens to sweep us?

Magill: Yes, you don't want that "result of".

Gaston: You don't want "the result of".

Magill: Why don't you take out "the result of"?

Blough: All right.

"Apparently we are at the same point in price history as in 1916 -- on the edge of inflation."

Of course, many of you will recognize most of these paragraphs having been in previous documents.

"The pattern of price rises during the past two years roughly resembles" --

White: I am dubious about the inclusion of the next four pages, three or four pages in this statement, for two reasons. In the first place, you are going to make a statement on prices which will cover it. In the second place, I think much too much emphasis is being placed in this

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whole statement on the defense of your tax bill on the grounds of inflation. I think much too little emphasis is placed on the fact that you are spending a lot of money and it has got to be paid for, and that out of taxation, and moreover, Henderson's statement all over the page - he is covering this ground pretty adequately, so it will be necessary either in your statement to refer to that or to boil all this question of prices down to one or two paragraphs, in my opinion.

You should spend more time on taxes and less on prices.

Macill: My point comes before that one. After this word "inflation", shouldn't the Secretary of the Treasury give us some definition of what he means by "inflation"?

H.M.Jr: Well, you are here all day. After we break up you can take a try at it. We will take a try at it, with your help. I think that White's criticism about prices is a very good one. I think that we could very well afford to either save that for when I go up - for Mr. Henderson. When we wrote this, I didn't know that Henderson wanted me to come up. I only heard about it twenty-four hours ago.

White: Not only that, Mr. Secretary, but this was written largely in defense of one part of your tax program, which was that form of excess profits, but since this, I take it, is a statement on the entire tax position, there isn't the same need to prepare the ground on the basis of--

H.M.Jr: What do you think, Ferdie?

Kuhn: It can be shortened or eliminated.

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

Kuhn: You come down to --

H.M.Jr: Marriner, you are going to talk, aren't you, before this Committee tomorrow?

Eccles: It looks like it. I have been trying to get out of it but - trying to get them to put it off. I have been so covered up. Henry Steagall called me last night and said that he thought he would get through with Henderson today, and if so, he wanted me up there tomorrow. But I haven't any prepared written statement. I am just going to go up there and let them ask questions, take a chance at - when are you going up?

H.M.Jr: I said I couldn't be ready before Tuesday. We have got to get this into shape.

Eccles: I think this material here - I don't want to disagree with Harry on it. I think the material is very important for the Secretary of the Treasury to say. Now, it is one thing for Henderson to say it, it is another thing for the Secretary of the Treasury to say it, and I don't think that a thing as important as this can be overly emphasized. It is true Henderson is talking about prices, talking about inflation, but it is in somewhat of a different way. It isn't - but the Secretary - I think people are expecting him to make a statement on this general subject. Now, I don't - whether this is the time to make it or not, I don't know, but it is an awfully good forum, and he will certainly get plenty of headlines on it. I just think the material is good, and whether it is said now or somewhere else is - it may be all right to say it next week before Henderson's Committee.

H.M.Jr: It is also all right to say it twice.

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- Eccles: That is right. I just don't think you can over emphasize this thing.
- H.M.Jr: I lean with Marriner. I think he is right. I don't think you can say it too often. What do you think, Ros?
- Magill: As I understand it, Harry is referring to the next three or four pages that I haven't seen.
- H.M.Jr: Let's run through them. It is easy enough to lift the thing out. It is a difficult thing to - go ahead and read it.
- Blough: "The pattern of price rises" --
- H.M.Jr: Where are you?
- Blough: The last sentence on page two.
- H.M.Jr: Thank you.
- Blough: "The pattern of price rises during the past two years roughly resembles the price movement during the first two years of World War I -- little rise in the cost of living, a moderate rise in the wholesale price index and a sharp rise in the prices of basic commodities.
- "Since the beginning of the war, September 1939, the wholesale price index has risen from 65 to 87 or about 16 per cent."
- Magill: How is that, only sixteen per cent? It doesn't look like sixteen per cent. Maybe it is.
- Bell: Sixteen per cent of sixty-five.
- White: That is wrong.
- Gaston: Something wrong there.

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Magill: Thirty-three per cent.

White: The figures will have to be checked. The figures may be wrong. But this is wrong as is.

Blough: "The greater part of this rise has occurred during the past five months.

"The cost of living index has increased 5½ per cent since September 1940. Half of this increase has occurred in the past two months.

"The price index of 28 basic commodities has increased 48 per cent" --

H.M.Jr: Excuse me, I have a telephone call.

(Miss Michener entered the conference).

W.M.Jr: Just give Miss Michener a copy, please.

Blough: We are on page three.

H.M.Jr: I just want to make sure that we are synchronized on this and the price thing, so your shop knows what is going on.

Blough: "The price index of 28 basic commodities has increased 48 per cent during the same period, despite the fact that the prices of many basic raw materials have been controlled by the Office of Price Administration and Civilian Supply. This increase constitutes a major danger signal of inflation which must not be ignored. The wholesale price index always lags greatly behind the index of basic commodities, while the cost of living index does not show anything like the full effects of inflation until long after the seeds of inflation have taken deep root."

H.M.Jr: Just a minute. Let's see if anybody wants to say something. All right, go ahead.

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- Blough: This budget material, I assume, will be all gone over and revised, but I just put it in as it was.
- H.M. Jr: Couldn't we skip that, unless somebody wants it? Marriner or Lauch? Where would you skip to?
- Blough: Well, the next paragraph says how much the defense spending will be in forty-two. The following paragraph says how much the deficit will be in forty-two, without the new tax bill and with the new tax bill. The paragraph labeled (3) is the paragraph on expansion of bank credit, which is the same as in that earlier document. Likewise, paragraph (4) is the same as in the earlier document. There has been no change.
- H.M. Jr: Anybody want to criticize or comment?
- Currie: On paragraph three, Mr. Secretary, I think you want to mention that point more toward deposits than to loans.
- Blough: As I understand the economists, when they were working on this before, on this particular paragraph, they wanted to emphasize loans because the Government spending increased deposits, but here was another source of deposit increases. Is that right, Harry?
- White: Yes, we threshed through that. I think we can add a phrase that will satisfy Lauch on that.
- H.M. Jr: Well, Lauch, could you give them what you - thresh it out with Harry afterward?
- Currie: Yes.
- H.M. Jr: Will you?
- Currie: Yes.

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- H.M.Jr: Are you all right, Marriner?
- Eccles: Yes. I was just - I don't know just what Lauch means there.
- Currie: Well, it is a little bit of an academic point. It is not the expansion alone that creates any rise in prices. It is the expansion of bank deposits and spending those deposits.
- Eccles: Of course the bank loans create deposits.
- Currie: It may or may not. It depends on what happens in the other.
- Eccles: The loans create the deposits, and deposits are spent. If it wasn't for the loans, it wouldn't be the deposits, except the gold imports. They have to pay a deposit. The people - when borrowing is done, they spend. They wouldn't borrow unless they wanted it to spend. The Government borrows it because it spends, so I mean it gets into a question there, a technical question.
- H.M.Jr: Can we go ahead?
- Eccles: I think it is important to point out this expansion, though, in bank loans. You might also point out the expansion of deposits.
- White: His point is merely that you - it is a question as to where the loans come from and I think one phrase would satisfy both of you.
- Eccles: But you don't disagree, Lauch, do you, that it is important - here is a point to show that there is a huge expansion in bank loans. Twenty per cent in a year is a terrific expansion, and of course that in itself - there is a contraction of bank loans in deflation. In an inflation you

always get an expansion. I think that expansion in one year is a measure of the activity of the use of credit.

Currie: Yes.

Blough: Going over to the second full paragraph on page five, up to that point it is all the same. In fact it is there but it may be helpful to read it.

"Although there are some factors in the situation operating to check the inflationary trend, such as surplus stocks of some agricultural commodities, unemployed labor resources and partially employed production facilities, most of these factors were present in the fiscal year 1941 in greater degree and yet did not serve to restrain price rises even though the forces making for price rises were then much weaker."

Now, the next section, "Steps already taken to check inflation" is as it was in the previous document, except I would cut the sentence on the tax bill out, since you are talking about the tax bill here, but the Defense Savings Bonds, Tax Anticipation Notes, the Office of Price Administration's cooperation --

H.M.Jr: Just a second. At the top of page six I think Bell will agree that that first paragraph, you could say, "Early indications show that the plan has been very well received." Is that conservative enough, Dan?

Bell: Yes. Tax Anticipation Notes, you mean?

H.M.Jr: Yes.

Bell: Yes, you might put in a sentence like that.

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H.M.Jr: That they have been very well received.

Bell: Yes.

H.M.Jr: something like that, because they have been.

Blough: "These measures to restrain price rises, although they have unquestionably been helpful, are inadequate to meet the situation confronting us. We have gone only a small part of the way it will be necessary to go. We must attack the problem on all fronts if we are successfully to check inflation.

"Fiscal policy for inflation control

"One of the most important methods of inflation control is a strong fiscal policy."

It is at this point that the order has been changed, putting the tax material and the fiscal material in first, and the other steps later, as Mr. Kuhn suggested.

"The tax bill before you is an important step. When I appeared before the Ways and Means Committee in April, I recommended a tax bill to yield \$3.5 billion of revenue annually above the yield of the existing tax structure. If at that time I could have foreseen the accelerated rise in prices and the great increase in the defense program which have since taken place, I should have asked for more than \$3.5 billion.

"The Ways and Means Committee of the House has labored long and well on this bill and I am not suggesting that you increase the total amount of revenue which it provides beyond the original goal of \$3.5 billion. To increase its revenue yield substantially might result in delay, and prompt passage of the bill is important. I deem it imperative, however, that the new

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revenue yield of the bill be restored to at least the \$3.5 billion level."

H.M.Jr: Go ahead, they seem to like it.

Bell: Do you cut out "provides" -- "total amount of revenue beyond the original goal"? You say, "which it provides beyond the original goal". It doesn't provide the three and a half.

Sullivan: I may wish to comment on that sentence later in the day. The remarks of Senator George as already made indicate that he has in mind things that will bring it above three and a half billion dollars. I don't know whether he realizes that or not.

H.M.Jr: Well, you say "at least".

White: Instead of saying "which it provides", I think you might say, "which this bill provides".

H.M.Jr: Well, that is --

White: Because in the very next sentence you are asking for more money, but not in this bill.

Bell: What is the matter with, "I am not suggesting that you increase the total amount of revenue beyond the original goal of three and a half billion dollars"?

White: But he is. He is not suggesting it in this bill, for this bill, if I read it correctly. I don't think it matters.

Bell: O.K.

Sullivan: Put a question mark opposite that sentence. We might want to suggest something else for it.

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Blough: "When this bill has been passed and you and the members of the Ways and Means Committee" - this sounds a little corny - "have had an opportunity to enjoy a well deserved rest from the arduous labors which it has entailed" - I suggest a question mark there.

Magill: What do you want, laughter and applause?

Blough: I will fix that up.

"I hope that yet this year you will undertake, as the Treasury has already undertaken, to make a new survey of our tax system. It is now some years since a tax bill has been passed making the many technical changes which from time to time are found necessary as a result of experience, new court decisions and other new situations."

H.M. Jr: You are going to fix this up, aren't you?

Blough: I hope so.

H.M. Jr: Go ahead.

Blough: "Both the taxpayers and the Government suffer as these uncorrected faults accumulate. Such matters have been kept out of the present bill in order to expedite its passage and not to complicate the issues which it involves. In addition to correcting the faults in our tax structure, it will again be necessary in the light of the present program for defense expenditures and the threat of inflation to increase further the revenue power of the tax system either late this year or early next year."

Sullivan: I think that is one question you have got to decide and I think if you are not going to have another revenue bill this year, it would be very unwise to have any reference to it because

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that will just create all kinds of uncertainty.

H.M.Jr: I think John is right.

Sullivan: And if the reference is solely to the technical amendments, I think that that might better be in my statement than in yours.

H.M.Jr: I agree with you again.

White: I think you ought to have another bill this year unless you have made up your mind not to.

H.M.Jr: Why say anything? We can always get the President to write a letter. (Laughter) Isn't that right, Lauch? Not that I am inferring that this last letter - Lauch wasn't responsible for this last letter.

Eccles: Not always at the right time, though.

H.M.Jr: I will give you clearance on this last one.

Currie: Thank you.

Gaston: I agree with John decidedly. I think you ought to let it go at this, that you say that if you had known how the situation was going to develop, you would have asked for more, but not now. The complications --

White: Why be weasel about it? We have got to have more taxes --

Gaston: Just to foreshadow it, not make an argument.

White: The Secretary is the first one that ought to sound that topic. We have got to have much more revenue if this rate of expenditure increases and I don't know why we should be mealy-mouthed about it.

Gaston: I wasn't suggesting being mealy-mouthed about it.

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White: I didn't mean to imply that you were, but you wanted to avoid the statement.

Gaston: I don't think that is the place for this statement. I think the foreshadowing and then stop.

White: This is exactly the place for, it seems to me. "I would have asked you for more money had I known the expenditures were going to be what they are, but I don't want to delay this bill, gentlemen, go ahead with it, and as soon as you get through with this bill, start on the next one." (Laughter)

Bell: You have got to take out that part about the rest.

Magill: You have got two propositions here, as I see it. I think I agree with what I believe is John's attitude as to the other. If you start talking technical amendments to them now, I think the Finance Committee will say, I should think they would, "Look, we don't want to go right to work on another tax bill as soon as this one is over. We will put those technical amendments in right now, even if it takes another sixty days," and that is what I believe you don't want.

Now, the foreshadowing additional revenue is another story.

H.M.Jr: Well, that I think - I think the place to say that is, somebody is going to ask me, "Are you satisfied that this is enough revenue in view of what has happened?" and my answer is, "No".

Magill: That is right.

Sullivan: That is right.

H.M.Jr: And the time to do it is when I get the question, but not put it in any formal statement.

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Magill: I wouldn't put the technical amendments in either. I think you will get yourself into trouble.

Sullivan: We held the line a hundred per cent on this.

Blough: Since Mr. Magill is against one half of this paragraph and Mr. Sullivan against the other, that means the whole paragraph comes out.

H.M.Jr: That is right. Now, there is something about being Secretary - you just can't go up against these fellows when the two of them get together.

Blough: Here we come to excess profits again.

Magill: I think you could say, if you want to, that it would be a darned good thing if the Committee's experts and the Treasury would get busy and start working during the next several months on a tax bill which will have to be adopted next year sometime.

H.M.Jr: Well, Ros, you know they would resent my telling them that.

Magill: No, they wouldn't. You know Stamm isn't going to work anyway, and the Treasury always does so --

H.M.Jr: I think I would rather let - leave that out.

Bell: I would.

H.M.Jr: I think this, though, I think I ought to go up there in my vest pocket, certainly, with a statement as to what this committee is doing. Supposing they say, "Well, Mr. Morgenthau, what is this committee doing that you have got down there?" You know, what is this fellow's name?

Blough: Gulick.

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- H.M.Jr: Yes. Well, I have got a progress report from Mr. Gulick. This is what he is doing. I mean, I think I ought to have a report as to what Gulick is doing down in the Treasury. I ought to have it and say, "Well, here is a progress report."
- Sullivan: Well, that is still another subject.
- H.M.Jr: But supposing they say, "We see by the papers that Mr. Gulick is down in the Treasury. Now, what is he doing down there?" "Well, I have got a progress report. Here is what he is doing." And Gulick ought to be up there to explain it in case he is called on. Check?
- Sullivan: I don't know.
- Marill: No, I doubt that.
- Sullivan: I should think not.
- H.M.Jr: All right, we will just have a progress report. You fellows have got trust in Gulick, haven't you?
- Sullivan: Yes.
- Marill: Let Mr. John L. Sullivan explain it. He is a good explainer.
- Sullivan: I would like to get him and find out what he is doing before I explain what he is doing.
- H.M.Jr: All right.
- Sullivan: Is he in town, Roy?
- Blough: He was yesterday afternoon.
- Eccles: I am concerned a little about it - you start out

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here trying to impress that Committee with the gravity and your general situation and danger in this whole situation, and you come along then and you are laying that as a foundation or a basis for a tax bill. You say that taxation is in effect one of the most important - it is the important fiscal - proper fiscal policy - it is the most important factor in getting at this inflationary danger, and then it seems to me that if you do some of these things you are talking about, you are sort of letting the thing down again. You build it up, and then you let it down.

I would like - I agree with Harry there that when you put taxation in the proper fiscal policy as the most important means at the disposal of the Government to deal with an inflationary problem, then I think when you talk about taxes, I think you have got to say that we need three and a half billion, much more than that, and we are spending it, no question about it, but at this time the thing has gone through the House and now let's get this three and a half billion as quickly as we can get it, and this thing is so urgent that we ought to begin to look for another tax bill. I would put them on notice. I think that it is a fine defense for you to build up for yourself and for the Government here.

H.M.Jr: Well, let me think that over. There is no question about your being right, but it is a question of whether it is good politics, you see. I don't know, but I will give it - let me give it careful thought.

Blough: We might try our hands at a sentence or two which would be a good deal vaguer than this, and yet put them on notice.

H.M.Jr: No, if I was going to do it, I would come right out flat foot and say so, say that during these

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few months these appropriations have increased by so much, and the situation when I made my estimate of one third and two thirds is changed by fifteen or twenty or thirty million dollars.

Sullivan: I think the problem, Mr. Secretary, is whether it is going to be a tax bill late this fall or early next winter. The problem is whether there are going to be additional taxes levied on calendar forty-one income. That is always the problem.

H.R. Jr: Well, I have got it in mind. I would like to let it simmer a little bit. I think it is important.

Eccles: Yes. Of course you are talking about an overhauling here that the --

Sullivan: That was the technical amendment.

Eccles: That is right. That would be this year.

Sullivan: Yes.

Eccles: I agree with you that whether the other tax bill - it is going to take a little time to get it through, and therefore, whether you start it this fall, you will be three or four or five or six months getting it through, no matter when you start.

Blough: What would likely happen would be like the Revenue Act of thirty-eight. We would start probably around November when it begins to get cold, and work until April or May, when it begins to get hot.

Magill: Well, the ordinary history of a revenue bill, as all you gentlemen know, is not only to start in November, you start in July.

Blough: The Committee probably won't start until November.

Marill: Yes. You have got to let some of these fellows in on the secret before you commence having regular hearings, and so on.

Reeles: You could make this point clear, that this revenue bill covers the revenue for this year, especially if you get the excess profits taxes you want. If you get these amendments that you are proposing, the excess profits tax - that is, if you get the Senate to accept the modifications of the House excess profits tax, the Senate will broaden the base and get the three and a half billion of revenue here, or more - if you could get a little more, I certainly would get it. Then close up your loopholes, get these technical amendments this year, and start this fall on a revenue bill for next year with the idea of getting the revenue measure through by April or May or June, instead of a year from fall again.

Easton: Yes. That would be a bill that so far as income is concerned, and profits, would apply to income and profits of calendar forty-one.

Blough: Forty-two.

Easton: Calendar forty-two.

Reeles: Forty-two. That is right.

White: I am wondering whether the two things aren't being mixed. I don't think it is necessary for the Secretary to emphasize when Congress shall or shall not begin on the bill. That he might - it would be a thing to be careful about, but certainly from the fiscal point of view, the over-all picture, these taxes are not enough. It appears to me that cannot be sounded too early or too often, and he should be the first one to make that statement

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- Gaston: Don't you think, Harry, that he ought to say definitely, "This is to be the bill as to income for the calendar year 1941. We can't start this agony all over again. This is it. The year is nearly over. We do need to get to work soon on a bill. We will probably have to make changes out of experience, and we need more revenue. We need to get to work as soon as possible on a bill applying to income and profits for the calendar year 1942."
- Magill: On this price control aspect of this message, I put this as a query to the economists present. Is taxation the only method of control that you have?
- White: Oh, no.
- Magill: Then shouldn't you say something about some of the others?
- Kulm: They are mentioned.
- Eccles: They are all in here.
- Wain: They are all in, Mr. Magill. The taxation comes first. "I am here to discuss the tax bill, since taxation is a weapon, a tremendous weapon." Then when he finishes on taxation, he goes on to say, "Of course, this isn't the only weapon, and isn't the only way of doing the job, and I would like to talk about the others. Originally, the others were in ahead of taxation, and it seemed logical to put the tax message in first."
- Magill: Yes, you ought to do the taxes first. I don't think still, this is as convincing on the tax side as it should be. It is a good job, and I know you have done it under difficulties. I don't know who the Secretary is addressing. I suppose he is addressing Senator George, but I suppose he is also addressing a lot of other people, isn't he?

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Eccles: The public.

Magill: Is he addressing the public?

Gaston: Yes.

Eccles: That is, doesn't this document really have its significance as it affects the fellow that is going to pay some of this money?

Gaston: We have only started to read the tax decision.

Magill: Maybe I should shut up. But the - I think you are asking people to pay fifty or a hundred or three hundred per cent more money than they have paid before. You have got to give people an awful good story for that, and this sounds to me in the realm of the economics department, and not much in the realm of every day life.

White: I hadn't thought of that, but now that you say it Ros, I agree.

Magill: If I were a student in Roy Blough's class, and he said this, I would believe it and understand it, because it doesn't have a damn bit of effect on me. I am not going to pay a dime of it, so I don't care. It is good economic theory, as far as I am concerned, but I think you --

White: I agree with you now that you say it. I think there should be a couple of paragraphs, at least, somewhere earlier --

Blough: How about the last page?

Kuhn: The last page is good, Roy.

White: Well, I wasn't awfully impressed with it when I read it.

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- Blough: This is a new last page.
- Magill: I think Herbert is probably right. I should keep my foot in my mouth until you get done reading the whole thing. I only see this page by page.
- Gaston: I was just remarking that I haven't read any of it beyond page seven, so I don't know what you are talking about.
- Kuhn: Do you remember, Harry, in the statement the Secretary made to the House, he listed the four objectives of the tax program very concisely. There were --
- White: I think that can be repeated.
- Sullivan: I think so, Harry, and you can't improve on it.
- White: I think you can repeat that right here.
- H.M.Jr: Do you mean to say that Magill made a suggestion and you liked it?
- Sullivan: Yes, sir.
- Blough: No, that wasn't Roswell's suggestion.
- White: It was Kuhn's suggestion, following Roswell's.
- White: I think Ferdie has suggested a few paragraphs that he could write which I think would meet Magill's point, and I think Magill's point is very well taken, that there isn't enough popular justification for increased tax payments, which you have said from time to time, and have appeared from time to time, but is not in this document.
- H.M.Jr: How about simply saying, "This increased tax is in order to pay for the Lend-Lease for China and England"; do you think that would be popular?

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- Currie: China would be more popular.
- White: China would raise about a nickel.
- Currie: I think, Mr. Secretary, I agree that the most popular appeal here is the patriotic appeal. It costs a lot of money to wage a war, but we will not shrink from it. It is the quality of sacrifice.
- H.M. Jr: We will start the hearing and have a Victor machine up there and play Irving Berlin's "Any Bonds Today?"
- Currie: I agree this goes a little bit too economic.
- Kuhn: Simply play a record of what you said last time, Mr. Secretary, those four points of what you think an equitable tax system ought to be, effective tax system.
- H.M. Jr: But following Lauch Currie, I think something to say that we know that everybody wants to make his contribution.
- White: Ferdie has written some paragraphs like that some time in the past. Some of it was cut out because it was too long, but I think that he can spill it very easily.
- H.M. Jr: All right. Are we all set to go on? How far did we get?
- Gaston: The top of page eight.
- Blough: We got to the good old excess profits tax, which reads much as it did, but the first paragraph is a little different. Do you want that story again?
- H.M. Jr: I don't, but somebody else might.
- Blough: I would like to read page eight. I don't want to read page nine, but I would like to read page eight.

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H.M. Jr: Go ahead.

Blough: "Within the \$3.5 billion revenue scope of the present tax bill there appear to be several possibilities for discouraging inflationary price rises. The first of these is in the field of excess profits taxation. In recent months there has been a noticeable tendency for various groups including business men, farmers and laborers, to endeavor to secure higher rates of return in profits, prices and wages. Such efforts cannot be criticized in normal times. At the present time, however, with the existing pressures for inflation, widespread efforts to increase profits, prices, and wages will result not only in larger purchasing power and thus still greater pressure on our limited supplies of civilian goods, but also in higher costs for the defense program and for goods which civilians purchase. These higher costs in turn necessitate increases in prices and these in turn give rise to new demands for higher wages and higher prices."

H.M. Jr: Now, before anybody says anything, I like it, but I don't see why you have got to weaken this thing, by saying "such efforts cannot be criticized in normal times," as though you were going to hit a man and then you pull your punch back. I would just cut that sentence out. Mr. Roosevelt ran on a platform of --

Alte: Higher profits and higher wages and higher prices.

H.M. Jr: Right. (Laughter) So we don't have to make that remark. I would just leave that sentence out.

Blough: And you would take care in questions of somebody pointing out that "How is this consistent with the administration's previous position?"

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- H.M.Jr: We are for the capitalistic system, what the hell, aren't we, Murriner?
- Eccles: I don't think there is anything in our record that would indicate we are not. Some people might interpret it that way.
- H.M.Jr: You get in a swing and you lose the swing by saying that - you know. Don't you agree with me, Ferdie?
- Kuhn: You can say, "In recent months there has been a noticeable tendency," and then "with the existing pressures for inflation," and so on.
- White: I like that better.
- Kuhn: Leave out, "At the present time, however" --
- H.M.Jr: I don't like that, "Such efforts cannot be criticized in normal times." We are not talking about normal times.
- Eccles: There is no such thing any more. We haven't had a normal time for so long I don't think anybody would recognize it.
- Gaston: It is editorial, anyway, Ferdie. Cut it out. (Laughter).
- H.M.Jr: As one newspaper man to another, you smell an editorial, do you? All right.
- Blough: "The spiral goes up and up.
"If we are to expect to stop or prevent this spiral we must be able to show those who receive modest incomes from their labor or their production that excessive profits are not being received by great corporations."

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White: I think the last two sentences in the middle paragraph need to be somewhat rewritten. It isn't larger purchasing power. It may be smaller purchasing power that may result in higher prices, but it not only results in more money in circulation - the sentence needs to be broken down and fixed.

Blough: "The present excess profits tax places special heavy taxes on profits which are in excess of the profits received during the years prior to the defense program. This is all to the good, -- is indeed essential. It is, however, not enough. A corporation may make 50 per cent profits on its invested capital" -- and then the rest is all the same.

White: Lubin had a good suggestion that might be worked in here. It is implicit in what is said here that the tax discourages expansion on the part of those corporations that are not making high profits, which are a lot of small concerns, and a lot of other concerns, because - to the extent that the excess profits applies on their increase are they discouraged, whereas those concerns that are making high rates of increase, they have every encouragement to increase it, because they won't be subject to the excess profits tax as formerly conceived. He thought a paragraph on that might go in.

Blough: He called me about it and I didn't contend with him because I wanted to think it over, but it occurs to me that what he asked for is no excess profits tax. What he wanted - what he told me he wanted was that no corporation would be penalized for expanding in these times.

White: He didn't tell me that.

Blough: And the excess profits tax does precisely that. Defense profits, war profits --

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- White: Did you explain that to him?
- Blough: No, I wanted to think about it and not argue with him about it. I thought there might be some way of harmonizing, but I don't see it.
- White: He talked differently to me.
- Gaston: For expanding, Roy? Doesn't that depend on what you mean by expansion?
- Blough: Not necessarily expanding capital, but increasing its production to the maximum.
- Gaston: On the same invested capital, yes.
- Blough: Maximum increase in production, and the excess profits tax does take away some incentives to increase production, it can't help it.
- Gaston: In so far as that will affect increased profits.
- Blough: Yes.
- Eccles: I know, but I can't see that. As long as it isn't complete confiscation - if it leaves you seventy-five per cent, you have got the incentive - for twenty-five per cent.
- In other words, you get up to a certain point and you then are subject to an excess profit - to an excess profit tax of, say, seventy-five per cent, and everything above that. Assume that that was the case. Well, you have still got an incentive to get twenty-five per cent on the balance.
- White: I think he was referring to the different types of excess profits.
- Eccles: That is right. There is a point there.

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- White: That is what he was referring to. I didn't gather that he was referring to what Roy said.
- Blough: I hope you are right, and that we can harmonize.
- White: That is the way he spoke to me.
- Eccles: He would be perfectly wrong on the other. The incentive is still there, and with the provision for the amortization of - special amortization provision for certain defense expansion, business is completely protected. They haven't a chance to take a loss on the expansion. So any profit they get is a windfall, because they are sure to get all their money. They get an option to get the property back if it is in their interest, and if not, they don't have to get it. They haven't a chance to lose a thing, and whatever they make is a windfall.
- H.M.Jr: Right.
- Eccles: I think they are completely protected.
- H.M.Jr: I will say they are, too much so.
- Eccles: I think so.
- Gaston: We are allowing them fifty per cent investment on their borrowed capital, aren't we?
- Eccles: Which is a - you allow them eight per cent - you allow them fifty per cent on their borrowed capital and a lot of them are borrowing as low as one and a half per cent, and you allwing them on a basis of eight per cent on half of it, which is four per cent on all of it.
- White: That is why we want to broaden the base and lower the income tax, so we can reduce the sums.

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- Reeles: I would do both. I mean, I want to broaden the base and do the other thing, but I certainly would hit the other first. I mean, hit them together. I think this. The best argument for setting your excess profit tax, if you get it, you broaden the base. That is the thing everybody has been hollering about.
- Easton: I would broaden the base, Marriner, to stop them from shouting, broaden the base. I would broaden it as broad as you can make it.
- Reeles: My point is, if you broaden this base you carry out that provision. That is an argument, then, against an excise - against a general sales tax, you see. That is a general tax.
- Easton: They have got to say what they mean then.
- Reeles: Then it seems to me that you can build up the excess profits tax but you will find that it seems to me impossible, politically, to get the kind of an excess profit tax you want, maybe to avoid some of the sales taxes that have not a selective excise tax, but general taxes, unless you do the other. I think doing the other is the best argument you could make for then hitting your excess profits tax, I mean hitting your excess profits hard.
- H.M.Jr: Do you mind if I just call up Senator George and find out when he expects me up there? No one has told me, have they?
- Blough: Not definitely, that I know of. He may be at the Senate Finance Committee now.
- H.M.Jr: Were you through, Marriner?
- Reeles: On the excess profits, I think that you can - I think it is pretty weak when we say one in ten and one in thirty. Now, that isn't, I don't think

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that is made as significant as it might be made. I have got here this point. It may be that one in - the earnings of one in ten have been so much but that may represent eighty per cent of the earnings, total earnings. Do you see my point?

Blough: In other words, what percentage.

Eccles: Why, that is the important thing. The number of corporations doesn't mean a thing, in and of themselves. If one corporation in ten made in the base period here better than ten per cent, what does that ten per cent amount to, what relation does it occupy here to the total earnings?

Now, it is my impression that of the corporations over a million dollars of assets and the one in ten that made over ten per cent in that period, you may well find that those - that those one in ten corporation represent fifty or eighty per cent of the income.

Blough: It is too high.

Eccles: It will certainly be a lot more than one tenth of the income. There may be one tenth of the corporations did that, but if it is twenty-five per cent of the income, it is twice as strong. Do you see my point?

Gaston: Yes, you are right.

E.S. Jr: Good point.

Eccles: I think that you can make that very much stronger, if you can get those figures.

Blough: It is a little hard to get the figures, but we will try.

White: Would you consider adding a paragraph which would include just what Marriner has said before?

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You both agree that he starts his answer, "These excess profits taxes aren't so very high. They leave a lot of net earnings that are not taxed."

Maybe the place for that would be right after that. This constant assumption of taxing the excess profits, I think the popular notion is that it amounts to much more than it does.

Blough: Our tax is now seventy-two per cent at the highest rate, would be under the bill. Sixty per cent on excess profits and thirty per cent on normal, which when you combine the two, is seventy-two percent.

Eccles: On which bill?

Blough: The House bill. It really depends on which profits, but the profits which are subject to the tax are subject to a total combined tax of seventy-two per cent.

Eccles: That is by eliminating the deduction of the normal?

Blough: Shifting that around. That is the effective rate of the tax. You deduct the excess profits tax before you compute the normal.

Gaston: You mean the maximum effect of the rate?

Blough: That is right.

Eccles: I wouldn't say that seventy-two - that it should be necessarily higher than that. The British have in effect eighty per cent, but it isn't that.

White: That is misleading. That is the very point which is misleading.

Eccles: That is right, that is the argument they will use as to why they are up to seventy-two per cent here, but that doesn't tell the story at all.

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- Blough: Of course, with estate taxes, it is more than seventy-two, but you mean the story is that they have twenty-five per cent left?
- Eccles: No, I mean the story is that before they get up to the seventy-two, especially if you figure the base period - now, in the base period where they are making this money that they have made, then they don't get hit heavily in the excess profits tax.
- Blough: I thought you were talking about an incentive to increase. The incentive to increase is knocked down with a seventy-two per cent tax.
- Eccles: Increase what?
- Blough: Profits beyond their earlier level.
- Eccles: I think you have still got twenty-eight per cent profit, and I think that is enough of an incentive. (The Secretary held a telephone conversation with Senator George).
- H.M. Jr: It is definite that it will be ten o'clock Friday.
- Gaston: Boy, I think it depends a great deal on what kind of incentive you are talking about. If you have a corporation which is paying up in the seventy-two per cent level, but is still making thirty per cent net profits on its invested capital, certainly there is plenty of incentive there for them to expand the area of their business by investing new capital, because there is plenty of money that would like to make thirty per cent.
- Blough: New capital can't make thirty per cent.
- Gaston: Maybe it can in this particular line of business.

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- Blough: I mean it isn't allowed under the law to make it. It is about eight per cent, is all you can make.
- Boston: But still there is plenty of profitable area or incentive for profit business. It isn't - new capital isn't going to be subject to seventy-two per cent.
- Blough: New capital can make around seven per cent net free of tax under the present bill.
- H.M.Jr: That is good.
- Blough: Or a little lower than that if the concern has over five million dollars.
- Boston: I don't think there is any restraint on the expansion of a concern that is allowed to retain twenty, twenty-five, thirty per cent on its invested capital.
- Eccles: Restraint on expansion is the shortage of material. Now, if we had idle labor and steel and machine tools, and the things that you need for expansion, then you could begin to think there - that the money - lack of money incentive was the deterrent, but everybody knows that the reason that there isn't greater expansion in a lot of fields today is the complete lack of the necessary materials and labor. It isn't the money supply or the incentive for profit that is a deterrent. At least there has been no evidence of it yet.
- Blough: I believe I can do a paragraph on that.
- H.M.Jr: Go ahead.
- Blough: I shortened the next just to talk principle, and leave for Mr. Sullivan the examples.

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"In more normal times excise taxes" --

H.M.Jr: Where are you?

Blough: I am sorry, bottom of page ten, "Defense excise taxes." You didn't want this excess profits re-read.

H.M.Jr: I don't think so.

Blough: "In more normal times excise taxes have little to recommend them except the fact that they produce revenue. In a period such as this, however, excise taxes may in certain cases promote a more positive objective, namely, to reduce the demand of producers and consumers for scarce commodities which compete with the defense program and to absorb wind-fall profits which result from scarcity of supply relative to demand."

H.M.Jr: Just a minute, please. All right.

Blough: Now, Mr. Lubin thought that should be spelled out considerably further, that while we may understand it, that may be a - that it may be a new idea to many, and probably it should be expanded a little to explain how that works.

White: You had a paragraph somewhere in one of your earlier drafts which took an automobile and described that.

Blough: About automobiles, yes.

White: Didn't you?

Blough: Yes. It may be that paragraph could be re-written.

Lubin: It isn't a new idea, Roy. It is so obvious, it has been hammered home by everybody in the last three months.

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- Blough: Well, but most of the things that have been hammered home have been very general.
- Magill: No, I would agree with Ferdie. Wasn't it the last issue of Life in which they had a picture of a kitchen and endeavored to tell the general reader the different things in a kitchen which compete with various --
- Blough: Granted, but --
- White: That wasn't the idea I thought Lubin had reference to. He had reference to the question of windfall profits, why it is possible where you have a curtailed supply for there to be unusual profits.
- Blough: I think it is the idea of how excise taxes fit into this picture.
- Bell: I think it is important to point out the excise tax is supplemental to price control, that you increase by the excise tax the cost to the consumer and hence you reduce the number of buyers. That is really the effect. The Government gets the increase in price, rather than that increased price going to the middleman.
- White: That is right.
- Seales: The public is going to pay the same price in either case.
- Magill: Shouldn't you say also, Harriner, if you are going to say that, in line with your earlier appearance, that you need more than a slap on the wrist if you are going to make the thing work. In other words, increasing the price of an automobile five or ten dollars doesn't amount to a row of pins.

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- Eccles: You have got to make it hurt, so that a lot of people just can't buy them.
- Magill: That is right.
- White: I think you are talking about two different points. The point I thought Lubin had in mind was this, that if you restrict the supply of automobiles, the price of those automobiles will rise, and that the producer or the middleman will get the full benefit of that increase, and therefore an excise tax, though not increasing the price to the consumer in these particular cases, though they may in other cases, does prevent the middleman and the producer from getting those windfall profits that the Government gets.
- H.M.Jr: A better example is the second hand car.
- Magill: I would give them both.
- White: Yes, both.
- H.M.Jr: Are you all right?
- Elough: I think so.
- H.M.Jr: Go ahead.
- Elough: "The achievement of this objective is not a simple matter. Nevertheless, the further use of excise taxes to divert consumption and to reduce windfall profits should be seriously considered by your Committee."
- I will try to put a paragraph of illustrations and so on in there.
- Sell: That sounds something like a recommendation for additional taxes.

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Eccles: Well, windfall taxes, you are recommending it.

Beall: Does this mean over and above, or to take the place of the three hundred million?

Currie: I would say these were changes within the pre-existing taxes.

H.M.Jr: It is all right.

Currie: This paragraph strikes me as a little weak, Mr. Secretary. It is not a simple matter. Nevertheless, it should be seriously considered.

H.M.Jr: You are right.

Magill: It sounds to me like a recommendation for next year.

Beall: Yes, that is the way it hits me.

Magill: For the record, or something like that.

Eccles: I think in connection with your price control bill, that this should be tied right in, it seems to me, not only as an important revenue measure, but also as supplemental to this price control thing, because it is just that. Henderson would stress this very, very strongly as absolutely an essential supplemental measure in the question of price control, and I think that it ought to be brought in now and they should be substantially increased. It would be one means of taking up some of this revenue that you have apparently lost through the action of the House, and what difference does it make if you get three billion seven or eight, if you can get a hundred or two or three hundred million from this source, plus what you can get out of excess profits tax? Fine.

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- Blough: I would like to say this, for just a minute. We have struggled with this problem for several months now. We have talked to a great many people in Washington, including people in your organization, and this is one of the meanest, most difficult things we have come across to try to implement this generalization and really make it fit. Now, we tried to put a rubber tax into the bill because of anticipated shortages of rubber, and it is an awfully nasty thing to write it up in a form that you can really make it work. This is general because, frankly, I don't know, outside of automobiles and one or two other things, how to go about doing this thing and I haven't found anybody in town, including Mr. Henderson's shop, that does know how to go about it.
- Carrie: Surely Roy, you could, very simply, have increased taxes on the whole range of consumer durable goods rather just this five dollar use tax on automobiles, that applies to the share cropper as well as the millionaire. There is your beautiful example of the contrast.
- White: Why is there such difficulty in putting an excise tax on refrigerators?
- W.M.Jr: Go after him afterward. He made a statement. He is available, but don't let's work on that now.
- Blough: I am sorry, Mr. Secretary --
- W.M.Jr: No, no, I am glad you did it, but I don't want to work out a new principle of taxes here this morning. You have said your say, and these fellows can go in and make your life miserable in your office.
- Blough: I would be so tickled to have them show me how to do it that I would be delighted.

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W.M.Jr: Let's keep moving.

Bloug: "Personal exemptions.

"One feature of the bill before you which has received less public attention than it deserves is the fact that the base has been broadened to add about 2,000,000 new taxpayers. This was accomplished by beginning the surtax at the first dollar of surtax net income."

I realize this will have to be re-written to simplify it.

"The 10 per cent earned income credit in effect increases the exemption from normal tax. Since this credit is not applicable in computing the surtax, the bill has in effect reduced the exemption of single individuals by \$80, of married couples by \$222, and of married couples with 2 children by \$311.

"In the early stages of this bill the Treasury Department took the position that in view of this substantial broadening of the base personal exemptions should not be further lowered. Equitable taxation requires that taxes be placed on ability. Small incomes have very little taxpaying ability, and this little is decreased as the cost of living rises.

"However, the threat of rising prices has become so great that a change of policy is indicated. If the cost of living rises substantially the effect will be to tax small incomes much more than would an income tax at the rates provided in this bill. If the direct taxation of these incomes will help, as we believe it will, in preventing inflation it will be a great service to the very groups which would be made newly subject to the tax."

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H.M. Jr: Before anybody says anything, this is our somersault to get in line with the President.

White: I don't like it.

McMill: No. (Laughter)

The way it looks, if I were a fellow with fifteen hundred or two thousand dollars, I would say, "Well, the Secretary of the Treasury says, 'What we are going to do to you is get you both ways. The prices are going up, and you will get caught that way, and we will tax the hell out of you, and that will catch you that way.'"

White: And the argument is put on the assumption that it will reduce consuming power. Supposing you have got five million new taxpayers. How many are you contemplating getting, two million?

Blough: It will be more. In addition to that there will be several million more.

White: And how much do you think you will get out of each one, and what proportion of the total consumption does that make?

Currie: I think the Secretary had better put this on patriotic lines.

McMill: Yes.

Kuhn: That follows along afterward.

H.M. Jr: Well, if you want to put it on the patriotic side, I mean it is patriotism for me to go along on this because I don't believe in it. Why not quote from the President's letter?

White: Why not leave it out, Mr. Secretary?

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H.M.Jr: Well, you are going to be asked.

Magill: I think you do much better on your patriotism than you do on this paragraph.

White: I would agree with that.

H.M.Jr: Why not simply say that after giving the matter careful consideration, at the end of six months the President decided that this was what he wanted?

Magill: Well, but you can do better than that. You can make yourself sound awfully consistent, I think.

Currie: Awfully consistent? (Laughter)

You said, "I now wish you had asked for more and you certainly are going to have to get more next year." You can repeat the same thing here, if you want to, that at the beginning you thought it wasn't necessary to - for such reasons as you have given here to tap these fellows down at the bottom of the barrel, but that, my gosh, this defense business now is pretty terrible, and we will have to do a little something.

Gaston: If it is necessary.

Magill: And I don't know why you shouldn't add what is the fact, that decreasing exemptions will actually produce more money from the boys up at the top of the scale than it will from the fellows at the bottom, that you are not really soaking the little fellow in the eye as much as the next fellow.

Blough: That comes on the next page.

Magill: Excuse me. (Laughter)

Gaston: I was going to say, if it was necessary for the man without enough bread to give a loaf of bread in order to induce the man in the upper brackets

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to accept cheerfully another five per cent taxation, I think he will be willing to give that sacrifice.

H.H. Jr: Herbert is going back to North Dakota days when he was a non-partisan leader.

Eccles: What you are talking about here is reducing your exemptions. Your exemption before with your earned income has been twenty-two hundred. In other words, anyone receiving twenty-two hundred dollars or more paid no income tax. If they had two children they would have to get twenty-eight hundred dollars before they paid any income tax.

Blough: Thirty-one hundred.

Eccles: Yes, thirty-one hundred. Now, I don't agree with Herbert at all. I have been very strongly in favor of reducing the base at this time. If it was a time when we wanted to stimulate consumption and increase the standard of living, then I feel the direct opposite about it. What we are trying to do now is to reduce consumer buying power, and the great bulk of consumption comes in the group below three thousand dollars, we will say, or if it is a married couple without children, we will say in the group below twenty-two hundred dollars.

Now, there are a great many people in that group that are getting a better income than they ever got in their lives, which means - if we had the goods for them, that is fine, I am for it, but they have got greater purchasing power than we have got goods available to supply them. Therefore, the net result of that increased buying power is just purely inflationary, that is all. I think that it is important to reduce the base down to fifteen hundred, and I don't think that when

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you look at the income of the - of people as a whole in this country, I doubt if we have got it up to fifteen hundred yet, the average. Certainly fifty per cent of our population will be at fifteen hundred or less.

White: The way you put it, Harriner, I think it is a little misleading. It is true that the bulk of the purchasing power comes in the lower income groups, but that is not the problem. His problem, as I understand it, and the solution which you are recommending is as follows: Shall a man who gets thirty dollars a week pay in addition to other forms of indirect taxes, in addition to increasing costs which his wages rarely catch up to, shall he pay an income tax? You say he shall. I gather that if he shall, using the reason that you have described, it will be pretty small, will it not? I take it that a man who gets thirty dollars a week, you are not going to expect to pay at the very most more than fifty dollars a year, if that.

Harles: Well, if you drop it to five hundred dollars, I don't know what the rate would figure. It depends on your normal and your surtax.

White: I didn't know what you had in mind. All I wanted to say was that if you follow those tactics you will find that the amount of purchasing power that you take away from those men is very small in proportion to the total amount of purchasing power which is expended on consumers' goods and elsewhere.

Blough: Let me give you an example.

Eccles: Our fellows don't think so.

Blough: Suppose you go from twenty-two twenty-two, which is the present, to fifteen hundred dollars, the

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tax which that married couple will pay, if it earns twenty-two twenty-two and is now free from tax, is sixty-five dollars.

Reeles: Yes, under your present House bill.

Blough: With the personal exemptions which the President has recommended, the tax will be sixty-five dollars.

Reeles: How many people will that cover?

Blough: Well, I don't know. Roughly I would say around five million people, but not all of them - only those at the top would pay sixty-five dollars. They would pay on down to zero.

Reeles: Well, the way I look at this thing is, you have got to hit that group. You have got to hit the excess profits taxes. You have got to hit the special excise taxes. You have got to close up the loopholes. You have got to insist on joint returns. You have got to do all these things. It isn't a question of being - of discriminating and penalizing this particular group, as I see this problem, with a thirty billion dollar or or forty billion dollar a year defense program which you are going into. You are going to have to hit the whole works here.

White: But I would be inclined to put it on another reason instead of saying to a man who is getting thirty dollars a week, "You are getting thirty dollars a week and you are helping inflation by spending too much money on consumers' goods, and we are going to take away some of that money so you can't spend it on consumers' goods."

Reeles: There may be other reasons.

McGill: It is not a good argument.

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- White: I don't think so. I think you have got to put it on the basis of everybody is sacrificing and we --
- Easton: Yes.
- Eccles: I agree with you that from a standpoint of public appeal and getting it over, I think that certainly is the argument that the President put. The President says everybody --
- White: I think the public appeal is closer to the truth.
- H.M.Jr: My idea was simply this, unless it looks as though I was trying to duck it. It says here, "In the early stages the Treasury Department took the position," and so forth. August first the President of the United States addressed the Congress as follows, direct quote.
- White: Sure.
- H.M.Jr: And let it go at that. We were for it, and now the President is for it, and the inference is - if they ask me, "Are you for what the President wants?" I say, "Yes."
- Easton: I wouldn't make it as bald as that because that implies the fact you are for it because the President wants it.
- H.M.Jr: That is the truth.
- Easton: I don't believe you want to say that.
- H.M.Jr: There is no question about what we went along unwillingly from Doughton's answer. We weren't for it, and now the President wrote such a letter, O.K., I am a hired man and I am for it.
- Magill: Haven't you got some connecting link between the two?

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- H.M.Jr: None. I can't even blame Lauch this time.
- Gaston: I think you can say that everyone is making sacrifices.
- Eccles: I am innocent, completely.
- Currie: We are all looking at you, though. (Laughter)
- Eccles: That was just as much a surprise to me as it was to the rest of you.
- Kuhn: You have always talked in favor of greater participation in - a greater sense of participation from the little man, haven't you?
- H.M.Jr: No, I don't think so.
- White: Another statement. Small incomes have very little taxpaying ability. The assumption is that therefore you shouldn't put income taxes on them. It is implicit you would agree that he also pays a good deal of indirect taxes already out of that small income.
- H.M.Jr: That is the trouble. He pays just as much per cent on his cigarettes as the rich fellow does.
- Eccles: I hate to be put in this position because nobody is arguing stronger than I am to increase consumption, and it looks like I am reversing my position but I am certainly for lifting up the - gosh, the President - if anybody has talked more about the lower one third of the income group than he has --
- White: Now we want to give it a little implementation.
- H.M.Jr: Marriner, we all agree. We have got to go along with the President. It is just a question of how to say it. I think the simplest way is just to

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quote from his letter. I am willing to say so publicly.

Bell: Suppose you can't say it is a changed situation, because you opposed this lowering right up to the last minute, didn't you, Roy?

Blough: Well, we weren't asked about it in, say, the last month.

Bell: You can say that the situation has changed so fast and the bill is going to be much larger and bigger than we thought it would be, and everybody has got to contribute.

Magill: That is the face saving thing to say, I think, something of that sort.

White: Or you could say, and there is much to be said in times of this kind for men displaying their patriotism for even greater sacrifices than might be regarded as reasonable.

Blough: Or we have to get ready for next year's bill, so we had better sharpen it up now.

H.M. Jr: Could you gentlemen excuse me a minute? The Butchers of America are in Mr. Graves' room with a million and a half dollars they want to invest in savings stamps.

Gaston: Union butchers?

H.M. Jr: Yes. Incidentally, that is the same group that ran that amazing art exhibit in New York. But go right ahead. It will only take a minute to take a million and a half.
(The Secretary left the conference temporarily).

Gaston: I don't want us in the position of seeming to

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support an idea that we don't want that increased buying demand that comes from a man buying a pair of shoes when the child is barefoot.

White: We have placed Marriner in the position where he is going to soak the small fellow, but I think your economic argument is a little bit weak.

Kuhn: You had a good piece in Fortune in which, as I remember it, you didn't favor broadening the base.

Eccles: Oh, yes; yes, sir.

Kuhn: On what grounds?

Eccles: I favored broadening the base as just a part of a comprehensive tax program. Primarily, however, to get away from this argument for a general sales tax. I opposed very bitterly a general sales tax, which would get a lot of people with less than fifteen hundred dollars, that this was a substitute for the argument for a general sales tax, that it did have some relation to ability to pay where a general sales tax had absolutely none.

Blough: Should we go in now and say we want the three hundred million now, but we want to take three hundred million off these excises?

Kuhn: But you didn't make a lot of suppositions that people are making, that there is an inexhaustible amount of revenue to be obtained just from broadening the base?

Eccles: Oh, no, I didn't do that.

Kuhn: Would it be any good for the Secretary in this statement to try to put this in perspective and show people that in the first place this is not a magic revenue raising device? You can't get inexhaustible amounts just by lowering the base a little bit.

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- Eccles: About two hundred fifty million.
- Kuhn: And you don't do an awful lot to check inflation.
- Eccles: I would say, now I am for - this is a tax that ought to be put on, everybody get into this thing, but, you see, I certainly would not favor this Congress broadening the base here unless they put back the joint returns and unless they - I would hit them awfully hard on the excess profits.
- Foley: What this Committee will do is to lower the tax base so that the little fellow who is bearing a greater share --
- White: They will say, "Well, let's give the Treasury some of the things it wants, anyway."
- Eccles: But the point is, the President has come out for this, the Secretary is going to come out for it. Now, my point is - that if he is going to come out for this --
- Foley: But it isn't going to come out that way.
- (The Secretary returned to the conference).
- Eccles: Then he certainly should justify it. It would only be on the grounds that these other things are done. Whether they are done or not is up to Congress, but certainly his record is much more consistent than to merely come out for this tax and then not tie it in with doing these other things. I would come out for it only on condition.
- H.M.Jr: Which tax is this, Marriner?
- Foley: Lowering the base.
- Eccles: We are saying here that the lowering of this base - if the condition reaches the situation where you

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have got to reach out and touch all these people and the President takes that position and you are willing to support it, you think that it is desirable from many standpoints, but it is possibly much less desirable than it is to hit the excess profits and put joint returns in. My point is that you can't favor this without saying that it would be improper for Congress to hit these little fellows until they do some of these other things.

White: Is it possible to have a double edged weapon following that line, saying that if we are to ask, there is something to be said for increasing sacrifices on the part of all segments of the population, but if we are to ask for these additional sacrifices on the part of those who are less able to make them, then certainly there can be no excuse for not - and then go to your joint returns?

H.M.Jr: If you don't mind, I have got a better way, if I am going to say it. Why not say this, gentlemen, "I am appearing here before you people for an all out tax bill, which means that every citizen in the United States who has any income from seven hundred fifty dollars up should make a contribution toward an all out defense program and nobody should escape their proportionate amount, or a contribution in the form of taxes," you see.

White: I should think that would be all right if you follow that way, but, if you are going to demand the sacrifices of those groups --

H.M.Jr: "Therefore, in the taxes, in an all out tax bill, for an all out defense bill, the following things should be included" --

Magill: Good.

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

Magill: I say good.

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- H.M. Jr: An all out tax bill for an all out defense bill, and in those groups we should include joint tax returns and this thing and that thing and so forth.
- Magill: State and municipal bond interest?
- H.M. Jr: Yes.
- Magill: Why not?
- H.M. Jr: Now we are getting somewhere and then list the things that should be included.
- Magill: I don't see how you can say that the fellow with seven hundred dollars income has got to pay more. We don't want him to get this loaf of bread Herbert is talking about. But the fellow down in Texas we want to give a little different treatment to.
- H.M. Jr: Now we are getting somewhere, an all out tax bill for an all out defense bill, and in an all out tax bill you have got to collect from everybody.
- Eccles: I think that is a good way to approach it, but I think that it is- that you have got a marvelous chance here of shaming, in a way, the people with income, the business interests who after all have got more at stake. The people who have got property have got more at stake.
- Gaston: The President has asked the people in lower incomes to set an example in making sacrifices that all classes should make.
- White: But instead of saying "and," it is the "but" phrase, but we cannot ask them unless, --
- Eccles: That is right.

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White: And that will put pressure on the joint returns and put pressure on the excess profits tax.

Gaston: The President is out definitely against joint returns.

Currie: No.

Magill: No, he isn't.

White: Lauch claims that he is not.

Currie: I have got his letter here.

Magill: No, that is all right.

Gaston: He just practically killed it but --

Blough: Is he or is he not?

Bell: Everybody said he is against it at the Capitol.

Currie: Doughton reports that "As to mandatory joint returns, we are pleased to learn that the President as well as the Treasury approves of the principle." It is just a question of granting this one condition of substantial relief to earned income.

H.M.Jr: I will tell you what you do, if you want to know in this room.

Magill: Don't put a lot of political gloss around it. He says, "I am for joint returns."

Gaston: Yes, but the letter was intended to kill joint returns, and did.

Magill: That is what you fellows know, but I don't know that. I am a citizen of New Yoek and I am not in Washington, and as far as I can see, the President is for it.

H.M.Jr: If you want the history, that is neither here

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nor there, but the way the letter was written - well, it speaks for itself.

White: Does it speak for itself if Mr. Currie in reading it says he is not against it?

Magill: He isn't against joint returns.

White: And Mr. Magill says he is not against it. You are reading something that you know into it, but that is his letter.

H.M.Jr: No, the President took the Treasury position that husband and wife should file one return provided they had that slight exemption.

Magill: That is right.

Eccles: Definitely he took that. But what I happen to know about it --

H.M.Jr: He reversed himself within twenty-four hours but that is what he --

Eccles: I will tell you, I know that is the position because Henderson and I were talking to him about another matter, and he happened to have these tax letters before he sent them up on the Hill and he tried it out on the dog, I guess. He just said, "What do you" -- We got talking about taxes and he said, "Now, I think on this joint return," you see - and he mentioned the fact that the joint return was all right but that the normal tax and the surtaxes took into account earned income, you see, but the joint return didn't, and therefore it was inconsistent and it should be modified in that particular, that the joint return was perfectly all right, but it certainly should not - should take into account earned income as well as the other. Well --

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- Foley: I don't agree with you. I agree with Herbert. I don't think he is for joint returns, politically, and I think the object of that letter was to kill joint returns in the tax bill, and it did.
- Eccles: I don't know what the object was.
- Foley: You can qualify it any way you want to. You can say he is for it if there is an earned exemption or an earned income credit, but the purpose of that letter was to strike out of that bill compulsory joint returns, and it did.
- White: For political reasons? Does he know how few people vote who have to pay joint returns?
- Gaston: Admitting all that, where do we go from here? In other words, does the record admit of the Secretary now supporting joint returns? Maybe it does.
- Currie: With this proviso, yes.
- H.M.Jr: Well, of course --
- Gaston: That is the practical question.
- H.M.Jr: Well, I sent Sullivan up on the Hill and that is what he said was the Treasury position, and then the President comes along in a letter and a hundred per cent takes the same position as the Treasury. Now, what his object was or what the deal was, as far as my testimony is concerned, it is none of my business.
- White: Then there is no disagreement here.
- Foley: That is right.
- Blough: Then you think it is safe to press this particular idea without the thought that we will get --

Wife: Yes. Now, Ed Foley made a point while you were out which I think is important.

Wife: On the record, the public record, the President is taking the same position as the Treasury.

Wife: That is right.

Wife: Now, what is behind the scenes is none of my business.

Wife: And that is recognized by Doughton, that there is the same position.

Wife: While you were out, Mr. Secretary, Ed Foley took - made this comment, which I think is important, that if you don't take the position that you are expecting these sacrifices but only on condition of the other sacrifices, that the fellows on the Hill will not - will only accept the lowering the base and they won't accept the joint returns, and they won't accept the excess profits tax, and they will take the position that, well, let's give the Treasury something that it wants.

Wife: No, Harry, let's - you can sit here all morning looking at innuendoes and this thing and that thing, but what I am trying to do is take the position that I believe in, morally and ethically and every other way.

Wife: I was merely giving an additional reason why that position should be taken.

Wife: You can - never mind what Ed thinks or anybody else, I want to go up and be sincere. I am willing to go along with the President on the lower thing if it is an all out effort.

Wife: Well, you didn't understand what I said but it is not important, I agree.

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H.M.Jr: Let's go ahead.

Bell: I wonder if it would be legally possible, Mr. Secretary, and this would be in line with the President's suggestion the other day, to have, say, a minimum amount that everybody must pay if we take everybody above seven hundred fifty or five hundred. They must pay ten dollars.

H.Jr: We have got something in the works on that which I will show you.

Bell: I see. That will take the place of this exemption you are talking about.

H.M.Jr: I have got something in the works but it is still too crude, but later in the day we will talk about it. I don't want to explain it now. I have got an idea that I had at seven this morning and I am having the boys see if it is practical. If it is we will show it to you later in the day.

Bell: Along the same lines?

H.M.Jr: Yes, but it is still too crude.

Blough: May I say, Mr. Secretary, that on the basis of this discussion I think we can approach this whole tax section from quite a different and much superior point of view and get you something which will stress this all-out tax program idea with these as elements in it.

H.M.Jr: I understood what Harry White was saying before. Harry, I understood what you said.

White: All right.

Currier: I was rather sorry, Mr. Secretary, to see you drop one of the earlier proposals in the tax

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bill, which I thought was swell. That is the heavier estate and gift taxes.

H.M.Jr: Put them back.

Currie: Because they cut that very badly, you know.

H.M.Jr: Put it back and don't forget what Magill said about state and municipals.

Blough: Are you prepared to tax them now?

White: That is what an all-out tax program means.

H.M.Jr: Sure, I like it, an all-out tax program to go hand in hand with an all-out defense program.

White: "And this is what an all-out tax program means," one, two three, four.

H.M.Jr: Right.

Eccler: You are cutting these exemptions and then you have got the justification for your all-out tax program.

H.M.Jr: Yes. Anybody got any ideas of what he wants in an all-out tax program, give it to Roy and the sky is the limit as far as I am concerned.

White: Yes, elimination of depreciation?

H.M.Jr: Sure.

White: Two hundred fifty million.

H.M.Jr: Ros and I had that in there again and again.

White: And most of the times it has come out before it got to the Hill, Mr. Secretary, if I remember correctly.

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Wells: No, we got it printed a couple of times.
(Laughter)

H.M.Jr: All right.

Watson: I am afraid that the inclusion of all these points about stopping inflation in the latter part, several pages in the latter part of this draft, tends to make it more a speech on inflation, rising prices, than on taxation, and I think we will have to find some device to change that because you are going to have to testify on that subject again. It seems to make the principal topic the matter of inflation. I think the principal topic here wants to be equitable taxation at a time of emergency.

White: Particularly with the inclusion of the recent material that Roy is suggesting now, I think it makes less necessary a good deal of this on pricing.

Marrill: I think - isn't the place for your price stuff this? This has been mentioned before. I agree with what Harry said. Probably because that is my background. I would like to see this all out tax program be your central feature here. If that is what we are going to do, let's highlight that. But I think it would also be extremely good to bring in the price control business as something that you are very conscious of, and that what you are advocating here will contribute to that end, too, and that that is also a very important end. Probably all of you read this business of Ernest Lindley's this morning.

H.M.Jr: I read Ernest Lindley and then I quickly called up Marriner and said, "Come on over, Marriner, because I have to consult you."

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- Magill: The economic experts of the Government are going in all directions. Why not show them once that the economic experts are going in the same direction.
- White: I agree with you, but I think that can be done in possibly one or two pages, instead of six or seven.
- Magill: I think so, too. I wouldn't change the focus of this.
- Currier: Particularly since the Secretary is going up to testify particularly on inflation.
- Eccles: That of course is absolutely correct here.
- H.M.Jr: You might tell Ernest sometime it comes better from you than from me.
- Eccles: I will. I hadn't seen the article at all. In fact, I don't think I have seen him in a year.
- H.M.Jr: You might tell him sometime. Anyway, where were you, Ros?
- Magill: At the bottom of page twelve, I think we were.
- H.M.Jr: Ros brought up the Ernest Lindley business, I didn't.
- Blough: Shall I read?
- H.M.Jr: Where are we, on twelve?
- Blough: The middle of twelve.
- H.M.Jr: All right.
- Blough: "A further benefit to be derived from reducing

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personal exemptions is to make it possible for a larger number of persons in the country to feel that they are making direct contributions to the defense program. During the course of this tax bill a good deal of evidence has been noted to the effect that many people want to make such a direct contribution."

I gather that would be greatly strengthened under this approach.

"Accordingly, in the light of the developments of the past few months it is our recommendation that the personal exemptions of both single and married persons be substantially reduced so that the income tax will reach a much larger percentage of the national income and will affect a much larger percentage of the persons of the country than it does at present."

White: May I make one correction there that it seems to me is necessary for accuracy? "Will reach a larger percentage," not "a much larger percentage."

Blough: All right.

"Too much should not be expected from lowering personal exemptions. It is not a panacea for our fiscal problem. Reducing personal exemptions as low as \$750 for a single person and \$1,500 for a married couple would bring approximately _____ additional taxpayers under the income tax and would produce approximately \$ _____ additional revenue. Of this amount of revenue, however, \$ _____, or _____ per cent would come from persons already subject to tax under the House Bill."

Wahin: I am sorry, Roy, isn't it a little more effective to talk of fifteen dollars a week for a single person and thirty dollars a week for a

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married couple, to show how small these incomes are and how little revenue you can get from such people?

- Blough: There are an awful lot of them, though.
- Kuhn: Isn't that a more effective way of stating it?
- White: It is a little less accurate, because this is an annual rate upon which they pay, but it is more expressive.
- Foley: I think it ought to be left on the annual basis.
- Kuhn: You do?
- H.M.Jr: That is what the President asked for, he asked for it that way.
- Blough: Are we trying to stress the small amount of this, or what are we trying to stress?
- Kuhn: I think we should. You say too much should not be expected from it. It is not a panacea.
- Gaston: I think I would add to that sentence, "and only such a percentage or so much to come from new taxpayers."
- Blough: "Additional measures necessary." Now, there follow three pages taken out of the earlier document on things other than taxation. They are subject to criticism as not being necessary in this statement and desirable in another.
- H.M.Jr: I think I would take them out.
- Blough: How would it be to put a paragraph in in which you would indicate that other measures are necessary, but wouldn't spell them out, and would

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more or less pave the way for your further testimony in the other committee?

H. W. Jr:

It would be all right.

White:

You could even say, "I intend to discuss some of these measures."

Eccles:

In taking these out, you take out specific things, but as I understand it, the first part of the testimony before you get into the tax program would stress the imminence of inflation and the importance of an adequate tax program to deal with it as possibly the keystone to getting at the problem. I would like to see the taxation based upon - that is the only real justification, it is going to make an appeal to the country and the people if you first convince them or demonstrate to them. It seems to me that there is this danger in taxation, and taxation is possibly the most important of all the means at the disposal of the Government to deal with it. There are others, but you will only want to discuss at this time the question of taxation as it applies.

White:

Well, I may be a minority of one here. I have a feeling that that should definitely be emphasized, but that it should not be made the central structure upon which your tax plea rests, but nobody agrees with me.

Eccles:

Well, I am not saying - it is a question of emphasis. I do think that the important process of public education to make - you will get much farther on a tax program, especially if you are going to get all these people, if the thing is impressed, and I think the Secretary of the Treasury ought to say that.

Blough:

Mr. Secretary, I would suggest that the solution

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lies in your Ways and Means Committee statement which you laid out with three or four principles of taxation in a period like this. Now, by putting them out quite near the beginning of this and then elaborating, one of the points is, this inflation control, elaborating along the lines that it is elaborated here, but also elaborating one or two of the others, that you do get a bald picture and still get this material in.

H.M.Jr: But I think these last pages here --

Blough: But these will be left out.

H.M.Jr: The alternatives?

Blough: Would be left out, except for a paragraph or so which would show that you recognize the necessity of alternatives, and that you propose to talk about them before another Committee in the near future, something like that.

H.M.Jr: Yes.

Blough: Now, that leaves us a little bit at the end. Page seventeen is next. I am not sure that in view of what has gone on before anybody wants this idea, but I would like to at least read it.

Magill: Oh, this is good.

Blough: "In closing my remarks, I desire to point out that although this is a very heavy tax bill, the alternatives to heavy taxation are much more onerous. Rising debts and rising prices would take much more away from our people now and in the future than higher taxes now will take. Under the tax bill, as it stands, a married couple with no dependents having a net income of \$5,000 a year will have its Federal income tax increased by \$198 or 4 percent of its income.

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If 1/3 of the family's income is saved or spent on items not affected by a changing cost of living, an increase in the cost of living of 5 1/4 per cent would impose as great an additional burden on this family as would the proposed income tax. The cost of living index" --

- Magill: Excuse me, Roy, do you want interruptions as you go along? Wouldn't you be better if you turned the first part of that around and said "Two thirds of the family income is spent on so and so"?
- Blough: "The cost of living index has increased 5 1/2 per cent in less than a year, since September, 1940. It is clear from this simple illustration that rising prices are taxes just as surely as income taxes so far as the family is concerned."
- White: Providing the income remains the same, which it doesn't during a rise in prices.
- Blough: I grant you that is true, that we ought to put that in there.
- White: I think there needs to be some sentence to pay your respects to - because these high incomes are frequently the - the bulk of high incomes are the ones that probably increase with rising prices.
- Blough: "If in an attempt to protect the incomes of our people we hold down taxes and as a result the cost of living rises, we shall have taxed them just as surely as if we had levied on them directly.
- "Rising debts may not only increase the tendency for prices to rise but they increase the burden in another way by postponing it. That means that both interest and principal must be paid for later with higher taxes imposed at a time when

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they may be harder to pay and less willingly paid than now.

"Our defense program is an absolute necessity. It must be paid for. In so far as possible, it should be finally paid for now."

White: I think that is a good suggestion, but the last sentence is weak, I think.

H.M. Jr: Very good.

Magill: I would leave that even in the revised version.

H.M. Jr: Yes, I think that is good.

Kuhn: Is there anything wrong with the comparison of rising costs of living with taxes? The one is completely unproductive and unconstructive. Taxes, after all, enable you to --

White: No, I think his point here is - I thought it was rather clear, would be clear to everybody, that in so far as taxes restrain price rises, do you make the burden on the taxpayer smaller than it would otherwise be? There is no assumption here that the alternative is payment of taxes or no taxes. It may be the payment of taxes or the payment of hidden burdens through rising income, but the speciousness of it is that it is only applying to those people whose incomes do not rise as rapidly as prices, and the very people whose incomes rise at least as rapidly as prices or more, are business men of one kind or another. They make more.

Gaston: I don't believe that is quite correct, Harry.

White: Oh, yes, it is a matter of fact that prices in - profits rise more rapidly than prices.

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- Gaston: The increased price is a tax, no matter whether your income is increased or not.
- White: But your income increases because of price increases.
- Gaston: You are then bringing in additional factors that have nothing to do with the general proposition.
- Eccles: Your income doesn't always rise.
- White: But in the main, business profits rise --
- Eccles: You may find out that it rises as fast --
- Currie: We are going to hit both by rising prices and by higher taxes.
- White: The people whose incomes don't rise get hit both ways, but the people whose incomes do rise --
- Eccles: You are going to hit them plenty.
- White: People in high - high incomes from business profits rise more rapidly than prices, so if I were a business man I would prefer higher prices even though it meant higher taxes.
- M.M. Jr: Gentlemen, just a minute. I would just like to ask you, is there something which you have in mind which isn't in here that you would like to have in here?
- Currie: I think you have covered all the points I had in mind, Mr. Secretary. There is just one point on which you might guard yourself a little. As you know, the automobile workers and other people are getting very agitated about the unemployment that is going to result from the diversion of production and from the shortages of essential

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materials in civilian supply. You might just pay your respects to that somewhere, just show that you are conscious of it, that everybody is not going to have increasing employment and a rising standard of living, rising incomes.

H.M. Jr: Why should I do that?

Currie: Well, because I think you will be tackled on it, that is all. It is going to become increasingly severe from now on. There are going to be an awful lot of people thrown out because of the shortage of materials.

H.M. Jr: How does it help me get a tax bill through?

Currie: It doesn't, but in the early part of your statement there is a small point I didn't mention in passing. For instance, on page five you say, "Although there are some factors in the situation operating to check the inflationary trend, such as surplus stocks of some agricultural commodities, unemployed labor resources and partially employed production facilities," --

H.M. Jr: That is the place, and dislocation of labor.

Currie: Yes, just put in something to show that you are aware that everybody is not going to be --

H.M. Jr: Put it right in there.

Whites: And I think - that is the point, I gather, that you intend to hit harder in the other statement, make more of it.

H.M. Jr: Yes.

Whites: So that you are aware of that and expect to do something on it.

H.M. Jr: Yes.

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- White: Say something on it.
- H.M.Jr: But he can put this just what he said at that place.
- Carrie: Yes.
- H.M.Jr: Without enlarging on it, Harry?
- White: Yes, enlarging on it.
- H.M.Jr: I say not enlarging on it in the tax statement, but you can in the price statement.
- White: That is right, and then the inclusion of the estate and gift taxes.
- H.M.Jr: Oh, yes. Marriner, what - do you see anything that we have left out?
- Eccles: I think the statement as a whole, as revised - I think it is a very good statement. I like it. What has been cut out at the last, I agree that that is sort of dragging - covering an awful big field in a tax statement. I would like to have the Secretary say some of those things somewhere sometime. I think it is - there are a lot of important things.
- H.M.Jr: I will say it on Tueaday.
- Eccles: That is all right, then.
- H.M.Jr: I will say it on Tuesday.
- Eccles: But I do think it is important that if it is taken out of the tax statement and used elsewhere, I think that is all right. I would like to see this reconstructed along more popular lines, lines that might bite a little harder and that would - the public would understand them a little better. I think it just doesn't bite in places here that it needs to bite in to be really effective, and as I understand the discussion,

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there is some intention of trying to make it do just that.

H.M.Jr: I think so.

Eccles: The effect of inflation on the cost of defense has never been mentioned. We talked of inflation living costs and so forth.

H.M.Jr: We have got that for our price statement, also you cover it tomorrow.

Bell: There is a little in here.

Kuhn: It is in this statement.

White: We expect to expand on that.

Eccles: But it does seem to me that that in itself is terribly important to the Government, that if you don't stop the inflationary cost of defense --

H.M.Jr: Marriner, Lubin is working up a whole original set of figures for me on that point.

Eccles: Oh, yes.

H.M.Jr: Just what it has cost us in the last six months and a forecast of what it will cost us if it continues at the present rate for the next fiscal year. He is doing a job on that right now. He said the figures will be original.

Eccles: Well, if something like that in connection with - you talk about a three and a half billion tax or a four billion tax, and you can show how perfectly inadequate and how perfectly ridiculous - I think you have got to draw the size of this tax, the size of the revenue, alongside of what - how inadequate that is in comparison with the total expenditures and particularly would that be

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true if the defense - if we get - if we get an inflation in the cost of defense.

Mr. Jr: That is right. Ros, do you want to say something at this time or - you are going to stay behind.

Mr. Hill: Thank you. Why, what I have been thinking of, it may very well be non-productive. I was just checking with Ed. I guess you have probably said it before the Ways and Means. I think there are two aspects to this thing, one that Harriner has primarily in mind, and another one that I have in mind as well. I don't mean to discount it. This price control business is terribly important. I don't believe, however, that that makes the man on the street any happier about paying taxes. Now, maybe you can dress it up in such a way as I think that Roy has tried to do on these last two pages. That is about as effective a way as you can do it, because certainly the man on the street would rather see the country get it for guns than see General Motors get it or some other such corporation. So what has been running through my mind is, I wholly agree with your all out tax approach. I think that certainly ought to be in here. To me it is just scandalous and nothing less that you talk about lowering exemptions and getting two dollars and a half from somebody that is making thirty dollars a week while what to me is a scandal of state and municipal securities untaxed goes on and the scandal of community property goes on and the scandal of the percentage of appreciation goes on, and maybe somebody could think up a couple more, but those are certainly the principal ones. I just don't see how you can say to this taxi driver out here that, "You have got to come through and pay a lot of money, but these fellows over here that happened to invest in the right things, we are not going to touch at all."

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It just doesn't make sense, and I don't think you can be in the position of making that kind of a statement.

H.M. Jr: No, I agree with you.

Magill: Then secondly, going on from there, what is it that makes anybody willing or agreeable or happy, if that can be, to pay fifty or a hundred or two hundred per cent more taxes?

Well, I expect it is what you said before the Ways and Means, but I am not sure but you should say another paragraph or so here, because my own feeling as a taxpayer is that this - as I look at it, I feel no confidence whatever in the skill of this administration to control prices. I think prices are going up. Mr. what is his name, Kiplinger, tells me that every week, that the cost of living is going to be much higher this year and much higher next year, and so on. I believe him.

White: He has inside information.

Magill: I don't look at this tax business as an alternative. I look at this as an additional burden I am going to have to bear. What is going to make me want to bear it? I don't know anything that makes me want to bear it other than this saving democracy, which I guess you spoke of before. But it seems to me your strongest footing is two-fold, not this price control which is something that appeals to a technician like Marriner, but I don't think appeals very much to the man on the street. I would put it in, but I wouldn't make that my main foundation. I would certainly say that, "I am not kidding you about this tax program. As far as I am concerned, I want to go out after all of these untaxed incomes and here are several that occur to me which you fellows on the Hill haven't acted on, although I

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have been talking about it for the last eight years.

"Secondly, after all, what we really are interested in is saving this country and saving democracy," and I think it does no harm to wave the flag a bit. I would wave it a page or two.

H.H.Jr: Incidentally, talking about prices, the first hour this morning, commodities, Dow Jones Futures, jumped three quarters of a point, which is tremendous, and that shows how much confidence they have got that Leon is going to be able to control prices.

White: He said, "We are on the brink of inflation."

H.H.Jr: It was just like my statement the day after election. I said, "The debt is going to be sixty billion dollars" and stocks went up seven points, and then they left out the fact that I said, "as long as Roosevelt is here we won't have inflation," so Leon explained it so well that everybody has gone in and bought commodities this morning.

Currie: That is a little dilemma in the present situation, the risk you have to take in order to build up your - you have to talk as though it is right here, which feeds the flames.

H.H.Jr: It is true.

Easton: Shouting fire to avoid a panic.

Currie: That is right.

Macill: Kiplinger says in his letter that canned tomatoes are going to be scarce. Everybody I know of that takes his letter told his wife, and his wife went down and bought a couple of cases of tomatoes.

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- Gaston: You ought to see the stocking counters, or have you?
- Magill: The stockings are all gone now.
- Blough: On this state and municipal securities, is this comment going to include only futures or outstandings?
- Magill: Outstandings.
- Bell: The Secretary has taken a position on that many times.
- H.M.Jr: Future.
- White: I am very much intrigued by Ros' approach to this problem and to say that we have come and asked you for eight years on these things and list them and all of them, even it it takes two pages to list them.
- H.M.Jr: I am all for it. It is a breath of fresh air from the Nutmeg State.
- Currie: Particularly as Bob Doughton talks about his record for eight years in his letter here.
- H.M.Jr: Did you say you are a citizen of New York State?
- Magill: No, I am Connecticut.
- H.M.Jr: But earlier in the day you said, "as a citizen of New York State."
- Magill: Did I get mixed up?
- H.M.Jr: Yes you did and I said, "That is patriotism, by God, to the last extent if you are."
- Magill: I hasten to inform you, it doesn't make really much difference, as far as I am concerned.
- Blough: In your income tax?

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- Magill: Yes, because my sources of income are in New York.
- Blough: And are taxed in New York?
- Magill: Sure, my Columbia salary gets taxed at the source.
- H.M.Jr: I didn't know that.
- Magill: Honestly, it doesn't make any material difference.
- H.M.Jr: I think Ros has given us something and I think we can very quickly get up the various things that we have listed during the last eight years and jam it down their throats. Well, may I say it has been a tremendous help, and we will work a day and when we get something on paper I will send it over to you gentlemen, if you would like another look, and if you have got the time.
- Eccles: I may be up on the Hill tomorrow.
- H.M.Jr: Well, I won't bother you, then. I will send it over anyway.
- Eccles: All right.
- H.M.Jr: If Ros and Kuhn and Blough could stay behind, please.

2-nd
D R A F T

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August 6, 1941
9 A. M.

SUGGESTED STATEMENT OF THE SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and members of the Committee: I am here today to discuss the pending tax bill H. R. 5417. This bill was designed by the House Committee on Ways and Means to produce \$3,500,000,000 annually in additional revenue for the defense of our country. An amendment adopted in the House has reduced that amount by \$300,000,000.

When, on April 24, I made my statement before the House Ways and Means Committee on this Bill the defense program was about \$39 billion including the lend-lease appropriation. Since that time there have been further authorizations and appropriations so that the total program at the present time has risen to _____ billion dollars. Of course, not all of this amount is going to be spent during the present fiscal year, but as these appropriations are spent the fiscal problems of the Government and the economic effects of the defense program will both increase.

Our great problem in providing for the defense of the nation is fundamentally the problem of production; of actually building planes and tanks, ships and guns

with the labor, management, machinery, and raw materials which we have in our country. Although we can and should simultaneously increase the production of civilian goods that do not compete with the defense program, we shall find that as we increase defense production it will be necessary to divert to defense uses more and more of the resources now engaged in satisfying our civilian needs and wants. The pinch of scarce resources and plants is already being felt and may be expected to become more aggravated.

At the same time that this diversion of production is taking place, the amount of purchasing power in the hands of the people of the country will continue to increase due to the large amounts being spent by the Government and to resultant fuller employment. The result of the pressure of this increased purchasing power on the limited amounts of goods and services for which it may be spent threaten, in the absence of vigorous action, to sweep us into a spiral of rising prices.

Rising prices.

Apparently we are at the same point in price history as in 1916 -- on the edge of inflation.

The pattern of price rises during the past two years roughly resembles the price movement during the

first two years of World War I -- little rise in the cost of living, a moderate rise in the wholesale price index and a sharp rise in the prices of basic commodities.

Since the beginning of the war, September 1939, the wholesale price index has risen from 65 to 87 or about 16 percent. The greater part of this rise has occurred during the past five months.

The cost of living index has increased 5½ percent since September 1940. Half of this increase has occurred in the past two months.

The price index of 28 basic commodities has increased 48 percent during the same period, despite the fact that the prices of many basic raw materials have been controlled by the Office of Price Administration and Civilian Supply. This increase constitutes a major danger signal of inflation which must not be ignored. The wholesale price index always lags greatly behind the index of basic commodities, while the cost of living index does not show anything like the full effects of inflation until long after the seeds of inflation have taken deep root.

Forces making for price rises.

The forces making for further price rises are both potent and persistent:

(1) The Director of the Budget has estimated that defense spending during the fiscal year 1942 will be \$15

billion, or two and one-half times as much as in the fiscal year of 1941. This increased estimate does not take account of extensions of the defense program made after June 1 and of additional sums needed for lend-lease.

(2) More important in its bearing on the danger of inflation than the figures for expenditures of the coming year are the estimates of deficit spending. The net deficit for the fiscal year 1942 as estimated by the Director of the Budget will be \$12.8 billion compared with \$5.1 billion for the previous fiscal year. This assumes the present tax structure. If the \$3.5 billion tax bill which is before you is passed by Congress at an early date the deficit will be reduced by about \$2 billion (the amount of revenue yield in the fiscal year 1942 of the \$3½ billion total) but it will still be over \$10½ billion. Again this estimated deficit does not take account of the expansion of the defense program after June 1, 1941.

(3) The inflationary force of the Federal deficit has been supplemented during the past year by an expansion of bank credit. Total bank loans were expanded by an estimated \$3 billion or about 20 percent during the fiscal year just past. This rise moreover has been proceeding at an accelerated pace.

(4) Prices will be increasingly stimulated by
(a) the shortage of materials for civilian goods

(b) increased absorption of idle capacity in many industries and (c) further increases in wages and agricultural prices.

Also making for further price increases are the heightened obstacles to imports such as reduced ship space, higher shipping costs and cutting off of normal foreign sources of supplies.

Although there are some factors in the situation operating to check the inflationary trend, such as surplus stocks of some agricultural commodities, unemployed labor resources and partially employed production facilities, most of these factors were present in the fiscal year 1941 in greater degree and yet did not serve to restrain price rises even though the forces making for price rises were then much weaker.

Steps already taken to check inflation.

Some important steps have already been taken or are being taken to check inflation. Congress has made provision for the Treasury to sell Defense Savings Bonds and Stamps and so to absorb for the defense program funds which might otherwise be used for civilian purchase of goods. This very important program is well under way.

The Treasury Department has also launched a plan for selling tax anticipation notes which will facilitate the prepayment of income taxes and will more promptly withdraw purchasing power represented by such taxes.

The Office of Price Administration is making every effort to obtain the cooperation of producers and distributors in limiting price rises.

These measures to restrain price rises, although they have unquestionably been helpful, are inadequate to meet the situation confronting us. We have gone only a small part of the way it will be necessary to go. We must attack the problem on all fronts if we are successfully to check inflation.

Fiscal policy for inflation control

One of the most important methods of inflation control is a strong fiscal policy. The tax bill before you is an important step. When I appeared before the Ways and Means Committee in April, I recommended a tax bill to yield \$3.5 billion of revenue annually above the yield of the existing tax structure. If at that time I could have foreseen the accelerated rise in prices and the great increase in the defense program which have since taken place, I should have asked for more than \$3.5 billion.

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The Ways and Means Committee of the House has labored long and well on this bill and I am not suggesting that you increase the total amount of revenue which it provides beyond the original goal of \$3.5 billion. To increase its revenue yield substantially might result in delay, and ^{prompt} passage of the bill is important. I deem it imperative, however, that the new revenue yield of the bill be restored to at least ^{the} \$3.5 billion level.

When this bill has been passed and you and the members of the Ways and Means Committee have had an opportunity to enjoy a well deserved rest from the arduous labors which it has entailed, I hope that yet this year you will undertake, as the Treasury has already undertaken, to make a new survey of our tax system. It is now some years since a tax bill has been passed making the many technical changes which from time to time are found necessary as a result of experience, new court decisions and other new situations. Both the taxpayers and the Government suffer as these uncorrected faults accumulate. Such matters have been kept out of the present bill in order to expedite its passage and not to complicate the issues which it involves. In addition to correcting the faults in our tax structure, it will again be necessary in the light of the present program for defense expenditures and the threat of inflation to increase further the revenue power of the

tax system either late this year or early next year.

Excess profits tax.

Within the \$3.5 billion revenue scope of the present tax bill there appear to be several possibilities for discouraging inflationary price rises. The first of these is in the field of excess profits taxation. In recent months there has been a noticeable tendency for various groups including business men, farmers and laborers, to endeavor to secure higher rates of return in profits, prices and wages. (Such efforts cannot be criticized in normal times.) At the present time, however, with the existing pressures for inflation, widespread efforts to increase profits, prices, and wages will result not only in larger purchasing power and thus still greater pressure on our limited supplies of civilian goods, but also in higher costs for the defense program and for goods which civilians purchase. These higher costs in turn necessitate increases in prices and these in turn give rise to new demands for higher wages and higher prices. The spiral goes up and up.

If we are to expect to stop or prevent this spiral we must be able to show those who receive modest incomes from their labor or their production that excessive profits are not being received by great corporations.

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The present excess profits tax places special heavy taxes on profits which are in excess of the profits received during the years prior to the defense program. This is all to the good, -- is indeed essential. It is, however, not enough. A corporation may make 50 percent profit on its invested capital and not be subject to the excess profits tax if the profit is not in excess of 95 percent of its average profits during the base period years 1936 to 1939. This basic weakness is found in the present law and also in the bill before you.

This is not a matter of minor importance. Substantial numbers of companies are in the high-profit group. One out of five profit-making corporations with assets of \$1,000,000 and over averaged more than 10 percent net income on their reported equity capital during the years 1935 to 1938 and one out of twenty-five companies averaged more than 30 percent. These companies can continue to earn profits at virtually these rates without paying excess profits tax under either the present law or the Committee's tentative plan.

Failure to apply excess profits taxation to such excess profits is unfortunate also because of the uneven way in which competing businesses are affected. Concerns which have been making high returns in the base period years are given a competitive advantage

over newly organized concerns or concerns which have been struggling to establish themselves. They may receive free from excess profits tax a much higher rate of return than their new and growing competitors. The effect is to confirm monopolies in their control and to protect well established businesses against competition.

Moreover the capacity of a corporation to pay taxes is affected by the rate of its return on its investment. The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a much larger ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital even though the dollar incomes of the two companies are the same. Heavy taxes on high rates of profit will not cause the business receiving them to be liquidated or discontinued for lack of a minimum necessary profit, which may occur when heavy taxes are imposed on meager profits. Application to corporations of taxation in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return.

Defense excise taxes.

In more normal times excise taxes have little to recommend them except the fact that they produce revenue. In a period such as this, however, excise taxes may in

certain cases promote a more positive objective, namely, to reduce the demand of producers and consumers for scarce commodities which compete with the defense program and to absorb wind-fall profits which result from scarcity of supply relative to demand.

The achievement of this objective is not a simple matter. Nevertheless, the further use of excise taxes to divert consumption and to reduce wind-fall profits should be seriously considered by your Committee.

Personal exemptions.

One feature of the bill before you which has received less public attention than it deserves is the fact that the base has been broadened to add about 2,000,000 new taxpayers. This was accomplished by beginning the surtax at the first dollar of surtax net income. The 10 percent earned income credit in effect increases the exemption from normal tax. Since this credit is not applicable in computing the surtax, the bill has in effect reduced the exemption of single individuals by \$55, of married couples by \$222, and of married couples with 2 children by \$311.

In the early stages of this bill the Treasury Department took the position that in view of this substantial broadening of the base personal exemptions

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should not be further lowered. Equitable taxation requires that taxes be placed on ability. Small incomes have very little taxpaying ability, and this little is decreased as the cost of living rises.

However, the threat of rising prices has become so great that a change of policy is indicated. If the cost of living rises substantially the effect will be to tax small incomes much more than would an income tax at the rates provided in this bill. If the direct taxation of these incomes will help, as we believe it will, in preventing inflation it will be a great service to the very groups which would be made newly subject to the tax.

A further benefit to be derived from reducing personal exemptions is to make it possible for a larger number of persons in the country to feel that they are making direct contributions to the defense program. During the course of this tax bill a good deal of evidence has been noted to the effect that many people want to make such a direct contribution.

Accordingly, in the light of the developments of the past few months it is our recommendation that the personal exemptions of both single and married persons be substantially reduced so that the income tax will

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reach a much larger percentage of the national income and will affect a much larger percentage of the persons of the country than it does at present.

Too much should not be expected from lowering personal exemptions. It is not a panacea for our fiscal problem. Reducing personal exemptions as low as \$750 for a single person and \$1,500 for a married couple would bring ^{approximately} ~~about~~ _____ additional taxpayers under the income tax and would produce approximately \$ _____ additional revenue. Of this amount of revenue, however, \$ _____, or _____ percent would come from persons already subject to tax under the House Bill.

Additional measures necessary

While my purpose in talking to you today about this subject of inflation is primarily to indicate the ways in which the tax program can be designed to help minimize the dangers of inflation, it should be pointed out that tax legislation will not by itself solve the problem. The control of inflation is too great a load for fiscal policy alone to carry. There should be additional action also along the following lines:

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(1) The Office of Price Administration should be given the statutory power to fix prices where necessary. The legislation which the President has requested is essential. Price rises cannot be controlled when inflationary forces are at work without effective power to impose price ceilings enforced by direct penalties. The mere possession of such power tends to make its exercise unnecessary.

The attempt to prevent unwanted price increases by fiat, however, is bound to break down here as it has elsewhere unless it is accompanied not only by an adequate fiscal program to absorb buying power, but also by other methods.

(2) Vigorous steps should be taken to increase the supply of goods required for military and civilian needs. Increased output is in itself a major objective of our defense program and the most effective and desirable method of preventing inflation. There should be further exploration of the possibilities of inducing expansion of production facilities and labor supplies where such response could not be expected to occur automatically.

(3) There should be authority to provide systematic priorities of scarce supplies among industries making civilian goods. In order to obtain a fair distribution

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of scarce supplies among consumers it may later prove necessary to extend the rationing to ultimate consumers.

(4) Extension of the general controls over bank credit may be found desirable.

(5) Establishment of controls over the entire field of consumer credit will undoubtedly be necessary.

(6) Controls over capital expenditures should be provided.

(7) It may be found desirable to extend the Social Security Program along lines which would increase the flow of funds to the Treasury from current incomes during the emergency and would increase the outflow of funds when needed in the post defense period.

(8) There should be a reduction of the Federal lending and underwriting program, such as nonemergency housing expenditures and mortgage guarantees.

(9) Nonessential Federal expenditures should be reduced. In my statement before the Ways and Means Committee I pointed out the desirability of reducing such expenditures by one billion dollars. State and local governmental nonemergency expenditures and borrowing should be curtailed. Such curtailment would not only cut down expenditures during this period but would build up a back log of desirable projects for

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the post-defense period when public works expenditures may be badly needed to maintain the economy.

From present indications, if the control measures which I have mentioned are placed in operation and if the tax bill is promptly passed providing not less than \$3.5 billion of new revenue, it is my hope that the economic situation will remain fairly healthy until the early date when another tax bill designed to absorb substantially more purchasing power can be considered and passed.

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Alternatives to taxation more onerous

In closing my remarks, I desire to point out that although this is a very heavy tax bill, the alternatives to heavy taxation are much more onerous. Rising debts and rising prices would take much more away from our people now and in the future than higher taxes now will take. Under the tax bill, as it stands, a married couple with no dependents having a net income of \$5,000 a year will have its Federal income tax increased by \$198 or 4 percent of its income. If 1/3 of the family's income is saved or spent on items not affected by a changing cost of living, an increase in the cost of living of 5 1/4 percent would impose as great an additional burden on this family as would the proposed income tax. The cost of living index has increased 5 1/2 percent in less than a year, since September, 1940. It is clear from this simple illustration that rising prices are taxes just as surely as income taxes so far as the family is concerned. If in an attempt to protect the incomes of our people we hold down taxes and as a result the cost of living rises, we shall have taxed them just as surely as if we had levied on them directly.

Rising debts may not only increase the tendency for prices to rise but they increase the burden in

another way by postponing it. That means that both interest and principal must be paid for later with higher taxes imposed at a time when they may be harder to pay and less willingly paid than now.

Our defense program is an absolute necessity. It must be paid for. Insofar as possible, it should be finally paid for now.

August 6, 1941
9:20 a.m.

Operator: Go ahead.

HMJr: Hello.

Henry
Stimson: Hello, Henry.

HMJr: Good morning.

S: Henry, it's a long time between drinks.

HMJr: Right. Too long.

S: Would you like to come to lunch with me quietly at Woodley's at one o'clock, say, today?

HMJr: Well, I'm terribly sorry, but I have somebody coming today that I couldn't put off.

S: How about tomorrow?

HMJr: Well, tomorrow I'm with Wickard. If.....

S: Well, that's.....

HMJr: What?

S: That's too bad.

HMJr: If you wanted to.....

S: I'll get straightened out. I'll call you next week or sometime.

HMJr: Yes. I'll be glad to - how are you fixed early in the morning?

S: Why, as far as I know it's all right. But, I mean.....

HMJr: Yeah, I didn't.....

S:there's just - there's nothing formal, nothing.....

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HMJr: Oh.

S:nothing in the way of business to talk with you about.....

HMJr: Oh, well.....

S:it's just to have a chat together the way we used to have.

HMJr: Well, if you'll - I'd love it if you'll invite me any time next week. I'll be delighted.

S: Well, I'll try to - I'll try it.....

HMJr: I've got Admiral Nimitz for lunch today, and I'm going with Wickard tomorrow, so.....

S: Yes, I see.

HMJr:and.....

S: All right. Well, I'll have it on my conscience and I'll.....

HMJr: Well, try me - any time, but just if you'd give me a day or two's notice.

S: Yes. Yes, I see.

HMJr: Give me a day or two's notice.

S: Well, how are you?

HMJr: I'm fine.

S: That's good.

HMJr: Thank you.

August 6, 1941
10:02 a.m.

HMJr: Hello.

Walter
George: Hello.

HMJr: Henry Morgenthau.

G: Yes, Henry. This is Walter George.

HMJr: Good morning, Walter. I just wondered if you knew yet when you'd want me up there.

G: Well, I think - I talked with John a little yesterday.....

HMJr: Yeah.

G:and he indicated that you'd like to get - maybe appear on Friday so that you'd be relieved of this next week, because you had to appear before the price fixing committee.

HMJr: That's right.

G: So I think on Friday we'll take the Treasury people, if it suits you, and just have the Treasury on Friday.

HMJr: Well, that's entirely agreeable.

G: All right.

HMJr: Thank you so much.

G: At ten o'clock Friday.

HMJr: I'll be there.

G: All right.

HMJr: Thank you so much.

August 6, 1941
11:15 a.m.

RE TAX STATEMENT

Present: Mr. Blough
Mr. Kuhn
Mr. Magill
Mr. Shere

H.M.Jr: This is what I would like to say. I got this thing. I would like to go up there and start right out, "Gentlemen, I have come up here to recommend to you this state of national emergency where everybody has to be willing to make his proportionate sacrifice in order to make democracy safe, and we have an all out tax bill to go hand in hand with an all out defense bill. Now, in order to accomplish this we ought to include the following items in this bill," and then list them.

I wouldn't say, "I have brought this to your attention for eight years." That never pays. It is a nice thing to say but I have got to go back for three years more and the personal satisfaction isn't worth it.

Magill: You are right.

H.M.Jr: These are the things, and then list them. Then develop those as much as possible, giving each one its weight. I mean joint tax returns, oil well depletion, municipal and state bonds and all the rest of it, excess profits, and then this is where I would start. Then I think I would end up the statement by saying, "Now, even if we do all of these things, they in themselves cannot control increased prices," and then say something at the end.

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- Kuhn: That you are going to go up at another occasion --
- H.M.Jr: "And I have been invited to appear by Chairman Steagall and I expect at that time - at a more appropriate time --"
- Magill: I think that is good. You could put in, couldn't you, a paragraph just before that to say that in this all out business one thing that will be useful will be higher excise taxes on some of these commodities.
- H.M.Jr: Look, you have worked with me so long. This is the way the thing has crystallized. We would go right up in the beginning just the way I said it and then develop it and say something on each of these things, why they are bad, why they should be done away with. The great advantage is they will say, "Morgenthau is just up here again talking about that Treasury plan on excess profits and he wants it his way and if he can't have it his way, he won't play." It becomes one of ten things.
- Kuhn: Because what you do then, Mr. Secretary --
- H.M.Jr: It becomes one of ten things.
- Magill: That is the way to do it.
- H.M.Jr: Isn't that it?
- Kuhn: But you are not, then, advocating this tax bill. You are wanting a different tax bill.
- H.M.Jr: Well, all right, listen. I have got just as much right to change as the President of the United States.
- Kuhn: You are all right.

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Magill: You can say you want this tax bill but you want this tax bill plus.

H.M.Jr: "Well, why didn't you say this thing before?" "Well, I don't have to." I am not going to think of all the questions they will ask. This strikes me emotionally and every other way. Inside it strikes me right. I am not worrying about whether I am for this particular lowering the exemption. That is part of the whole program. Now, if you are going to do this thing, then every fellow from the bottom of the stepladder to the top should pay his proper portion.

Magill: That is all right.

H.M.Jr: And unless we do something like this on the tax front, we are lagging way behind the national defense front. We are not - we are lagging way behind the national defense front. They are way ahead of us. We haven't begun to keep pace with them in our thinking. And that is true.

Kahn: You said that before and you can say it again. You said it before the House.

H.M.Jr: Well, I would say it again.

Kahn: Good.

H.M.Jr: In our thinking we are lagging way behind on the national defense program.

Kahn: And Congress is lagging behind rather than the Treasury on this thing because you have said these things.

H.M.Jr: Now, I didn't want to say it, but this morning in talking with Roy I got a nifty. What Roy - I gave Roy the idea and he gave it to his man

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to have it this morning, that instead of taking this thing so that the fellow with seven hundred fifty dollars or two thousand dollars has got to add and subtract about five times, we have taken the result that he would arrive at. We are working on a table. It is in jumps of twenty-five dollars. We are going from seven hundred fifty dollars up to the income high enough so we include ninety percent of all the income tax payments and we are going to have - if you have seven hundred fifty dollars, all you have got to do is look over the table and you would pay four dollars.

If you have seven hundred seventy-five dollars, you would pay four dollars and twenty-three cents, and so forth and so on. And the same thing for the married person. If he has one child he would be in one column and if two children, in the next column.

- Magill: Where will it run, seven hundred to what?
- H.M.Jr: So we can stick this in every post office and every public building in the United States so a fellow can go in and say --
- Magill: That is absolutely swell.
- H.M.Jr: ...he goes in there and, "My income is nine hundred dollars. How much do I pay?" Six dollars and forty-eight cents.
- Wm: That is the way you sell the Tax Anticipation Notes too.
- H.M.Jr: That is the way you figure interest payments. Isn't that a nifty, Ros?
- Magill: That is a good one.

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- H.M.Jr: Isn't that a nifty?
- Blough: Personal exemptions will have to be apportioned. It ought to be a very simple thing to work out.
- Magill: I was just thinking what your variations - your variations will be on marriage and children, I suppose.
- Blough: The length of time during the year you have this income.
- Kuhn: It means filing returns, though, of your income.
- H.M.Jr: Yes.
- Magill: Those fellows won't have any serious losses.
- Blough: What if they did, if we get the net income first. This is after you get the net income. The big problem, of course, is your tax exempt interest. Partially exempt interest will make it difficult but that is the only one.
- Kuhn: Eliminate the earned income?
- Blough: No.
- Magill: I thought you were going to put it on gross.
- H.M.Jr: I had in mind gross. I wasn't going to allow any deduction.
- Magill: Why don't you do it on gross?
- H.M.Jr: I wouldn't give any deductions. I was not going to give them - no, no, I wasn't figuring on any deductions. This is - you earned seven

- 6 -

hundred fifty dollars. To hell with your losses. You pay four dollars.

Magill: I would do it on your gross, Roy, if you can, because otherwise you get into contributions to the church and all this estimating business.

H.M.Jr: What is this fellow's name, Shere?

Blough: Shere, S-h-e-r-e.

Magill: I would do it on gross and base it on his marital status and children and make it a lump sum. When are you going to do it, at the beginning of the year?

Blough: End of the year.

Kahn: And then wipe out the old form of tax payment for the two to four thousand dollars.

Blough: In that case I think possibly we ought to keep it down to around three thousand. It begins to get complicated.

Magill: Yes, I would keep it down.

Blough: In this great mass of people they have only one source of income and that is their salary and maybe a roomer or two or something like that, and it is perfectly simple to apply on the gross basis and maybe make a little bit of adjustment in order to take care of that gross concept.

Magill: Yes, I thought you meant gross.

H.M.Jr: I did mean gross and I am just interested to ask Shere how he was working on it.

Blough: It doesn't matter. He is working from a figure

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of income and whether you call it gross or net, it won't make a bit of difference. His schedule will fit either the gross concept or the net concept.

Magill: That is a darn good idea and that, I gather, was the President's idea back of that part of his letter. You may have forgotten. He talked to us about that in Hyde Park way back there.

H.M.Jr: And we haven't worked it out.

Kuhn: He has got it in his letter about chipping in.

Magill: But this is a much more advanced thought than he had.

Kuhn: It says most Americans in the lower income brackets are willing and proud to chip in directly, and that is the way he phrases the whole section of his letter.

Magill: This is swell for a lot of reasons.

H.M.Jr: We will just think what it means to Internal Revenue.

Magill: Oh, yes. I was just talking about that to Danny. I don't know how you are going to administer this tax without something like that.

Kuhn: It says the exemption of a single person should be reduced to seven fifty with a provision for a straight simple payment of some small contribution to the national tax income through some simple agency and on some simple form. That is what you are now suggesting.

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Blough: Only the Secretary is making it, I think, better. If he makes this so you don't even need to compute it, it seems to me that goes even further and implements very well the present tax.

H.M.Jr: I wasn't there when the President cross-examined Sullivan and I gather Sullivan got all balled up trying to explain it. The President said Sullivan subtracted and added five times trying to arrive at a figure of how much you had to pay on seven hundred fifty dollars. It is crazy, ridiculous, and you hadn't ought to have to do that.

Magill: That is right.

Blough: You have to figure surtax and normal tax and add them up and figure defense tax.

Magill: I have been saying all the time that it was just a cut above.

We have a Finnish maid who is a good cook and just a cut above half-witted. She had to pay a tax return last year. I know she did, but gosh, it must have been a honey. (Laughter).

Kuhn: Helvering will bless you for this.

Magill: I should say he will.

Blough: And the committee might get it into their heads that they could use a little simplification on their own hook.

H.M.Jr: I thought if you did this and gradually raised the limit it would gradually go on up.

Kuhn: But this would be - you would bring this forward in your section --

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- H.M.Jr: Oh, I am going to have it printed, on sample sheets to distribute right then and there.
- Kuhn: In your section on lowered exemptions, where you are talking about everybody's contribution?
- Magill: How about with-holding the source, not to get it too complicated?
- Blough: I would like to talk with you a little at length on that. I have done a lot of work on that and I would rather wait for that one until the next tax bill. I would rather see it taken in two bites because the collection source has a lot of very difficult matters.
- Magill: This is a very good idea and I don't see that - what I am trying to think of is hardship cases but I don't see that you will have many.
- H.M.Jr: Do we have to show this to Helvering? Is there anybody over there that could help?
- Magill: It would be a good idea if we could get a fellow like Tim Mooney to tell you if there are any bugs in it.
- H.M.Jr: We will have him take a look at the thing.
- Blough: I have two men working on the bugs now and --
- H.M.Jr: Bye on this thing.
- Blough: ...on this - let Guy Helvering see this.
- Magill: How about a fellow with a wife with a security income filing an individual return? She has a loss of --

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Blough: You could permit separate returns at this level, as far as that is concerned. It is almost all joint returns.

Kuhn: Shouldn't it be just earned income?

Blough: Well, it is all earned income anyway.

Magill: But I would make it everybody with incomes if you possibly can.

(Mr. Shere entered the conference).

Blough: You might exclude from them though, if they have different sources of income --

H.M.Jr: Shere, how far have you gotten and were you taking this on a gross basis?

Shere: No, we are working on a net income basis.

Blough: It doesn't matter, though.

Shere: We are taking it on an income basis. The man would take out a deduction when he knows what his net income is.

Magill: Why don't you put it on a gross?

H.M.Jr: I don't want it that way.

Blough: Mr. Secretary, as far as they have gone it doesn't make a bit of difference.

H.M.Jr: But for my purpose I want a fellow just to say, "I earned eight hundred and my tax is four dollars and a half," and he just looks on this wall chart and that is all he has to do. I don't want him to do any figuring of any kind. Just like an interest table. If he has got eight hundred, at two percent he gets so much.

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Shere: Then you have the problem of deductions.

Blough: No, there will be no deductions.

Magill: Suppose you find that the average --

H.M.Jr: You didn't get it.

Shere: I get what the Secretary says but I am just raising the point.

H.M.Jr: I want to know that if the man gets twenty dollars a week, it is a thousand and forty dollars. If that is what he earned, his tax is so much and all he has got to know is how much his earnings are.

Magill: That is right. Here is the average fellow with a thousand dollars. He has so much interest he has paid and he has made so many contributions and he may have a little other exemptions, so his net is what? His tax the ordinary way would be fifty dollars. Well, the Secretary wants to say fifty dollars at a thousand dollars, you see. Now, if you have got a thousand dollar gross, your tax is fifty dollars.

Shere: He wants to work on a gross?

Magill: Yes. Now, it is obviously true that the fifty dollars might be too much in some cases and too little in others if you took it on the net basis but it is ever so much simpler and I think it is much more desirable. You will get some funny cases but the tax in any event isn't going to be so big that it is going to --

Blough: We will have to work out a few because here you have a single person with dependents, a

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few cases of that kind which will involve some complications.

Edms: What would you do there?

Blough: Oh, well, it needs another column, that is all.

H.M.Jr: Let me just say it again. It is going to be statutory that a man with a thousand dollar income pays so much and eleven hundred so much and twelve hundred so much and Friday morning I am going to have this table and --

Shere: We expect to be done by the end of the day.

H.M.Jr: I want a sample table and I want Helvering to have a chance to look at it but when I go up at ten o'clock Friday, I want a hundred copies of this thing.

Magill: Why can't you do this, Roy? Can't you simply figure it to this extent, say that a single person --

Shere: We will have it for you at the end of the day.

Magill:for a single person, here is what you are going to pay in this column. If you are a married person, this column is what you will pay. If you have children, then you take off so much and make that a kind of a round figure.

H.M.Jr: I want it to say, "Know your income tax." On one single bill, you see, a big sheet so these fellows can read it.

Magill: I think for simplicity I would make you take off five or ten dollars all along the line.

Blough: In other words, get away from the present rate

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schedule so that you may have up to this - up to the point where this goes and then we don't want it to go too high, under those circumstances it wouldn't be the rate schedules now in the law. It would - I mean in the bill. Would approximate it but would permit, Ros points out - fix this up in such numbers that however many dependents you have you could just deduct so much for each dependent.

- H.L.Jr: We said that. That would be just another table. You mean net?
- Magill: I think you are going to get into an awful lot of trouble if you try to have enough columns for all the different kinds of marital status and what not and children that you may have.
- Blough: His point is that if you are married your tax is fifty dollars but if you have a child you can take off five dollars.
- Magill: If you have two children you can take off ten dollars.
- H.L.Jr: Irrespective of your income?
- Magill: Yes. Maybe you will have to bracket it but I would certainly avoid - I had in my mind what you have got here.
- H.L.Jr: Wait a minute. Why couldn't you do it this way? Supposing your income - you are married. Your income is two thousand dollars. Well, you look at the two thousand dollar column but if you have got one child, you look in the eighteen hundred dollar column. If you have got two children, you look in the sixteen

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hundred dollar column.

Kuhn: There you get into the computations again, Mr. Secretary.

Blough: It is a little harder to compute.

Magill: We are working at the same thing. What I was trying to avoid is what Louie forecast here, that is, having a hell of a lot of columns for married with one child, married with three children, single person with one child and so forth.

Shere: If you made this after exemptions, you could get away with one column. Here is a man who married in the middle of the year.

Blough: That would take care of that.

H.M.Jr: Couldn't you just have a footnote, if you are married with one child, deduct two thousand from your income and look in the column for eighteen hundred dollars?

Blough: You could do that. It means they have to make one computation.

Magill: I was thinking of making it even simpler than that and taking off five dollars a child or whatever it is.

H.M.Jr: Well, they have got to play with it today.

Kuhn: That wouldn't deduct for all incomes.

Magill: No, it wouldn't.

H.M.Jr: Well, you have got to make one deduction then anyway, whether you deduct five dollars on your tax or whether you simply switch yourself

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from the two thousand dollar column to the eighteen hundred dollar column.

Magill: That is right.

Kuhn: It is the same thing.

Magill: Yours will work out more exact justice on the tax, to do it your way.

H.M.Jr: I think it will. I don't mind the extra column because I am going to deal with a lot of morons.

Kuhn: I can see the table. "Know your income tax. If you are a single person with no dependents, look in the column showing the figure of your salary. If you are married with no children" --

H.M.Jr: "Look in column B."

Kuhn: Either that or take two hundred dollars off your --

Magill: If you have any children, take off two hundred dollars --

Kuhn:from your income.

H.M.Jr: But remember, gentlemen, when I go up there Friday morning I want a hundred copies of this thing or more. A couple of hundred copies.

Shere: One thing I think we --

Magill: It is a good idea.

H.M.Jr: Sure it is a good idea. Ros, it does what I

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have been trying to do for eight years. I have been trying to have something to go out and sell. Why do you only go to three thousand, because that is earned income?

Blough: Because above about three thousand dollars or even twenty-five hundred you get into multiple sources of income, capital losses, securities, partially exempt interest and that sort of thing.

Magill: You don't want to run it too high.

Blough: Furthermore, I would make this tax a little bit lower than they could get it by computing it the regular way.

Magill: Well, it is bound to be lower than what some of them would get it.

Blough: I would have it lower than anybody - so that there would be no kick about being --

H.M., Jr: Now look, gentlemen, in order to give me a breathing spell, let me get this thing so I can fix my schedule. Roy, without killing yourself, when can you show me another draft on this thing?

Blough: I would suggest that we would hardly have a good draft until nearly the end of the day.

H.M., Jr: I see. Now, how can we make the best use of Mr. Magill's time?

Magill: Well, we were just talking about that, what we should do. I suggested this, that we can't write a document in a committee very well. It has got to be written by some individual and I suggested that I think that Roy or Ferdie can write it, that we make the best use of my time by - if I sat down with them and form-

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ulated an outline for the thing and got the thing pretty well organized and then possibly there would be time for me to write something if you want me to.

H.M.Jr: Sure. I am just thinking about getting you home tonight.

Magill: I would like to get off - if I can get the Congressional, that would be very good.

H.M.Jr: If you can't, how about a plane?

Magill: Well, I would like a plane, as far as that is concerned.

H.M.Jr: Yes.

Magill: Of course you can't--

H.M.Jr: Where are you going?

Magill: Westport.

H.M.Jr: I mean, is it a special hook-up or something?

Magill: Yes, by running like the dickens I get a State of Maine Express which leaves a half hour or twenty-five minutes after the Congressional gets in from the other station and that gets to Norwalk at --

Blough: That would mean you wouldn't be here for the conference then because that would mean you would have to catch the train at four and leave here about three, and I doubt whether we can have more than a draft by that time.

Magill: Want me to stay beyond that? Of course, if I get a plane I can make it later than that.

H.M.Jr: Well, supposing we - if you say even a five or six

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o'clock plane and then had a Treasury car meet you and drive you home.

Magill: That would be grand.

H.M.Jr: How would that be?

Magill: Swell.

Kuhn: It only takes you an hour from LaGuardia Field, doesn't it?

Magill: It is an easy trip across the Whitestone Bridge. Your only problem is getting a reservation on a plane.

H.M.Jr: I will get a reservation.

Kuhn: That is easy.

H.M.Jr: I will tell them to take it on the five o'clock and on the six o'clock planes. Would you be ready?

Magill: Fine, yes, that will be swell.

H.M.Jr: All right on that?

Blough: Well, that is excellent for another reason. I think that Ros ought to give a little time to this plan of yours and we might possibly yet this afternoon have a conference with Tim Mooney.

Magill: I would like very much to do that because the thing you want to guard on that thing is that there isn't some bug in it somewhere that we haven't thought about.

H.M.Jr: All right.

Magill: Mooney ought to know that because he has been

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down there for years.

H.M.Jr: We will forget about Tuesday's statement for today.

Kuhn: Harry is working on that now, anyway.

H.M.Jr: Don't you get in on it.

Kuhn: I wasn't in on it yet.

H.M.Jr: Just stick with this.

Magill: Am I seeing you some time?

H.M.Jr: I am putting you fellows down for four o'clock.

Blough: We ought to have a draft by four.

Magill: That is fine.

H.M.Jr: Thank you all.

August 6, 1941
4:00 p.m.

RE TAX STATEMENT

Present: Mr. Sullivan
Mr. Magill
Mr. Blough
Mr. Kuhn
Mr. Bell
Mr. Riefler

Kuhn: This is in two installments.

Blough: This is so hot off the griddle I haven't read what I dictated at all.

H.M.Jr: That is what this fellow Magill does when he comes to town. Well, go ahead and read, Roy.

Blough: All right. The first installment is Ferdie's.

H.M.Jr: Is what?

Blough: Ferdie's, the gentleman Mr. Kuhn.

Kuhn: Shall I read and then Roy take up?

H.M.Jr: All right.

Kuhn: "Mr. Chairman and Members of the Committee:
"Two and a half months ago, the President proclaimed the existence of an unlimited national emergency. At that time he called upon 'all loyal citizens to place the nation's needs first in mind and in action, to the end that we may mobilize and have ready for instant defensive use all of the physical powers, all of the moral strength, and all of the material resources of this nation'.

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"The people of this country have responded splendidly to that proclamation. They have never been more ready to make sacrifices for the common good. From all parts of the country there have come encouraging signs, from labor and industry alike, that American men and women are willing to subordinate their personal interests for the sake of the nation's defense.

"The Congress has appropriated billions for defense purposes in the present fiscal year, and the American people understand the need for those colossal expenditures. The Ways and Means Committee of the House of Representatives has just completed work on a tax bill to produce $3\frac{1}{2}$ billion dollars in additional revenue, an amount that would have struck our people as staggering in former years. They have not complained. They understand the need and they are willing to pay the price of making their country impregnable strong.

"The defense effort, however, has now grown to such giant proportions that it dominates our entire economic life."

(Mr. Bell entered the conference).

Sullivan: Excuse me, Ferdie, "to produce over three billion" instead of three and a half billion.

Bell: Right.

Blough: The Ways and Means Committee did have it three and a half.

Sullivan: Well, that is a detail we will fight out later.

Bell: Well, you fellows can fight about it. A half billion dollars, what the heck?

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Kuhn: "The defense effort, however, has now grown to such giant proportions that it dominates our entire economic life. In these days of total war, a total defense is called for. Our economic and fiscal policy must be integrated for defense, integrated as closely as our army and navy and our planes that guard the skies. The bill which I am glad to support today, H.R. 5417, is a step in this direction, but it is not enough. Still bolder measures are needed now. In my opinion, we need an all-out tax bill as an essential part of all-out defense."

H.C. Jr: Hear, hear.

Kuhn: "The time has come for us to act as vigorously in fields of taxation as we have acted, and intend to act, against the rising tide of tyranny abroad.

"When I appeared before the Ways and Means Committee" --

Magill: Still rising? I thought it had kind of started to slow up.

Kuhn: We will cut it.

Magill: Yes, I should think so. It is a little too much high school oratory, high school, anyhow, I think.

Kuhn: Might cut the whole sentence.

"In my opinion, we need an all-out tax bill as an essential part of all-out defense." Stop there.

Magill: That is a good idea.

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- Kuhn: "When I appeared before the Ways and Means Committee of the House" --
- H.M.Jr: Excuse me, do you let visitors like that say things and you don't even answer them?
- Kuhn: I agree with them.
- "I outlined four principles" --
- Magill: I put my ideas so tactfully. (Laughter).
- Kuhn: "I outlined four principles that should govern a sound tax program in days like these. I should like to repeat those statements now, as they are very brief and even more applicable than they were last Spring. The first is that we should pay as we go for a reasonable proportion of our expenditures. Secondly, all sections of the people should bear their fair share of the burden. Third, our tax program should help to mobilize our resources for defense by reducing the amount of money that the public can spend for comparatively less important things. And finally, our taxes should prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production."
- H.M.Jr: Wait a minute. O.K.
- Kuhn: "These principles, as I have just said, are applicable now, but they are applicable in still greater degree."
- Sullivan: Are even more applicable now than when I first stated.
- H.M.Jr: Wait a minute, Ferdie.
- Bell: Do you keep the monetary purchasing power from outrunning production? It is the use of the

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purchasing power that you want to prevent.

Kuhn: That is what the Secretary said in April.

Bell: Is it?

Kuhn: Yes.

H.M.Jr: That makes it so, Bell.

Bell: I give up. (Laughter).

Magill: Where did the reduction of non-defense expenditures come in? That was in that Ways and Means thing somewhere.

Kuhn: But not in those four principles of the tax bill. That is appropriations. That is why you didn't have it in there.

"For example, even the proposed increase of $3\frac{1}{2}$ billion dollars in revenue, even our total goal of $12\frac{2}{3}$ billions from taxes, now threaten to be inadequate in the light of vast expansion of defense spending since last Spring."

H.M.Jr: I wouldn't use the word "threaten".

Sullivan: "Now appear to be."

H.M.Jr: Yes.

Kuhn: "In the past month" --

Sullivan: "Now appear inadequate", not "to be".

Kuhn: Right.

"In the past month, the Congress has been asked for _____ billions in additional expenditures for the army and navy, on top of the 33 billions

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appropriated for all purposes during the fiscal year just ended. I know that we shall be able to raise still greater revenues if necessary -- and it will be necessary after the present tax bill has been passed. We Americans can do this job, and any job, if we but set ourselves to it."

Bell: I don't like that before a tax committee.

Edan: The point that came up this morning, Dan, was that we were thinking of appealing to the public as well as to the tax committee and with that in view, the statement was re-written.

Bell: It is a little oratorical, that sentence.

W.C.Jr: Does it bother you, Ros?

Magill: Well, I think this is a minor thing. I would cut out that "but" there, "if we but set ourselves to it". I don't like that. Why don't you cut out that "and any job"? That goes part way to meet Dan's proposition.

W.C.Jr: How would this go before the clubs in the silk stocking district?

Magill: Jeremiah - what was his name?

W.C.Jr: Mahoney. That was the way you spoke of him.

Magill: I am from Connecticut. I don't know, I don't think that is too much, Dan.

Bell: I still think it is flag waving.

W.C.Jr: Well, that is what we told them. Those were the orders. All right.

Kuhn: The reason, Dan -- if you don't want people to object --

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- H.E.Jr: This is for the man on the street, Dan.
- Bell: But you are speaking to a committee. I think you can do a little of both but you are speaking to the committee and you have got a comparatively few people present, and it sounds a little oratorical.
- H.E.Jr: Well, you see, we put on Jack Benny and all that stuff now.
- Bell: You get used to it, do you?
- H.E.Jr: You have got to keep up with the times. I might even bring Irving Berlin up there to sing a song to open the meeting. (Laughter).
- Ruhn: You know where this came from?
- H.E.Jr: Yes, out of one of my talks.
- Ruhn: "Moreover, the price situation has taken an ominous turn since I appeared before the Ways and Means Committee in April. I shall have a more appropriate occasion next week to discuss these matters in detail" --
- Capill: I would cut out that "a more appropriate". Just make it "another occasion next week".
- Bell: Are you afraid of hurting the feelings of the committee?
- Sullivan: Yes.
- Ruhn: "I shall have occasion next week to discuss these matters in detail before the Banking and Currency Committee of the House. For the present I would say only that we are no longer threatened with inflation, we are in the midst of an inflationary process that will move faster and faster unless it is checked by

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bold action. And taxes, of course, are one way, one of the most effective ways, of checking inflationary tendencies."

Sullivan: Isn't "in the early stages" better than "in the midst"?

Bell: I wouldn't think any economist would agree that we are in the midst of it yet.

Riefler: We are certainly in the early stages of one.

Blough: Maybe not too early.

H.C. Jr: We have got a first class economist here now. What would you say we are, Win?

Riefler: I wouldn't be afraid of that statement. You have certainly got a rising spiral and a lot of it is due to non-inflationary factors, just impediments to supply and shipping, but an awful lot of it is due to a tremendous outlay of straight wages and income.

H.C. Jr: Go ahead. You are out-voted, Dan.

Kahn: "And taxes, of course, are one way, one of the most effective ways, of checking inflationary tendencies.

"A third change since the spring can be found in the steadily increasing demands now being made by the defense industries for certain raw materials needed in civilian production. In a number of commodities which I do not need to list in detail, actual shortages for civilian uses are threatened. It has become more essential than ever to use the machinery of a tax bill to prevent delays in defense production or by the competition of defense and civilian

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goods."

Wheeler: "Between defense and civilian goods," isn't it?

Wheeler: That has got to be fixed up a little bit. If I just get the feel of it here I am not going to go over words with you.

Wheeler: Why not say that "the competition of civilian demands for defense production" - instead of as "between", making it the positive thing.

Wheeler: Yes.

Wheeler: Or "prevent civilian demand for defense production" --

Wheeler: "Prevent the competition of civilian demands on defense production."

Wheeler: "I cite these changes because I am convinced that our thinking in tax fields has not kept pace with events. We are still thinking too much in terms of the burdens to be borne by this group or that. Many of us are still more intent upon exemptions than on common sacrifice. That is why, gentlemen, I have said that we need an all-out tax bill, just as surely as we need an all-out military, economic and psychological defense for our country.

"Now what do I mean by an all-out tax program? I mean primarily one that will enlist the help of all our people in accordance with their ability to pay. I mean, as I said last April, that no section of our people should be exempted from sharing the common task."

Wheeler: I think you want to change the wording of that a little. You have now the help of all our people in accordance with their ability to

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pay, from the point of view of an all-out - an "all-out" carries an additional significance of some description. I mean primarily one that - maybe you should say "that will enlist additional help from all our people in accordance with their ability to pay." Don't you think so?

Mr.: Yes.

Wallis: You are getting a lot of money from the United States right now.

Hefler: Well, where are you going to bring in the idea? I mean, when you get to "ability to pay", you get to the other problem that the big inflationary tendencies are coming from the rapid expansion of purchasing power of those with less ability to pay, of course.

Wain: Coming right in on that, "I mean, as I said last April, that no section of our people should be exempted from sharing the common task. We all want the workingman, the farmer and the businessman to earn a fair profit, but we do not want any one of them to profit unreasonably from the country's needs. My own feeling is that everyone should contribute, and will be glad to contribute, for the safety of our beloved country.

"There has been much public discussion" --

Mr.: Did you leave out the word "beloved"?

Wain: I crossed it out. (Laughter)

"There has been much public discussion, some of it ignorant discussion, of those who have been called 'the untaxed millions,' those in

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the lowest income groups. It is said, for example, that these millions of wage-earners are going scot-free because they pay no direct income taxes. I do not need to stress the fallacy of such a statement. It is an established fact that those with incomes under \$1,500 already pay a larger share of their incomes in taxes of all kinds, direct and indirect, than any other group up to the \$10,000 to \$15,000 income class.

"Moreover, it is not generally realized that under the bill now before you the base has been broadened to add about 2,000,000 new taxpayers. This was accomplished by beginning the surtax at the first dollar of surtax net income. The 10 percent earned income credit"--

Roy: We will skip that.

Kuhn: That is the paragraph we had this morning. "Nevertheless, the" --

Sullivan: Excuse me, is that paragraph out?

Kuhn: No.

Sullivan: That should be three million instead of two, Roy.

Clough: The bill doesn't add three million, John. Good business adds the other million.

Kuhn: "Nevertheless, a further lowering of exemptions would produce some additional revenue, although not nearly as much as some commentators would imagine. It would be some help in cutting down the purchasing power of the small consumers of non-essential goods, although again not as much as might be supposed. And finally, it would give millions of Americans an opportunity

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to make a direct contribution through taxes to the defense of their country." --

H.M.Jr: Now wait a minute. That is all wrong there. You are saying why it isn't of any use and then suddenly go in and find they would give. Now, you are giving the argument for. Up to now you have been kind of laughing at the thing and then suddenly you go in and say finally, they would give. You have got to say something in between. You could say the arguments in favor of doing it are, it would give something.

Kuhn: On the other hand, it would give --

H.M.Jr: Something, because you slip from one right in to the other there.

Sullivan: Well, we are for this lowering of exemptions, aren't we?

H.M.Jr: Well, you will see. Wait until you see.

Sullivan: I know, but this doesn't sound as though we were.

H.M.Jr: Yes, we are, as a part of an all-out tax program.

Kuhn: "It would enable them to feel that they were participating, personally and directly, in the defense program. It is this last consideration which appeals strongly to me now. The Treasury has opposed lower exemptions in the past. Even now -- and I cannot stress this too emphatically -- a further broadening of the income tax base should be strictly conditional upon other new measures if it is not to be grossly unfair and destructive of the national morale."

Those other measures are the ones we are putting in later.

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- H.M.Jr: I think those should come in together. I don't like this part at all, Ferdie. I mean, you didn't - I want to get those ten or whatever those things are right up at the beginning. I want to get this all-out tax program, what an all-out tax program is, right up on the front page, Ferdie. I take it you have listed those things. Whenever you talk about an all-out tax program and then immediately go in and describe what we consider an all-out tax program is - do you agree?
- Magill: Yes. We discussed that. You remember we spoke about putting them all together and the consensus was that it was better to do it this way.
- H.M.Jr: If you don't mind --
- Magill: We discussed --
- H.M.Jr: I disagree. As soon as we say we are for an all-out tax program, then I want to describe what it is, right up front, please.
- Kuhn: Well, you say what do I mean by an all-out tax program, I mean --
- H.M.Jr: And so on.
- Kuhn: "In the past, a very real obstacle to broadening the base has been the administrative difficulty imposed upon the Bureau of Internal Revenue and the individual taxpayer alike."
- H.M.Jr: If you could skip to where the part is - what this all-out tax program is, then I am going to list it and I don't think I am going to apologize for any of it.
- Kuhn: No, this is an introduction, Mr. Secretary, to

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the new system of small tax returns.

E.S.Jr:

Oh.

Wahs:

This is the way of leading in to your big chart with your tables.

E.S.Jr:

Wait until you get this. This was born this morning. Have you heard about it?

Sullivan:

I have.

E.S.Jr:

Like it?

Sullivan:

It depends on how this works out but let's wait until we go through it and then I will make my comments. The basic idea I like a hundred percent, yes.

Wahs:

"The Bureau is already bearing a colossal administrative load because the number of tax returns has been increased from three million to fifteen million within a very few years. The Committee can picture the burden that would be placed upon our revenue collectors if they had to check still more millions of complicated tax returns every year.

"Moreover, the difficulty for the individual taxpayer has been real and undeserved. No matter how willing and cheerful a taxpayer may be in making his annual contribution to this country, some of his willingness and cheerfulness is bound to evaporate as he fusses with the credits and deductions and exemptions which he is required to compute on his tax return. In a letter sent on July 31 to the Chairman of the Ways and Means Committee of the House, the President wrote that 'some way ought to be found by which the exemption of a single person should be reduced to \$750'. But the President added that some provision should be

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made 'for a straight simple payment of some small contribution to the national tax income through some simple agency and on some simple form'.

"I should like now to submit to the Committee a proposal which will, firstly, prevent administrative difficulties at the Bureau of Internal Revenue, and secondly, will enable millions of new taxpayers to 'chip in' willingly and proudly without the burden of filling out a complicated tax return.

Sullivan: I would reverse the reasons. I don't think the administrative difficulty is more important than the other reasons.

H.M.Jr: I don't like this at all.

Sullivan: All right.

H.M.Jr: I mean, it is too much, Ferdie. You have got me hanging out on the end of the limb - here we have been going now two thousand words and we haven't got to the guts of this thing yet.

Kuhn: That is what Roy has.

H.M.Jr: But here is a man coming - no one knows yet what I want to do. If you don't mind my being a little emphatic.

Kuhn: That is right.

Magill: What would accomplish what you have in mind, I think, would be --

H.M.Jr: The newspaper man has got to be right up in the first page, Ferdie.

Magill: On page four, at the foot of page four, as you say, "Now what do I mean by an all-out tax

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program", well there, to carry out your idea, you would want to say, I mean, one, two, three, four, five, six, seven, eight, and I would suggest you list them and number them and then in addition give about one sentence of comment, not more than that, in each case, just a little.

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

Magill: And then put on your next page, five, a sub-heading, number one, this new form of tax payment for the small fellow.

H.M.Jr: I can't give a title to it but - where are the --

Magill: They are not listed here at all, I think, are they, Roy?

Blough: There is no list. They are taken up later but there is no list.

H.M.Jr: I want those together, please. Have you given them all the things you can think of, Ros?

Magill: I think we have discussed them all.

Blough: I will tell you the ones that are in here. Mandatory joint returns with the earned income allowance, the excess profits tax, defense excise taxes, the state and local securities, and percentage depletion, and those are the only ones that I could think of in the rush that we were in. There may be others.

Magill: That is pretty well the list.

H.M.Jr: Do you think of any others, John?

Sullivan: Those were the five that were discussed. I had lunch with Ros and Roy this noon and those were

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the five that were discussed at that time.

- Blough: The estate and gift tax as mentioned this morning was another.
- H.M.Jr: That should be in. Do you get the idea, Win?
- Riefler: I am beginning to.
- H.M.Jr: But you couldn't get it - I would very much like to have it that way.
- Magill: Well, you are right. They ought to be together.
- H.M.Jr: I want them right up at the beginning.
- Kuhn: Put it in that place where you are talking about --
- Riefler: It ought to come in almost your first paragraph because after all, this does sound as though you are coming before the Committee for the tax bill that is up before them. What you are coming in for is really a whole additional proposal.
- H.M.Jr: Yes.
- Kuhn: Do you want to have all these things in this year's tax bill?
- H.M.Jr: Sure, I am going to ask for them. It is high time - in national defense we are just twelve months ahead in our tax program and we are just lagging and it is all damned nonsense that they don't do these things and if they are certainly going to ask the man with seven hundred fifty dollars a year to pay five dollars a year, there is no reason why the oil well companies year after year should write off fifty percent depletion. I mean the two

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things just aren't fair. I mean, the fellow in cigarettes, he pays his five or six cents a package, which to him is a hundred percent, and I am not going to sit here any longer and not go up and rub their noses in it.

And these fellows with these community property taxes, the whole Texas and California crowd, it is just about time that the public knew that that is to them - there is a loop-hole there of a half billion to a billion dollars that we are not collecting, and I am not going to ask the public, millions of people and workers, to contribute their five or ten or fifteen dollars taxes and at the same time let these fellows escape.

I don't care if they say to me, "Well, why didn't you suggest it before in the Ways and Means?" Well, I don't know why, any more than Mr. Roosevelt didn't ask for fifty billion dollars last year instead of asking for four. I mean, he should have asked for fifty billion dollars instead of four for national defense.

It isn't difficult, Ferdie, to get this thing the way Ros just said it, to list these things in just a short explanation. Now, I don't want to go into a long harangue about this business of - for instance, this ten percent income credit and all the rest of that business, adding the two million dollars. That is out, I think, because that was an apology, why we didn't - weren't in favor of lowering it. Now we are coming and lowering the whole thing, so we don't want to apologize for being opposed to it before.

Magill: I think you can effectively shorten the whole thing, as a matter of fact.

R.S.Jr: Well, I know I am tired now. I am not at my

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best. Maybe I am a little bit too critical, Ferdie, if you don't mind.

Kuhn: You don't think that is necessary about the two million new taxpayers who have been brought in? I think it is.

Blough: It is, but you don't need to go too much into detail.

H.M. Jr: Could I have at nine o'clock tomorrow morning this statement rewritten, doing two things for me, listing these things right at the beginning, you see, with a little short statement and then right after that - now, we have listed this thing. Then I want to go right in and say, "Now we are going to bring in" -- I don't know, five million or any figure, "additional taxpayers, and we already have ten million people that file tax returns but pay no income tax." My figures are not far wrong, are they?

Magill: No.

Sullivan: You are pretty close.

H.M. Jr: Well, for argument, ten million people that file and don't pay. We ask five million more to file and under the present system they wouldn't pay. Now, there are fifteen million people. In order to make it simple for them, we have devised the following scheme, and I want to give this to you because you haven't got it yet.

The scheme is simply this, that we are going to have a big poster entitled, "Know Your Taxes" and the man that makes seven hundred fifty dollars, he can go to any public building and he is going to find seven hundred fifty dollars. If he is a single man he will pay five dollars. Seven hundred seventy-five

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dollars, twenty-five dollar jump, he will pay five dollars and a quarter. The whole thing is worked out. He doesn't have to do any computation, up to three thousand dollars. All he has got to do, if he earns gross, two thousand dollars, he has got no children, it is one thing. In the next column, if he has one child, it is that. Two children, another column. The whole thing is on one sheet.

By statute it is right there. There is no addition or subtraction or multiplication. Anybody that can read the English language - "Bill, what was your income?" "Well, I earned eight hundred ninety-nine dollars." Now, just a minute, you pay so much tax and that is all he has got to do. And then the fifteen million people will be paying --

- Riefler: Why not have it in one dollar jumps?
- Blough: It would make the table too big.
- H.C.Jr: It is too difficult.
- Riefler: No, I meant one dollar on the tax.
- H.C.Jr: Oh, we are, most likely. But in income it will be in twenty-five dollar.
- Kuhn: Roy, you worked that out in the next page, didn't you?
- Blough: Yes.
- H.C.Jr: I have got two things I want to do. There are only two things I want to get over.
- Riefler: I should think you would come in and say, you are considering a bill for three billions.

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"I have come here to ask you for so many billions more and I propose to do it by" - one, two and three.

W.C.Jr: Well, I want to leave it open ended, but I want to say, "Now, gentlemen, we are going to do this thing and this is the way I think it should be done. When we get to collecting fifteen million dollars worth of taxes - taxes from fifteen million people, this is the way we would do it so they will like it," and that is my story. We could put in a little bit, Ferdie, about the prices and so forth and so on, but not very much.

Wain: Well, there isn't much.

W.C.Jr: Now, Ros, what about it?

Wagler: I think that is all right.

Sullivan: The only thing that I am concerned with, sir, is the time element. There are two things that are going to be fought out here in this present bill. One of them is the state and municipal securities. If they are to have hearings on that, that is going to be --

W.C.Jr: Now, John, I don't give a darn. Please, I don't care. You have done that to me consistently and the answer is I am not getting my legislation and I am not going to listen to that argument any more.

Sullivan: I wish you would permit me to finish it --

W.C.Jr: All right. But I have been told that again and again and it is never the right time.

Sullivan: May I finish the sentence?

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H.M.Jr: Sure.

Sullivan: ...And this is not just my opinion. I have talked with several other people. There might be a possibility of putting in a saving clause here that if the committee were unwilling to consider that during this bill, they certainly should in connection with the technical amendment bill immediately following.

H.M.Jr: I am sorry --

Bell: The Senate has had its hearings on this.

H.M.Jr: You have told me and the committee has told me I can't get this, I can't get that. I am going to go up there for once in my life and say what Henry Morgenthau, Jr. thinks, and I am going to say it, see.

Sullivan: Right.

H.M.Jr: Now, it may keep them here - whether they pay attention or not, I don't give a damn, but at least once in my life while I am Secretary of the Treasury, I am going to tell that committee what I think.

Sullivan: All right.

H.M.Jr: It may be the last time, but at least I will say it. There has been too much coddling. The President has got me out on the end of a limb by talking about reaching these fifteen million people. Now I have got to support his position.

Sullivan: That is right.

H.M.Jr: So long as I sit here. Now, in order to do that I am not going to let all this Texas gang get away with murder and the cities and the

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states, too. For once in my life I am going to go up there and really get the thing off my chest.

Sullivan: Now, is this the income from future issues?

W.C. Jr: No.

Sullivan: The income from those that are now outstanding?

W.C. Jr: Yes.

Harold: Good. I think you are right on that.

Bell: That is reversing your position, isn't it?

W.C. Jr: No.

Sullivan: Yes.

W.C. Jr: You have taken the public stand that you would not advocate taxing future issues but - past issues, but only future ones.

W.C. Jr: I didn't understand that. I said outstanding issues.

Sullivan: The question I asked, was this to be restricted to taxing the income of future issues of state and municipals?

W.C. Jr: And my answer was outstanding issues.

Bell: Well, that is a reverse.

Kufner: You have taken a position opposite.

Sullivan: Oh yes.

Bell: You have taken a position heretofore that it would be on future issues only.

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- H.M.Jr: Future issues was what I mean. I am being consistent. Future issues. I really would like to stop. I am awfully tired. I know when I am tired. When I am not thinking, the thing to do is to stop. I would love it - I don't know how busy you (Riefler) are - if you would read this thing. We are going to meet at nine tomorrow morning. Would you like to sit in?
- Riefler: Yes.
- H.M.Jr: I know when I am tired and I am very tired now because I have been sitting on this too long.
- Bell: It is too long, isn't it?
- H.M.Jr: Oh yes, got to cut it in half.
- Kuhn: It is always easy to cut.
- H.M.Jr: I know, I am tired. Can you - what are you going to do about this?
- Kuhn: Oh, I want to put in that list that you spoke of and put it up higher, cut what I have already read to you. Then on what Roy has written, which is the guts of it, we will have to do that in the morning, since we haven't talked about it here.
- H.M.Jr: Well, you (Blough) know what I mean.
- Blough: Frankly, the rather drastic reorganization since this morning hasn't quite jelled in my mind. I wanted to work for a while this evening on it. You want a much shorter statement, which means that instead of elaborating some of these things to a page and a page and a half, you want a sentence or two.
- H.M.Jr: I don't want it to go into a long explanation

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of excess profits tax. We have done it ten times.

Blough: We can, I think, turn out a very much better job which is half as long as this but it will take a little time and I would like to work this evening on it myself. I don't know how we can work together best, Ferdie, but we can try.

Kuhn: I would like to get that list and soon, Roy, if we could sit down on it now.

Blough: Sit down right now. The evening is yours.

Magill: Well, if you can get a girl this evening, which no doubt you can, I think this is at a point where one fellow needs to do it.

Blough: I have a girl.

H.M.Jr: I don't know how you two fellows work together. Maybe one of you can take half of it and one take the other half, but I would think the thing to do would be for Roy to take the whole thing and turn out a ten or twelve page document that conforms to what we have discussed here today and what is implicit in what we have discussed.

H.M.Jr: I think --

Magill: If Ferdie wants to take it and also turn out another twelve page document, maybe that would be a good idea.

Kuhn: I think it is better. We can work together this afternoon on the beginning part.

H.M.Jr: And then let Roy draft the whole statement.

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Magill: I think that would be --

H.M.Jr: I would give him what you want and then let him draft it.

Kuhn: And then let him work it over if he wishes.

H.M.Jr: That is all right.

Kuhn: It is much easier for one to do it.

H.M.Jr: Give him what you want but let him have it and he can work tonight and you can have something for me at nine o'clock tomorrow.

Blough: I will have something for you.

H.M.Jr: Want to ask me or Magill any questions? I want to talk to you, Roy, for about five minutes. If you want anything, come down and see me.

Blough: I would like to sit down with him.

Magill: I would like to see you before I go.

H.M.Jr: We have worked this way before. I think if you will give him, Ferdie, what you have and then I will count on Roy and then you can take and work it over again after tomorrow, but let's - I'll count on you to give me something at nine o'clock tomorrow.

Blough: You are not going to ask for more money in this bill?

H.M.Jr: No.

Blough: But you are going to ask if we are going to have the personal exemptions lowered, are we

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going to hit ability to pay on these other things also, is that your position?

Mr. Hill:

There is a point there, if you are not too tired to consider it. I would like to have you put your thought on it. We have mentioned this this afternoon and I think it is an important point, that in a very real sense this business of lowering the exemptions is the kind of fulcrum on which this whole business will be lifted or raised into consideration. Lowering the exemptions, as you know, there are plenty of people in favor of that and so forth. These special subsidies, if I may call them that, of one sort and another, they have kind of passed unnoticed through the years.

There are also lots of people who would like to leave those things the way they are. Now, I would like to say here for my part that I want you to be sure whether you want to say it or not, that you are interested in this lowering of the exemptions but if the exemptions are to be lowered, that then in your judgment these are the things that have to be done in all fairness.

Mr. Jr:

Yes.

Bell:

I think that is important because as I read this thing --

Mr. Hill:

I put your exemption business in the number one bracket, that if you are going to do this, then you have got to do these others.

Mr. Jr:

That is right.

Bell:

This sounds like a new recommendation for a new tax bill right from the beginning, to me,

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and I think that is important.

W.C.Jr: That is the beauty of bringing somebody in from the outside that isn't here fighting all the time back and forth, back and forth. It brings in the fresh viewpoint. That is why since you are here for this week, Win, you can sit in and you may have some ideas, too. I think that that definitely is the way. I am not too tired to get that. (Laughter). I think that is the reason, Dan, that is as good an excuse as any. I am sick and tired of being pussyfooted about this stuff.

Bell: I agree with that too but this is not the place to do that unless you have some good excuse. You should have done that before the Ways and Means.

W.C.Jr: Well, does this make you happy?

Bell: Absolutely. That doesn't sound so much like asking them to rewrite the tax bill. That was the impression I got this morning when I read the statement.

W.C.Jr: All right. Well, will everybody so disposed be here at nine tomorrow morning, bright and early?

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Mr. Chairman and Members of the Committee: C

~~Two~~ ^{Two and a half} months ago, the President proclaimed the existence of an unlimited national emergency. At that time he called upon "all loyal citizens to place the nation's needs first in mind and in action, to the end that we may mobilize and have ready for instant defensive use all of the physical powers, all of the moral strength, and all of the ~~next~~ material resources of this nation".

In accordance with ^{to} that proclamation, ^{IF} the people of this country have responded splendidly. They have never been more ready to make sacrifices for the common good. From all parts of the country there have come encouraging signs, from labor and industry alike, that American men and women are willing to subordinate their personal interests ^{the same way} for the nation's defense.

The Congress has appropriated billions for defense purposes in the present fiscal year, and the American people understand the need for those colossal expenditures. The Ways and Means Committee of the House of Representatives has just completed work on a tax bill to produce $3\frac{1}{2}$ billion dollars in additional revenue, an amount that would have struck our people as staggering in former years. They have not complained. They understand the need and they are willing to pay the price of making their country impregnable strong.

The defense effort, however, has now grown to such giant proportions that it dominates our entire economic life. In these days of

total war, a total defense is called for. Our economic and fiscal policy must be integrated for defense, integrated as closely as our army and navy and our planes that guard the skies. The bill which I am glad to support today, H. R. 5417, is a step in this direction, but it is not enough. Still bolder measures are needed now. In my opinion, we need an all-out tax bill as an essential part of all-out defense. The time has come for us to act as vigorously in fields of taxation as we have acted, and intend to act, against the rising tide of tyranny abroad.

When I appeared before the Ways and Means Committee of the House on April 24, I outlined four principles that should govern a sound tax program in days like these. I should like to repeat those statements now, as they are very brief and ^{even more} ~~just as~~ applicable ^{than} ~~as~~ they were last Spring. The first is that we should pay as we go for a reasonable proportion of our expenditures. Secondly, all sections of the people should bear their fair share of the burden. Third, our tax program should help to mobilize our resources for defense by reducing the amount of money that the public can spend for comparatively less important things. And finally, our taxes should prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production. ^{And} ~~And~~ these principles, as I have just said, are applicable now, but they are applicable in still greater degree. For example, even the proposed increase of 3½ billion dollars

(In revenue, even our total goal of 12 2/3 billions from taxes, now threaten to be inadequate in the light of vast expansion of defense spending since last Spring. In the past month, the Congress has been asked for billions in additional expenditures for the army and navy, on top of the 33 billions appropriated for all purposes during the fiscal year just ended. I know that we shall be able to raise still greater revenues if necessary -- and it will be necessary after ~~the~~ ^{the present} tax bill has been passed. We Americans can do this job, and any job, if we but set ourselves to it.

Moreover, the price situation has taken an ominous turn since I appeared before the Ways and Means Committee in April. I shall have (more appropriate) occasion next week to discuss these matters in detail before the Banking and Currency Committee of the House. For the present I would say only that we are no longer threatened with inflation, we are in the midst of an inflationary process that will move faster and faster unless it is checked by bold action. And taxes, of course, are one way, one of the most effective ways, of checking inflationary tendencies.

A third change ^{since the Spring} can be found in the steadily increasing demands now being made by the defense industries for certain raw materials needed in civilian production. In a number of commodities which I do not need to list in detail, actual shortages for civilian uses are (threatened. It has become more essential than ever to use the machinery

(Of a tax bill to prevent delays in defense production or by the competition of ~~defense and civilian goods~~ *purchases with defense requirements.*

I cite these changes because I am convinced that our thinking in tax fields has not kept pace with events. We are still thinking too much in terms of the burdens to be borne by this group or that. *They are* ~~we~~ are still more intent upon exemptions than on common sacrifice. That is why, gentlemen, I have said that we need an all-out tax bill, just as surely as we need an all-out military, economic and psychological defense for our country.

Now what do I mean by an all-out tax program? I mean primarily one that will enlist the help of all our people in accordance with (their ability to pay. I mean, as I said last April, that no section of our people should be exempted from sharing the common task. We all want the workingman, the farmer and the businessman to earn a fair profit, but we do not want any one of them to profit unreasonably from the country's needs. My own feeling is that every one should contribute, and will be glad to contribute, for the safety of our beloved country.

There has been much public discussion, some of it ignorant discussion, of those who have been called "the untaxed millions," those in the lowest income groups. It is said, for example, that these millions of wage-earners are going scot-free because they pay no direct income taxes. I do not need to stress the fallacy of such a statement. It is an established fact that those with incomes under \$1,500 already pay a larger share of their incomes in taxes of all kinds, direct and indirect, than any other group up to the \$10,000 to \$15,000 income class.

Moreover it is not generally realized that under the bill now before you the base has been broadened to add about 2,000,000 new taxpayers. This was accomplished by beginning the surtax at the first dollar of surtax net income. The 10 per cent earned income credit in effect increases the exemption from normal tax. Since this credit is not applicable in computing the surtax, the bill has in effect reduced the exemption of single individuals by \$88, of married couples by \$222, and of married couples with two children by \$311 a year.

Nevertheless, a further lowering of exemptions would produce some additional revenue, although not nearly as much as some commentators would imagine. It would be some help in cutting down the purchasing power of the small consumers of non-essential goods, although again not as much as might be supposed. And finally, it would give millions of Americans an opportunity to make a direct contribution through taxes

to the defense of their country. It would enable them to feel that they were participating, personally and directly, in the defense program. It is this last consideration which appeals strongly to me now, although the Treasury has opposed lower exemptions in the past. Even now -- and I cannot stress this too emphatically -- a further broadening of the income tax base should be strictly conditional upon other new measures if it is not to be grossly unfair and destructive of the national morale.

In the past, a very real obstacle to broadening the base has been the administrative difficulty imposed upon the Bureau of Internal Revenue and the individual taxpayer alike. The Bureau is already bearing a colossal administrative load because the number of tax returns has been increased from three million to fifteen million within a very few years. The Committee can picture the burden that would be placed upon our revenue collectors if they had to check still more millions of complicated tax returns every year.

Moreover, the difficulty for the individual taxpayer has been real and undeserved. No matter how willing and cheerful a taxpayer may be in making his annual contribution to this country, some of his willingness and cheerfulness is bound to evaporate as he fusses with the credits and deductions and exemptions which he is required to compute on his tax return. In a letter sent on July 31 to the Chairman of the Ways and Means Committee of the House, the President wrote that

"some way ought to be found by which the exemption of a single person should be reduced to \$750." But the President added that some provision should be made "for a straight simple payment of some small contribution to the national tax income through some simple agency and on some simple form."

I should like now to submit to the Committee a proposal which will, firstly, prevent administrative difficulties at the Bureau of Internal Revenue, and secondly, will enable millions of new taxpayers to "chip in" willingly and proudly without the burden of filling out a complicated tax return.

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This proposal is that taxpayers with less than \$3,000 of income before deductions be encouraged to file a very simple income tax return in which income would be shown, but no deductions would be taken. The law would provide a schedule of taxes in which the tax would be the same for income within narrow blocks of perhaps \$25. Thus the single taxpayer with \$1,115 of income would find his tax already computed for him on a table in which the tax would be shown for incomes from \$1,100 to \$1,125. The tax schedules placed in the law would be computed to give a slightly lower tax in the typical case than the taxpayer would have to pay under present methods of computation, a flat allowance being made to take care of deductions. Because of the cases where there are large tax payments, interest payments, capital losses, business losses and other types of deduction, the taxpayer should be given the option of filing a regular return and computing his tax in the regular way. The great majority of the taxpayers, however, would find it to their advantage from the viewpoint of simplicity to file the special simplified return.

Further refinements and modifications of this proposal may be found to be desirable by your Committee, but it is my feeling that if the personal exemptions are to be lowered

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some plan of this kind is imperative for the convenience both of the taxpayer and of the administrative officials.

As I previously said, this is an all-out defense program and necessitates an all-out tax program. If we are going to lower the personal exemptions so that single persons with \$15 a week income and married couples with \$30 a week income will be subject to the income tax, we must have an all-out program in other respects also. We must get at ability to pay taxes wherever it may be found and we must use taxation for the encouragement of the defense program wherever it is possible.

The bill submitted to the House by the Committee on Ways and Means contained a provision for the mandatory joint returns of husbands and wives. That provision, which was stricken from the bill by amendment on the floor of the House, went somewhat too far in my opinion. Where husband and wife are both contributing through their labors to the support of the family, they should be given some special relief from the joint returns requirement. If this is done, the joint returns provision appears to be an equitable method of taxation. It will remove the discrimination now present in favor of the taxpayers of the community property States as well as the opportunity

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to avoid the tax through the distribution of property by trust and otherwise within the family unit.

We surely cannot look with complacency on the lowering of the personal exemption as long as these discriminations remain in the income tax law.

Another vital element in a tax program to accompany an all-out defense program involves a change in the excess profits tax. The capacity of a corporation to pay taxes is effected by the rate of its return on its investment. A highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a much larger ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital even though the dollar incomes of the two companies are the same. Heavy taxes on high returns of profit will not cause the business receiving them to be liquidated or discontinued for lack of a minimum necessary profit which may occur when heavy taxes are imposed on meager profits. Application to corporations of taxation in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return.

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The present excess profits tax as well as the bill before you placed special heavy taxes on profits which are in excess of the profits received during the years 1936-1939 prior to the defense program. This is all to the good -- is indeed essential. It is, however, not enough. A corporation may make 50 percent profit on its invested capital and not be subject to the excess profits tax if the profit is not in excess of 95 percent of its average profits during the base period years 1936 to 1939.

This is not a matter of minor importance. Substantial numbers of companies are in the high-profit group. One out of five profit-making corporations with assets of \$1 million and over averaged more than 10 percent net income on their reported equity capital during the years 1935 to 1938 and one out of twenty-five companies earned more than 30 percent. These companies can continue to earn profits at virtually these rates without paying excess profits tax under either the present law or the Committee's tentative plan.

Failure to apply excess profits taxation to such excess profits is unfortunate also because of the uneven way in which competing businesses are affected. Concerns which have been making high returns in the base period years are given a competitive advantage over newly organized

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concerns or concerns which have been struggling to establish themselves. They may receive free from excess profits tax a much higher rate of return than their new and growing competitors. The effect is to confirm monopolies in their control and to protect well established businesses against competition.

There is another important reason for revising the excess profits tax. In recent months there has been a noticeable tendency for various groups including business men, farmers and laborers, to endeavor to secure higher rates of return in profits, prices and wages. At the present time, however, with the existing pressures for inflation, widespread efforts to increase profits, prices, and wages will result not only in larger purchasing power and thus still greater pressure on our limited supplies of civilian goods, but also in higher costs for the defense program and for goods which civilians purchase. These higher costs in turn necessitate increases in prices and these in turn give rise to new demands for higher wages and higher prices. The spiral goes up and up.

If we are to expect to stop or prevent this spiral we must be able to show those who receive modest incomes

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from their labor or their production that excessive profits are not being received by great corporations.

Another element in a tax bill ~~is~~ for times such as this involve the excise taxes. In more normal times excise taxes have little to recommend them except that they produce revenue. In a period such as this, however, excise taxes may become a very helpful supplement to price control. Demand for consumers' goods, especially durable consumers' goods, may compete with the defense program. In such cases it becomes necessary to cut off the supplies of these goods. Excise taxes may serve a valuable purpose either in reducing the demand of producers and consumers for these scarce commodities or to absorb the windfall profits resulting from price rises when supply is scarce relative to demand. The Government instead of the middleman should receive the profits due to high prices. Although the achievement of this objective is by no means a simple matter, adjustments within the tax bill along this line should be seriously considered by your Committee.

There are other features of the tax system whose continuance cannot be tolerated if we are going to make an all-out effort. They are matters which the Treasury has brought to the attention of the committees from time to time. I will mention but two of them.

The first is the exemption from income taxation afforded to the interest on State and municipal securities. Certainly in an effort to finance national defense in this emergency, such exemption should not be permitted to continue. Tax exemption should be removed with respect to the interest on future issues of State and municipal securities, even as we have removed it with respect to Federal securities.

The depletion allowed to extractors of certain natural resources, for example, oil, are ~~largely~~ larger than can be justified on any reasonable basis of tax equity. These percentage depletion changes should be re-examined and adjusted so that the equitable tax exemption which they now afford will be removed.

It is very important that the tax bill before you be passed as promptly as possible. Income taxpayers and excess profits taxpayers should know as quickly as possible what their taxes on 1941 income and profits are going to be so that they may make intelligent plans for meeting

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the increases which the law will impose. The excise taxes and the estate tax cannot be imposed retroactively and every day's delay in the passage of this tax bill costs the Treasury several million dollars.

Because of the necessity for promptness, I have not suggested that all of the recommendations which I have made can be put in this tax bill. Another tax bill, however, will be necessary to apply to next year's income and business. Such a tax bill will be necessary for a number of reasons. I have already pointed out the manner in which our defense program has expanded and is expanding. We need to raise the money to finance this program. I have pointed out, also, the price situation and the threat of inflation which confronts us. A strong fiscal policy is one of the most important methods of relieving inflationary pressures by taking for the Government purchasing power that otherwise would be used to try to purchase non-existent goods.

This tax bill and the next one will be important factors in controlling the price situation. They will not in themselves, however, be sufficient. The control of inflation is too great a load for fiscal policy alone to carry. There should be additional action also along a number of other lines and as previously indicated I shall go into this subject at a more appropriate time and place.

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C

It should be stressed, however, that although this is an onerous tax bill, the alternatives to heavy taxation are much more onerous.

August 6, 1941

My dear Averill:

I hope to see you soon and hear from you first hand some of the many interesting things that you must have learned while in England.

Mr. Harold Hochschild, President of the American Metals Company, and a very old and intimate friend of mine, came in to see me today. Mr. Hochschild is in a position to get out of his business and devote his entire time at a dollar a year to the Government. He is a bachelor, about fifty years of age, and would love to have something to do, possibly in England. It occurred to me that you might be able to make use of him.

In the early days of this show when I was looking after strategic materials for the President, one of the jobs that I had to do was to stop molybdenum from going to Japan and Russia. I asked Mr. Hochschild, the members of whose family are the largest stockholders in Climax Molybdenum, whether they would voluntarily agree to discontinue shipping any molybdenum to Russia and Japan. They unhesitatingly agreed to do this, notwithstanding the fact that these two countries were their best customers, and at the time it meant a considerable financial sacrifice to the company. I am telling you this merely to give you an idea of the kind of man you would find Mr. Hochschild to be.

If you know of a spot where Mr. Hochschild could be put to work, either in England or in the United States, I am confident that he can do a good job.

Yours sincerely,

(Signed) H. Morgenthau, Sr.

Mr. W. Averill Harriman,
The Carlton Hotel,
Washington, D.C.

By Messenger
8/6/41
5:15 pm

August 6, 1941

Dear Harold:

I am sending you herewith a copy
of my letter to W. Averill Harriman.

Yours sincerely,

(Signed) Henry

Mr. Harold Hochschild,
Sixty-one Broadway,
New York, New York.

HAROLD K. HOCHSCHILD
SIXTY-ONE BROADWAY
NEW YORK

August 7, 1941.

Dear Henry,

Thanks ever so much
for the very fine letter
you wrote about me to
Owens Harriman. I shall
wait hopefully until I
hear from you or him.

Sincerely
Harold

August 6, 1941

Dear Frank:

The other night you made the statement to me that during the month of July we had produced 2,000 planes in this country. You will remember that I questioned your figure.

I now have received a confidential, preliminary report from the Aircraft Section of OPM which shows that production of all military planes in this country during the month of July was 1,455, or 449 below their estimates. Of the 1,455 planes produced, I would like to point out that 628 were so-called tactical planes, and 829 were trainers.

Without wanting to be ^{too} argumentative, I repeat my statement that I think there is something wrong with our airplane production.

Sincerely yours,

[Signed] Henry

By Messenger

Honorable Frank Knox,
Secretary of the Navy,
Washington, D.C.

Confidential
Photostats made by [unclear] 8/9/41
Miss Mickenner 8/9/41

By Messenger *Green*

8/9/41

9:30

August 6, 1941

Dear Mr. Wouk:

Ever since last Wednesday's Treasury Hour I have been wanting to send you a line to tell you how much I enjoyed your tribute to the Marines.

It will interest you to hear that I brought a record of your ballad to the White House the other day and played it for the President. He was just delighted with it.

I send you my thanks and congratulations. With all good wishes,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Herman Wouk,
820 West End Avenue,
New York, N. Y.

Copies to Mr. Thompson

FK/hkb

8/6/41

August 6, 1941

Dear Mr. Carden:

I am delighted to see that your company has put a Defense Savings Bond announcement on the wrapper of each package of Domino cigarettes. This will be a real help to us in making the American public conscious of Defense Savings Bonds. I am most appreciative of this fine contribution of yours to the defense of the country.

Sincerely yours,

(Signed) H. Morgenthau, Sr.

Mr. R. C. Carden, Jr.
General Sales Manager,
Larus & Brother Company, Inc.
Richmond, Virginia.

File to Mr. Thompson

FK/hkb

8/6/41

NATIONAL COUNCIL OF NEGRO WOMEN, INC.

Mrs. Mary McLeod Bethune, Founder and
National President

August 6, 1941

Mr. William Pickens
Room 402 - Sloan Building
735 Twelfth Street, N. W.
Washington, D. C.

My dear Mr. Pickens:

I feel that the position you hold, at a time like this, is of vital importance. The National Council of Negro Women Incorporated, representing 500,000 women, joins heartily in your program of selling defense bonds.

Your stirring message to the women of the National Association of Colored Women in Oklahoma was most inspiring. These women represented forty-two states and through our groups and other activities, we shall leave no stone unturned in helping you to get these bonds sold in every home.

As the Director of the Office of Negro Affairs in the National Youth Administration, I am placing our whole machinery at your service. I am advising all of our Administrative Assistants in Charge of Negro Affairs and through them our project supervisors throughout the states to give information to the thousands of youth when they contact in order that they may share in this part of our defense program.

Sincerely yours,

Mary McLeod Bethune
PRESIDENT - Director, Division of
Negro Affairs, National Youth Administration

Mr. Houghtaling

August 12, 1941

William Pickens

I am sending copies of this memorandum to those who may find an interest in our program. Mr. Cusack and Mr. Paige asked me to always give them any items that might be good for publicity.

Dr. Glenn T. Settle, President of the "Wings Over Jordan" singers, has asked me to speak for their broadcast the last Sunday in August which is the 31st. I think the program comes on at 9:30 a.m. EST over the National Broadcasting System. It is a very big hook-up and I think a few minutes will enable us to get a good message over to a good many people. So as to get most in the time allowed, I shall write out a careful statement, and will give a copy of it to Mr. Cusack and one to Mr. Paige.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Four Business Days of June, July, and August, 1941
(June 1-5, July 1-5, August 1-5)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	August	July	June	August over July	July over June	August over July	July over June
	Series E - Post Offices	\$ 7,851	\$ 7,598	\$ 6,825	\$ 253	\$ 773	3.3%
Series X - Banks	<u>13,523</u>	<u>13,348</u>	<u>9,277</u>	<u>175</u>	<u>4,071</u>	<u>1.3</u>	<u>43.9</u>
Series E - Total	21,375	20,945	16,102	430	4,843	2.1	30.1
Series F - Banks	4,708	5,082	6,528	- 374	- 1,446	- 7.4	- 22.2
Series G - Banks	<u>31,114</u>	<u>33,035</u>	<u>41,877</u>	- <u>1,921</u>	- <u>8,842</u>	- <u>5.8</u>	- <u>21.1</u>
Total	<u>\$57,197</u>	<u>\$59,063</u>	<u>\$64,507</u>	- \$ <u>1,866</u>	- \$ <u>5,444</u>	- <u>3.2%</u>	- <u>8.4%</u>

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

August 6, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

UNITED STATES SAVINGS BONDS

Daily Sales - August 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
August 1941									
1	\$ 1,467	\$ 3,296	\$ 1,163	\$ 7,586	\$ 12,045	\$ 4,763	\$ 1,163	\$ 7,586	\$ 13,512
2	1,500	3,030	726	6,101	9,857	4,530	726	6,101	11,357
4	3,606	4,376	1,892	10,092	16,361	7,983	1,892	10,092	19,967
5	1,278	2,822	928	7,334	11,084	4,099	928	7,334	12,362
Total	\$ 7,851	\$ 13,523	\$ 4,708	\$ 31,114	\$ 49,346	\$ 21,375	\$ 4,708	\$ 31,114	\$ 57,197

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

August 6, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

WEDNESDAY - AUGUST 6, 1941

Time: 3:15 - 3:30 P.M.
 Program: Stella Dallas
 Station: WRC and NBC Red Network

Time: 5:30 - 5:45 P.M.
 Program: Paul Sullivan News
 Station: WJSV and CBS Network

Time: 6:30 - 7:00 P.M.
 Program: Meet Mr. Meek
 Station: WJSV and CBS Network

Time: 7:05 - 7:15 P.M.
 Program: Daniel W. Bell, Under Secretary of Treasury Department,
 Speaks on Treasury Department Tax Savings Plan.
 Station: WINX - Washington, D. C.

Time: 7:30 - 8:00 P.M.
 Program: Plantation Party
 Station: WRC and NBC Red Network

Time: 9:00 - 10:00 P.M.
 Program: Kay Kyser and His Kolledge of Musical Knowledge
 Station: WRC and NBC Red Network

BULOVA TIME SIGNALS PROMOTE DEFENSE BONDS AND STAMPS REGULARLY
 NOW AT THE RATE OF 428 ANNOUNCEMENTS DAILY OVER 134 RADIO STATIONS.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 6, 1941.

TO Secretary Morgenthau
FROM Mr. Gulick

I attach an unusually interesting address recently made by Rowland Egger, Director of the Budget of the Commonwealth of Virginia.

L.G.

Talk given by Rowland Egger, Director of Budget,
 Governor's Office, Richmond, Virginia.
 To: Southern Interstate Assembly
 July 19, 1941.

Mr. Chairman, Ladies and Gentlemen:

The remarks which I shall have to offer addressed to financial planning for the future are predicated upon a number of assumptions, with which I think most of us will find ourselves in substantial agreement. Since we are likely to disagree about almost everything else, I hasten to try my hand at defining the area of non-controversy:

(1) Governmental finance is essentially indivisible, and it is no longer profitable, if indeed it ever has been, to try to think of local finance, State finance, and national finance in separatist and compartmentalized terms;

(2) In time of national crisis the Federal government has the complete right-of-way in matters of taxation;

(3) The State and local governments, under the leadership of the Federal government, have a joint responsibility for conducting their fiscal and administrative affairs in such manner as will promote the national defense and security, implement the national rearmament, and prepare themselves for as effective participation as possible in readjustment to a peace time basis of operations.

It follows that financial planning must be simultaneously attacked along two lines; first, short-term fiscal planning to win the war; second, long-term fiscal planning to avoid losing the peace.

The July 9th issue of Defense, in its statistical summary of progress in the defense program, reports that total authorizations to date come to \$38,651,000,000, excluding British purchases but including lease-lend commitments. My private fortune tellers are now talking about an \$80 billion overall defense program cost, and it occurs to me that many months have passed since I have seen anything in the papers about the debt limit. Moreover, these figures may, in the main, be regarded as reflecting a construction program - an investment in capital equipment - if this is not too great a distortion of the idea of a producers' good. After the ships, planes,

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tanks, bases, guns, forts and other facilities have been acquired, they must be operated and maintained. Again the fortune tellers are murmuring of \$6, \$8 and \$10 billion per annum operating expenditures. Without anyone committing himself on the details of things to come, let us admit that a tidy sum of money, aggregating a considerable percentage of the national income, however high the national income goes, will be required to win the war.

Obviously, if State and local governments are to bring their fiscal programs, both short - and long-run, into harmony with the imperatives of Federal finance, some idea of the basis of Federal fiscal policy is necessary. Several months ago, during the course of an extremely provocative conference on National defense and State finance at the University of Alabama, Professor Simeon Leland outlined a series of fiscal policies which he believed applicable to the various stages of the defense effort. He pointed out that in the early stages of the defense program, before optimum employment had been reached, defense should be financed in large part by loans secured to the greatest degree possible from idle funds. Taxes that interfere with consumption should be avoided, unemployment spread among the labor supply, overtime minimized, and wage rate increases kept down. Aggregate money wages, he felt, would rise first from re-employment and later from increased production and increased man-hours. Tax revenues would increase from the increases in production and employment, without increases in tax rates or the addition of new taxes.

On reaching optimum employment, he proposed a rapid shift from loan to tax financing, and suggested that such loans as are necessary should come from current savings and be so sterilized as not to be available for credit expansion. Punitive taxes, such as severe taxation of personal income surpluses above living costs, selective consumption levies, etc., should be levied to curtail individual consumption, and to prevent individuals from bidding against the government for defense goods and services. Implicit in this philosophy, of course, is price fixing and, eventually

perhaps, rationing. He recognizes the difficulty but does not admit the impossibility of framing excises which would curtail consumption without affecting production. On the part of State and local governments, elimination of all possible construction not directly related to defense would be called for. Most importantly of all, salaries and wages would be kept down, and such increases as were permitted would be sterilized to avoid competition with defense requirements.

It is necessary in preparing for the third stage of our fiscal policy, that the effects of post-war readjustment be anticipated, and that plans be laid for compensating their deflationary tendencies. A backlog of consumer demand and, equally important, of consumer purchasing power, will obviously facilitate the transition to the ways of peace and reduce both its monetary and social costs. Already a great deal of consideration has been given to ways and means for curtailing or avoiding increases in purchasing power now in the hands of private consumers, and of bringing such deferred purchasing and consuming power into action at the time of national readjustment. John Maynard Keynes has proposed a highly ingenious plan for financing the whole cost of the war out of deferred wages, with incidental assistance from the taxing power. Whether the idea of wage deferment on so comprehensive a scale is practicable or not is irrelevant; the essential analysis of the problem is correct. If grave economic dislocation is to be avoided, all levels of government must bend their efforts to the maintaining of activities which, in the present emergency, bring them, or permit private individuals to come, into conflict with the defense program's needs for men and materials. Moreover, consumer demand and consumer purchasing power must be stored up for the future, to be loosed in a planned and purposeful way when defense activities may with safety and propriety be curtailed.

All this is much easier said than done. It would be difficult enough in a unified and totalitarian state, and its realization in a political order dominated by federalism and damned by particularism is a challenge to the highest order of

statesmanship which this emergency can evoke. We did not do it in 1933-36, with the result that many millions of Federal dollars were expended merely in compensating for state and local withdrawal from public works construction, so that the significant effects of pump-priming were not only greatly reduced but unconscionably long delayed. In 1933-36 the cost could be calculated in terms of a billion dollars or so that might have been saved through sooner recovery if we had worked together. In 1941-44 the cost for the same failure may well be calculated in terms of the loss of our national liberty, while reparations and the cost of a German army of occupation would not be inconsequential.

There are many practical difficulties in the way of coordinating state and local financial operations within the framework of what appears to be a fairly accurate outline of federal grand strategy. Most states and localities operate so close to the margin, and on such a hand-to-mouth fiscal basis, that cyclical financial policies except on an extended deficit financing basis are wholly impossible. Moreover, their tax bases are subject to very real geographical, administrative and political limitations. Perhaps the most important single barrier is the general low level of imaginative powers of fiscal officers; indeed, much of the success or failure of our attempts to lead our economy along socially productive channels hinges on the extent to which the vision of public administrators is capable of rising to meet the challenge of our times.

Some things can be done. The most important immediate problem is a clear and agreed statement of our objectives and the articulation of those objectives in terms which can pierce the outer defenses of even congressmen and the Secretary of the Treasury. I suggest a few for discussion:

1. A ceiling on prices - now. This country is drifting dangerously close to more price inflation than sound economic policy can tolerate. The spectacle of a national congress which sidetracks the defense price control bill in order to orate ad nauseam on the subject of daylight saving time is one which makes at least a few of Hitler's arguments very hard to answer.

2. A ceiling on real wages - now. Please note that there is no objection to increasing the future purchasing power of wage earners; increased payments must, in my judgment, be sterilized so that they do not put increased purchasing power in the hands of private citizens until the end of the emergency.

3. A rapid shift to complete tax financing of the defense program. In my judgment we are rapidly approaching the end of the initial defense period, and with it, an end to the time when deficit financing is justifiable. Such additional taxes should aim deliberately at the curtailment of private purchasing power.

4. The institution of a drastic system of compulsory saving and forced loans, not for revenue but to control private purchasing power.

5. Drastic curtailment of payment in cash or other unsterilized form of farm parity and other subsidies not in the nature of subsistence guarantees.

6. Development and implementation of effective machinery for continuing clearance among federal, state and local fiscal agencies which will assist in keeping the tracks clear for Uncle Sam, but which will permit necessary state and local freight to move in the interim.

These, obviously, are policies which the federal government alone can put into operation. In my judgment they are essential to the national defense; although their short-run effects may be restrictive of certain types of state and local action, and may require some considerable planning and perhaps no little hardship at the moment, their more remote effects will be in the interest of sounder and more vital state and local government.

Under Federal leadership, the states and localities must be prepared to take a very enlightened and long-term view of their problems. They must be prepared to surrender many temporary advantages which the defense program has produced, and to defer to a later date many expansions and improvements which now, for the first time in many years, are within their power, at least as long as the defense effort is sustained, to finance from current revenues. Some of the policies which prudence would seem to demand be adopted by state and local authorities on a nation-wide scale are:

1. A virtually complete cessation of all non-defense public works;
2. A stiff policy against wage increases in the public service, which is

a truly heroic undertaking by a government in times of rising revenues;

3. The establishment and protection of large reserves from current surpluses, and the avoidance of expansion in recurrent obligations such as those for maintenance and operation;

4. The extensive use of police and regulatory powers to prevent supply constrictions, so that price controls may be more effectively administered with general public support;

5. The repeal of trade barriers and price maintenance laws;

6. The complete restudy and replanning of taxation and revenue systems, in collaboration with the Federal government, so that swift action in accommodation of tax measures to economic readjustment at the end of the defense effort may be facilitated;

7. The development of a comprehensive reserve of public works and public service projects, and the pre-planning of such projects to facilitate quick starting of actual operations when economic conditions require;

8. The development of facilities for a thorough reappraisal of administrative methods and procedure, administrative organization, and the general fitness of administrative institutions to perform efficiently and economically the large tasks which will fall upon them in the post-defense readjustment.

9. The implementation of facilities for state and local physical and social planning, so that the post-defense program can be devoted to truly productive and socially desirable programs of public works and public services, and leaf-raking and muck-raking minimized.

There are many other lines along which federal, state and local government must develop coordinated policies if the emergency is to be decisively faced, and each of the proposals I have listed is susceptible to almost limitless embroidering and embellishment. I will not take the time of this audience in exploring the nooks and crannies of the highways and by-ways we have encountered. Certainly, it is clear that cooperation and unified action demanding a high order of administrative skill and integrity at all levels of government is demanded in full and unstinted measure. The time has come to forget about states' rights and local autonomy, and to remember states' duties and local responsibilities. The defense of the Anglo-American way of doing things, and the maintenance of the Americas for those who love liberty and respect the dignity of man are of vastly greater importance than the preservation of existing patterns of political power in Raleigh, or Richmond, or anywhere else.

- 7 -

The challenge of our generation is to the imagination of those to whom the management of our federal, state and local governments are entrusted. Let those of us called on to serve obscurely in the rear ranks of the public service take care that our trust is not betrayed in this emergency by small vision, by small thoughts, or by small actions.

AUG 6 1941

My dear Mr. Chairman:

I propose, subject to your continuing approval, as provided in the Executive Order establishing the Economic Defense Board, to designate Mr. Harry D. White, Assistant to the Secretary, as my alternate on the Board.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

*Phone conversation
with Wallace 8/13/41*

Honorable Henry C. Wallace,
Chairman, Economic Defense Board,
Washington, D. C.

Copy to Mr. Thompson

WHT:dm

AUG 5 1944

My dear Mr. President:

Replying to your letter of July 30, I shall be glad to serve on the Economic Defense Board and to render all possible assistance and cooperation in facilitating the work of the Board.

Faithfully yours,

[Signed] H. Morgenthau, Jr.

CC - to Mr. Thompson

The President,
The White House.

By Messenger 3:45
8/5/44
Langley

WWT:dm

THE WHITE HOUSE
WASHINGTON

July 30, 1941

My dear Mr. Secretary:

In order to assure effective coordination of our economic defense efforts, I have today established an Economic Defense Board under the Chairmanship of Vice President Wallace. The Treasury Department is to be represented on the Board by you or your designated representative. A copy of the Executive Order establishing this agency is attached.

I anticipate that the Board will prove to be an effective means of unifying and strengthening our economic defense plans and policies. I shall be grateful for the full assistance and cooperation of your Department in facilitating the work undertaken by the Board.

Very sincerely yours,



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

Enclosure.

EXECUTIVE ORDER

ESTABLISHING THE ECONOMIC DEFENSE BOARD

By virtue of the authority vested in me by the Constitution and statutes of the United States, by virtue of the existence of an unlimited national emergency, and for the purpose of developing and coordinating policies, plans, and programs designed to protect and strengthen the international economic relations of the United States in the interest of national defense, it is hereby ordered as follows:

1. The term "economic defense," whenever used in this Order, means the conduct, in the interest of national defense, of international economic activities including those relating to exports, imports, the acquisition and disposition of materials and commodities from foreign countries including preclusive buying, transactions in foreign exchange and foreign-owned or foreign-controlled property, international investments and extensions of credit, shipping and transportation of goods among countries, the international aspects of patents, international communications pertaining to commerce, and other foreign economic matters.

2. There is hereby established an Economic Defense Board (hereinafter referred to as the "Board"). The Board shall consist of the Vice President of the United States, who shall serve as Chairman, the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Attorney General, the Secretary of the Navy, the Secretary of Agriculture, and the Secretary of Commerce. The Chairman may, with the approval of the President, appoint additional members to the Board. Each member of the Board, other than the Chairman, may designate an alternate from among the officials of his Department, subject to the continuing approval of the Chairman, and such alternate may act for such member in all matters relating to the Board.

3. In furtherance of such policies and objectives as the President may from time to time determine, the Board shall perform the following functions and duties:

- a. Advise the President as to economic defense measures to be taken or functions to be performed which are essential to the effective defense of the Nation.
- b. Coordinate the policies and actions of the several departments and agencies carrying on activities relating to economic defense in order to assure unity and balance in the application of such measures.
- c. Develop integrated economic defense plans and programs for coordinated action by the departments and agencies concerned and use all appropriate means to assure that such plans and programs are carried into effect by such departments and agencies.
- d. Make investigations and advise the President on the relationship of economic defense (as defined in paragraph 1) measures to post-war economic reconstruction and on the steps to be taken to protect the trade position of the United States and to expedite the establishment of sound, peace-time international economic relationships.

- 2 -

- e. Review proposed or existing legislation relating to or affecting economic defense and, with the approval of the President, recommend such additional legislation as may be necessary or desirable.

4. The administration of the various activities relating to economic defense shall remain with the several departments and agencies now charged with such duties but such administration shall conform to the policies formulated or approved by the Board.

5. In the study of problems and in the formulation of programs, it shall be the policy of the Board to collaborate with existing departments and agencies which perform functions and activities pertaining to economic defense and to utilize their services and facilities to the maximum. Such departments and agencies shall cooperate with the Board in clearing proposed policies and measures involving economic defense considerations and shall supply such information and data as the Board may require in performing its functions. The Board may arrange for the establishment of committees or groups of advisers, representing two or more departments and agencies as the case may require, to study and develop economic defense plans and programs in respect to particular commodities or services, geographical areas, types of measures that might be exercised, and other related matters.

6. To facilitate unity of action and the maximum use of existing services and facilities, each of the following departments and agencies, in addition to the departments and agencies represented on the Board, shall designate a responsible officer or officers, subject to the approval of the Chairman, to represent the department or agency in its continuing relationships with the Board: The Departments of the Post Office, the Interior, and Labor, the Federal Loan Agency, the United States Maritime Commission, the United States Tariff Commission, the Federal Trade Commission, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, the National Resources Planning Board, the Defense Communications Board, the Office of Production Management, the Office of Price Administration and Civilian Supply, the Office for Coordination of Commercial and Cultural Relations Between the American Republics, the Permanent Joint Board on Defense, the Administrator of Export Control, the Division of Defense Aid Reports, the Coordinator of Information, and such additional departments and agencies as the Chairman may from time to time determine. The Chairman shall provide for the systematic conduct of business with the foregoing departments and agencies.

7. The Chairman is authorized to make all necessary arrangements, with the advice and assistance of the Board, for discharging and performing the responsibilities and duties required to carry out the functions and authorities set forth in this Order, and to make final decisions when necessary to expedite the work of the Board. He is further authorized, within the limits of such funds as may be allocated to the Board by the President, to employ necessary personnel and make provision for the necessary supplies, facilities, and services. The Chairman may, with the approval of the President, appoint an executive officer.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

July 30, 1941.

Regraded Unclassified

8/6/41-
FROM: MR. GASTON'S OFFICE

TO: The Secretary

The V-126, a Douglas amphibian piloted by Stonerock, enlisted pilot, and with a crew of two, is unreported since 10 a.m., Pacific time (1 p.m. EST). She was cruising west of the Farallones, off San Francisco, when last reported. Coast Guard boats and planes and two squadrons of Navy planes are searching.

August 6, 1941

Files

Mr. Cochran

After talking with Mr. Bell, and after raising the question at the Foreign Funds Control meeting yesterday afternoon, I telephoned Mr. Lacour-Suyet, Acting Financial Counselor to the French Embassy, in New York, this morning. I referred to his inquiry as to how the Treasury Department would feel toward the Bank of France investing in Treasury bills up to \$200,000,000 of dollar funds which the Bank of France now has on deposit with the Federal Reserve Bank.

I told Mr. Lacour-Suyet that Mr. Bell preferred that Mr. Lacour-Suyet take his own decision on this subject, and indicating that the Treasury desired to interpose no objection. Likewise Foreign Funds Control interposed no objection. I told Mr. Lacour-Suyet that he should get in touch with Mr. Robert House, the Vice President of the Federal Reserve Bank of New York in charge of Government security and open market operations.



HMC:lad-S/6/41

August 6, 1941

Files

Mr. Cochran

Immediately following the meeting with the British held in the Secretary's office yesterday afternoon at 3 o'clock, Messrs. Phillips and Bewley stepped in Under Secretary Bell's office for a few minutes to talk with Messrs. Bell and Cochran.

With reference to the information which Mr. Bewley had given Mr. Cochran on August 2, 1941, and particularly that set out in Mr. Eden's cablegram of July 25 to Viscount Halifax, which message was attached to Mr. Cochran's memorandum of August 2, it was agreed that Mr. Cochran should consult the Foreign Funds Control Committee with respect to liaison with the Chinese Government on exchange control.

At the 4:30 meeting in Mr. Foley's office Mr. Cochran reported the information which the British had submitted and also the conversation with Messrs. Phillips and Bewley. It was agreed that no immediate decision should be taken as to whether the United States would welcome the idea of a representative of the Chinese Exchange Control Committee coming to Washington to act as liaison with our Foreign Funds Control. It was thought advisable to watch developments a while longer, and particularly to await reports from Mr. Fox, in China, and the arrival of Sir Otto Niemeyer en route from London to Chungking. Mr. Cochran told the Committee that Niemeyer was now en route and should be in Washington next week. Dr. White reported concerning his conversations with Dr. Soong. The question is definitely before us as to whether advice on Chinese freezing questions should be obtained directly from the Chinese Embassy, or from Dr. Soong, or from some representative whom the Chinese Ministry of Finance might send here in the name of the Chinese Exchange Control.

This morning I received from Mr. Bewley, Financial Counselor of the British Embassy, the attached letter and its enclosures, concerning the Chinese freezing problem.

At 10:30 this morning I telephoned Sir Frederick Phillips, referring to our conversation of yesterday, and to Mr. Bewley's letter and enclosures. Sir Frederick agreed that there was no urgency in our indicating the American position with respect to liaison with the Chinese Central Exchange Committee, particularly in view of the third paragraph of the attached message from Chungking to London, dated August 2, 1941.

ENC:lap-8/6/41

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THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 680
Benjamin Franklin Station
Washington, D. C.

5th August, 1941.

My dear Cochran,

I enclose the gist of three telegrams from
London about the Chinese freezing problem.

No doubt you will keep us informed of anything
which would be of interest to us.

Yours sincerely,

/s/ T. E. Bowley

(T.E. Bowley)

E. Merle Cochran, Esq.,
United States Treasury,
Washington, D.C.

COPY:NEW 8/6/41

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My two immediately following telegrams contain text of
telegram communicated to us by Chinese /Embassy/.

We have told F.W.Hsu

1) that the suggestion that United States Government
have unfrozen assets of no Chinese Bank except Central Bank
does not agree with our information and should be verified
through Chinese Embassy in Washington.

2) that we think delegation of powers necessary as
working of exchange control system would be impossible with
bottle neck apparently contemplated by Hsu.

COPY:MEM 8/6/41

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Telegram to Dr. H. H. Kung from Dr. P. V. Kuo dated July 29th.

Begin.

Freeing of Chinese assets.

Exemption will be given forthwith to sterling accounts of four Chinese Government Banks and any account of National Government or of its organs or agencies e.g. Chinese Government Purchasing Commission, Chinese Embassy etc.

2. What other Chinese accounts (e.g.) of non-Government Banks) would Chinese Government wish to be unblocked?

Does Chinese Government contemplate setting up at once some exchange control organ which will assist United Kingdom Treasury and Bank of England in administering this procedure? Would it not be an advantage to delegate liaison between Chinese British Exchange Control to some appointed person in China on British side? It is suggested that a Central Exchange Committee should delegate authority to financial representatives in say London, Washington, Rangoon and Singapore.

4. Will Chinese Government (through its banks) fix and announce rates for Chinese National dollar against sterling and United States dollars as soon as possible? Rates chosen should correspond closely to current market rates adjusted to most official sterling dollar rate of 4.3.

Ends.

COPI:KWW 8/6/41

B
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Telegram from Dr. H. H. Kung to Chinese Embassy, London,
dated August 2nd.

Begin.

Referring to your cablegram of July 29th, I reply as
follows.

I concur but desire only Central Bank of China be given
the power of unfreezing blocked accounts in line with action
taken by the United States.

2. No other Chinese accounts to be unblocked.
3. Chinese Government will enlarge the scope of existing
Central Exchange Committee appointed by and under Ministry of
Finance and operations /in/ conjunction with Central Bank of
China. Glad of co-operation of British Treasury and Bank of
England to desired end. /United States/ have representatives
and liaison officers abroad and China respectively.
4. Am referring the question to Chinese Currency Board for
consultation.

Ends.

COPY:HEW 8/6/41

COPY

TELEGRAM RECEIVED

FROM: CHUNGKING via N.R.

DATED: August 6, 1941

Rec'd: 12:42 p.m. 7th

Secretary of State,
Washington.

338, August 6.

FOLLOWING FROM FOX FOR SECRETARY OF TREASURY.

In further connection with telegram No. 332 August 5, have discovered we have available also general licenses number 32 and 33 as amended February 1, 1941.

GAUSS

ALC

PARAPHRASE

A pertinent portion of a telegram (no. 334) of August 6, 1941 from the American Ambassador at Chungking reads substantially as follows:

Although the outlook at present for crops is favorable in unoccupied China only reopened access to supplies in other markets or bumper crops would solve the problem of food which, as is the case with most other commodities, is merely a question of not enough goods to meet the requirements. Although there was a slight drop in price of rice, there was during the month a general rise in the price level. Inflation brought about by heavy currency issues to meet the large deficit of the Government is still a matter of serious concern and experienced observers of economic and political trends in China have little confidence that in the near future there may be expected any substantial improvement in the situation although it is reported that measures of internal fiscal reform are being instituted. As various interests, including American Leaf Tobacco, were concerned on account of reports of proposed tobacco and other monopolies, the Embassy inquired informally but unofficially in regard to the matter and was informed that the proposals are still being studied. The American Ambassador took occasion to emphasize our Government's disapprobation of monopolies of restrictive nature.

- 2 -

The difficulties in the way of improving, organizing and controlling traffic over the Burma Road, which are political as well as administrative and technical, are still causing a great deal of concern. Dr. Baker visited Chungking, talked with various Chinese officials including General Chiang Kai-shek and obtained a promise of continued support. The Embassy is of the opinion, however, that it is likely that in order to make substantial progress and make certain the efficient organization and maintenance of the Burma Road as the only remaining line of supply to China the measures recommended by Dr. Baker and traffic experts will have to be enforced as military measures by competent military authority having broad powers to override special vested interests and provincial authorities. Conditions on the Burma Road are now being studied by Arnstein and his party, who visited Chungking about the middle of July. Mr. Owen Lattimore arrived in Chungking to take over his duties as adviser to General Chiang Kai-shek.

C&K:copied 8/13/41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai, China
TO: Secretary of State, Washington
DATED: August 6, 1941, 9 a.m.
NO.: 1020

STRICTLY CONFIDENTIAL

The New York head offices of American banks here instructed those banks to consult this Consulate General before dealing with firms which might be suspected, in connection with the freezing order. It was apparently assumed by those banks that the Department already had or was preparing a list of firms in China to whom licenses ordinarily would not be granted. The list requested in the Department's circular telegram of July 24, 5 p.m. is being prepared and will soon be forwarded.

LOCKHART

eh:copy
8-21-41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Hong Kong, China.
via H.K.

DATE: August 6, 1941, 4 p.m.

NO.: 235

New foreign trade commitments are practically at a standstill as a result from the recent freezing orders and the placement of Hong Kong in the sterling bloc. The American banks in Hong Kong are cooperating. However, because of conflicting telegrams from their head offices, they are somewhat hampered. Uncertainty and confusion exist in financial circles. This is accentuated by the slowness in arrival of official orders from London.

Fairly large sums have been withdrawn from local bank accounts by the Chinese. However, no panic exists.

A copy of Executive Order No. 8389, as amended by Nos. 8785 and 8832, plus copies of general licenses Nos. 54 to 60 inclusive issued thereunder, have been received from Fox who is in Chungking. At his suggestion, copies have been supplied to the local American banks. Copies have also been sent to only two Chinese Government banks.

The attitude which the business community always takes in regard to the situation is that it will be clarified in a fortnight or so just as it has become resigned to the prospective curtailment of trade with Hong Kong because of the latter's inclusion in the sterling area.

Another confusing factor is the existence of the British member of the Chinese Currency Stabilization Board
even though

-2-

even though it is understood that notice of temporary appointment has been received unofficially by Hall-Patch.

This message was sent to the Department for its information and repeated to Peiping and Chungking.

BRUINS

KAI PAE

840.51/2911

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RECEIVED 15 MAR 1942

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WashingtonIn reply refer to
EA 840.51 Frozen Credits/2854

August 6, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses six copies of a paraphrase of telegram No. 199, dated August 2, 1941, from the American Embassy at Peiping, China, in regard to travel permits for Americans in North China and the attitude of the Japanese with respect to the freezing regulations.

Enclosure:

From Embassy, Peiping,
No. 199, August 2, 1941.
(Six copies.)

Copy:lg 8/6/41

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Peiping, China

DATE: August 2, 1941, 5 a.m.

NO.: 199

Today a spokesman of the Japanese Embassy here told the press that if the travel permits for Americans in North China had been held up it was due to a misunderstanding by the authorities of Japan. He further said that such a misunderstanding was being corrected by the issuance of new instructions.

According to reliable information which I have received, a delegation from the Hsinmin Hui--Chinese political party in North China sponsored by Japanese--recently asked a Japanese authority what attitude they should assume toward Americans as a result of the United States freezing regulations. In particular, they asked whether they should assume a hostile attitude. They were informed by the Japanese that they should not, by any means, assume a hostile attitude at present toward Americans.

All members of the staff here, as well as American businessmen with whom we have talked, are of the opinion that in spite of the official Japanese protestations which emanate from Tokyo the Japanese were not prepared for the action which was taken by the United States Government in regard to the freezing of Japanese assets. As a matter of fact, the Japanese were taken by surprise. They were and still are, to a large extent, undecided as to the extent of the counter measures and the manner of applying and enforcing such measures.

- 2 -

This telegram was sent to the Department; repeated to Shanghai and Chungking. The code text was sent to Tokyo by air mail sack.

BUTRICK

EA:PAK

Copy:lg 8/6/41