

PARAPHRASE OF TELEGRAM RECEIVED

201

FROM: American Embassy, Panamá, Panama.

DATE: August 8, 1941, 4 p.m.

NO. 1 217.

Referring to telegram No. 171 sent by the Department 10 p.m. on the 5th of August.

Today the secretary of the Finance Ministry showed to Muccio a telegram received from the consular agent of Panama in Port Arthur, Texas. This telegram requested the confirmation of this instruction which was relayed from Madrid which authorized the cancellation of the Panamanian registry of the Santa Helena; and, further, the telegram states that the old master of the vessel declined to remain in charge since he had not received instructions from the new or old owners, and until such time as the claims against the ship have been cleared the new master has declined to assume his responsibilities. This confirmation has not yet been sent by the Finance Ministry. The Embassy is going to confer with a local representative of the former owner and the results of the conversation will be sent to the Department by telegraph.

WILSON

WVC

819.852/48

EA:VCL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 6, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£43,000
Purchased from commercial concerns	£ 6,000

Open market sterling was quoted at 4.03-3/4, and there were no reported transactions.

In a small market the discount for the Canadian dollar again improved. At the opening today it was quoted at 11% discount, and at the close the rate was 10-7/8% discount.

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

Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Uruguayan peso (free)	.4380
Colombian peso	.5800
Mexican peso	.2070
Cuban peso	1-1/16% discount

In Shanghai, the yuan was off 1/16¢ at 5-3/32¢. Sterling declined 3/4¢ to 4.01-1/4.

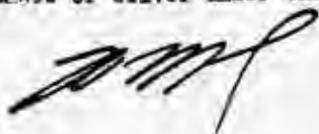
There were no gold transactions consummated by us today.

No new gold engagements were reported.

The London fixing prices for spot and forward silver were both up 1/16d at 23-7/16d. The U.S. equivalent of this price is 42.55¢.

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

There were no purchases of silver under the Silver Purchase Act.



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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, August 6, 1941

TENTATIVE LESSONS BULLETIN
No. 141
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

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GERMAN MOUNTAIN TROOPS ATTACK
METAXAS LINE

SOURCE

This bulletin is based upon a report submitted on May 31, 1941, by an American official observer in Berlin. Included in the report was a translation of an article which appeared May 7, 1941, in Die Wehrmacht, an official German magazine.

Intended propagandistic effects should not be overlooked.

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GERMAN MOUNTAIN TROOPS ATTACK METAXAS LINE

1. GENERAL

It is thought that there are at least seven mountain divisions in the German Army; some estimates go as high as twelve, but only seven such divisions have been identified.

These divisions are organized, equipped, and trained for the terrain in which they are to operate. For instance, the equipment, training, and even the organization of the mountain divisions in Norway differed in many respects from that of the divisions that operated recently in the Balkans.

The personnel of all mountain divisions is recruited largely from the mountainous districts of Germany. Occasionally entire divisions are composed of men from one relatively small area. A sound heart and lungs, and a knowledge of mountain climbing and skiing are among the requirements for service in these divisions.

The details of training, organization, and equipment are unknown.

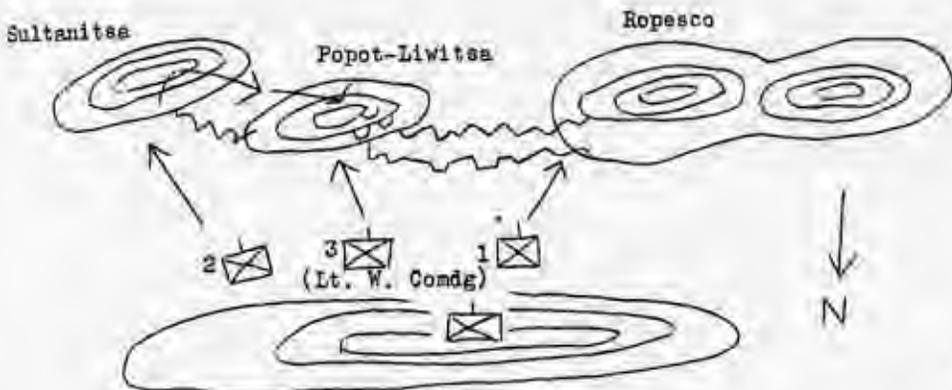
It is believed that the self-sustaining infantry combat unit in the mountain division is the battalion rather than the regiment. Since they are not likely to encounter tanks on the terrain over which they operate, mountain divisions have no antitank units. Ordinarily they are provided with pack animals and equipment to carry their ammunition, food, baggage, and heavy arms - mortars, light artillery, and machine guns. However, it is known that some mountain divisions at least are provided with a liberal amount of motor transportation, including wheel-track carriers for light artillery, and possibly for mortars and ammunition. Photographs have been published of mountain divisions transporting their pack animals by truck, but this may not have been organic transportation.

In addition to the normal means of communication, mountain units still make liberal use of the signal lamp.

Individual equipment includes such special items as mountain climbing shoes, snow shoes, pickaxes, climbing ropes, and white snow shirts.

The training of these units is basically infantry, supplemented by pioneer training in overcoming difficult mountainous terrain. The troops must be prepared to fight in high altitudes, in deep valleys, in narrow mountain passes, in snow or on glaciers; this is generally characterized as shock troop, close range, fighting.

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RESTRICTED2. THE ATTACK

The above sketch is drawn to illustrate the general action of the battalion whose operations are outlined in the following paragraphs.

a. April 6

It was just past midnight. An icy wind swept over the bare beech slopes and into our small hut. Despite the fire inside, with its dense smoke, it was too cold to sleep. Outside, the hollow footsteps of the sentinels resounded and then faded into deathly silence, only to return a little later. Cautiously, we stepped from the hut into the darkness of the night. The white crest of the Kongur stood out against the clear, starlit sky. Across no-man's-land, where the Greek sentinels were posted, we heard the furious barking of watch dogs.

A strange feeling came over us; in only five hours the roar of our artillery would break the stillness of these mountains and we would move out for the attack. Our mission was to open the Rupel Pass from the flank and with it the main route to Saloniki. In order to accomplish this mission, we had to break through the Metaxas Line, whose bunkers in this area were as high as 6,500 feet above sea level. There are no historical examples of combat at such altitudes against cunningly

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installed fortifications.

With watch in hand, we awaited the daylight. At H-hour hell broke loose; the valley was filled with smoke from the constant artillery fire; the rocks trembled; hostile bunkers were obscured by gigantic fountains of earth, stones and smoke. Just as abruptly as the jaws of hell were opened, they were closed again. A deathly stillness fell over the terrain; lonely blackbirds unconcernedly whistling their greetings to the new day gave the only sound.

We held our breath and listened. Suddenly the song of the blackbirds were drowned by a strange buzzing undertone, as if countless hornets were approaching in disorderly flight. The buzzing became a metallic roar, an ominous rumble of motors - dive-bombing planes. While the planes dived toward mountain sides studded with bunkers, we advanced on narrow paths in the deep snow to the command post of the 1st Battalion where telephone lines led out to the company command posts. Soon, the first reports on the progress of the attack came in over the wires.

The 3rd Company had occupied a Greek frontier house after short resistance and was advancing to Popot-Liwitza. The 1st Company had penetrated into the Greek front line trench and had overpowered the resisting enemy - the artillery observer with this company was severely wounded.

The steep, rocky crest which formed the frontier between Bulgaria and Greece, towered over us. From that crest, the terrain sloped steeply to the south. The snow-covered saddle of Ropesco was on our right; the summit of Popot-Liwitza was quite near at hand on our left. At the designated hour, after artillery and dive-bombing attacks, the mountain chasseurs climbed the steep slopes of the deep chasm in front of Popot-Liwitza, from whose sides infantry and machine gun fire resounded throughout the mountains, filling them with a continual uproar.

The bunkers on the northwestern slope of Popot-Liwitza could be seen clearly through the scissors telescope. The slope was covered with numerous deep craters left by the dive-bombing and artillery attacks, but the Greeks never wavered. Behind their thick concrete walls they patiently withstood the devastating German fire and returned to their guns at the bunker loopholes to repulse the attack of the chasseurs. Our heavy anti-aircraft or bunker guns would have smashed this resistance quickly, but none of those weapons which had broken through the Maginot Line, the Dyle and the Grebbe Lines, and the Weygand Line, could be brought up here. Mortars and mountain guns, which had been carried up by mules on paths dug out of the snow for this special purpose, were the only heavy weapons assisting the mountain chasseurs; aside from these, they had to rely on themselves.

Covered by the fire of many machine guns, we sprang across to

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the Greek frontier guard.

At dusk there were serious faces at the battalion command post - the enemy was resisting tenaciously.

The 1st Company reported that even in their trenches the wounded Greeks, lying on the ground, still lunged with their bayonets. The company had cleaned out the trench, but only at the cost of many killed and wounded among its ranks.

The 3rd Company reported that one platoon was in contact with the first bunker, but that the concrete in the bunker was so strong that attempts to blow it up had not been successful.

Similar reports were received from the other elements of the regiment.

The battalion adjutant remained constantly at the telephone all through the night.

b. April 7

Stormy wind drove ragged clouds across the mountains. Rain, mingled with snow, limited all visibility. Occasionally the glistening wet rocks of Mount Ropesco could be seen through rents in the clouds. We were all wet to the skin; shivering with cold and with chattering teeth, we lay in the holes we had dug in the snow. The enemy was still resisting. A Greek counterattack at Popot-Liwitsa against one of our machine gun nests was repulsed. The Greeks rushed forward from the right and left down the mountain toward one of our gunners. He fired one belt of ammunition at them, but his gun jammed and he had to withdraw. A Greek soldier jumped at him and a wrestling match began. They both tumbled and rolled down the mountainside before the machine gunner finally broke loose and overcame the Greek.

Stretcher bearers, wading knee-deep in mud and snow, twice in 24 hours descended from the front line to Petrisch, carrying wounded. Several of the bearers collapsed.

The ration details, under constant hostile fire, climbed through a deep chasm to bring food to their comrades at the front.

From the battalion command post to the foremost platoon at Popot-Liwitsa was a six-hour journey for the messengers.

The mule loaders tirelessly ascended and descended the mountain with their columns in order to supply the excessive demands for ammunition. For two days they had no time out to eat and sleep.

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About noon, a favorable message came through; the adjacent battalion had captured Istibil, where all bunkers are connected by underground tunnels, and where barracks, supply depots, and other installations are built into the rocks.

The 2nd Company attacked the Sultanitea range. After reaching the summit it worked its way to the top of Popot-Liwitsa, approaching it from the rear. At the foot of the mountain Lieutenant W, with his 3rd Company, tenaciously continued his attempts to open the lowest bunkers with explosives, or to force them to capitulate with flame throwers. In this manner the bunkers along the western end of Popot-Liwitsa were approached from two sides, on the one side by the 2nd and on the other by the 3rd Company.

c. April 8

Last night was unbearable; heavy snow turned into rain, and a piercing wind blew incessantly. Because the chasseurs had no opportunity to change their water-soaked clothes, some cases of freezing occurred in the 1st Company at Popesco.

Communication with Lieutenant W had been broken since last night. I accompanied our signal troops, which had been sent out to repair the lines. The wind drove screens of clouds over the mountains, a factor which was in our favor because the enemy generally was forced to scatter his machine gun fire indiscriminately. The nearer we approached Popot-Liwitsa, the more frequently the machine gun bursts whistled over our heads. Our route led steeply upward. Every loose stone was avoided, every noise shunned. The rocks were slippery from rain; damp clouds silently passed by. We worked our way on all fours. The wire man with his spool on his back followed directly behind the leader. Suddenly, the vertical side wall of a bunker loomed before us in the mist. A Greek machine gun a few yards away fired constantly on the assumed but invisible attacker. Yard by yard, we pushed forward from below, toward the bunker.

Just as we were crawling around the bunker, the cloud cover disappeared, and we had to hide under and behind the rocks. We feared that our steel helmets, wet from the rain, would betray our presence and afford a target for the flanking bunker which was firing at irregular intervals. But the cloud cover closed again as suddenly as it had opened, and quickly we passed that dangerous place and reached our comrades who had signaled the correct route to us.

Above us, on a narrow rocky path about 100 yards long, were 50 chasseurs who had been covering there for 48 hours, exposed from above, beneath, right and left, to furious close-range machine gun fire whenever a steel helmet appeared. They had spent two icy nights on the bare

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rocks with only their shelter tents for cover and with no warm food - only some bread and some canned meat. Shivering with cold, they lay or stood with weapons ready to repulse an enemy counterattack, and stared with sunken and burning eyes into the thick, rainladen mist.

While we were speaking to the company commander, we heard something roll down the slope. Not until it was a few yards away on our path did we realize that what we heard was an egg-grenade. It exploded before we had time even to take cover. The lieutenant heaved a German hand grenade in return.

A new blasting operation had been planned to finish the bunker. Under cover of fog, the explosive charge was installed on the upper side. The chasseurs, huddling close together, bugged the rocks. Even the fuzes had to be withdrawn from their weapons during the explosion, which shattered the rock, but did not break through the concrete. We had to wait to see if the pioneers who were attacking from the top of the mountain would be more successful with their heavier charges. En route from the summit of Popot-Liwitsa, they had already opened several bunkers and had taken some prisoners. Reconnaissance patrols, starting from this area, had crossed the Sultanitsa and reached the valley near Neon-Patriatsi without resistance. In the evening, the pioneer detachment under Sergeant Major K., coming down from the summit, joined with the chasseurs at the base of Popot-Liwitsa, and short work was made of the Greeks. The entrance tunnel to the bunker was blocked, and shortly thereafter, at 7:00 P.M., the garrison hoisted a white flag and came out trembling with fear.

d. April 9

Within the battalion's zone, the Ropesco alone was still resisting. The battalion command post had been removed to Vironja in The Struma Valley, where a soft spring rain was falling.

Word of the capitulation of the Saloniki army spread like lightning in our ranks. Upon receipt of this news, officers with a truce flag invited the Ropesco garrison to surrender under honorable conditions, and the battalion commander immediately sent a messenger detail to the 1st Company.

At first with mules, then on foot, we started up the 5500 foot mountain again and continued until we reached its snow line.

e. April 10

When we brought the Saloniki victory message to the 1st Company, the Ropesco was again covered with dense clouds which did not lift until about noon. A snow shirt was hoisted as a flag of truce. Flare

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after flare was sent up, but no enemy movement could be observed. A reconnaissance patrol, preceded by the truce flag, marched straight ahead to the Greek positions. Nobody fired, nobody came out of the bunker; it was empty. The enemy had cleared out during the night, leaving his dead in the trenches. We learned from papers found, that the finest Greek regiment had been employed here and at Popot-Liwitsa. It had been withdrawn from the Albanian front to meet the expected German attack.

The 1st Company began to move down into the valley, forgetting all hardships in singing and yodeling. For the first time in four days they would be served a warm meal, and they probably would be given figs and currants from the Greek food stores for dessert.

3. COMMENT

a. The second section of this bulletin was written by one of the modern German war correspondents, a member of that group of German newspaper, motion picture, and radio experts who are employed in the Propaganda Companies. These men who report combat action have all received basic military training to familiarize them with all arms. They are organized into these companies under military control, and they may be assigned to assault units in the air or on the ground.

b. The attack described is characterized by a selection of points of attack, and assignment of forces thereto; a plan for cooperation and coordination between attacking elements; prior reconnaissance and preparation of supply routes or paths; prior reconnaissance and preparation of contemplated routes forward toward the hostile position as far as hostile fire and observation permit; installation of communication agencies and plans for their sustained operation during the attack.

According to the narrative, the sequence of action in the attack against mountain bunkers is, in general, as follows:

- (1) Intense artillery fire;
- (2) Attack by dive-bombing planes, especially against those positions defiladed from artillery fire;
- (3) Attack by infantry - especially on relatively unprotected bunker-supporting troops - covered by all available machine guns, mule-packed mortars, and light mountain artillery. No heavy antiaircraft or other heavy guns for use against bunkers were transported up to these heights over this terrain;
- (4) Attack on bunkers by specially equipped and trained pioneer groups, supported by fire from assaulting infantry. No mention is

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made of any attempt to launch a mass attack against a fortified position on the contrary, as one company reported, one platoon at a time was in contact with a single bunker.

c. It should be noted that an artillery observer accompanied one rifle company; the implication is that one such observer accompanied each of the other rifle companies.

d. Each company was assigned to attack a separate defensive position and apparently each company was accompanied by a pioneer group equipped with flame throwers and special explosive to deal with bunkers and other prepared positions if necessary.

e. The rigorous climate and rugged terrain encountered by the German mountain troops in this area indicate the necessity for specially equipped organizations composed of hardy, selected personnel, accustomed to mountain climbing and trained for combat under hardships imposed by mountainous conditions. Small units or even individuals may become isolated for days at a time, and they must be prepared by training and equipment to defend themselves against hunger, thirst, and the elements, as well as against the enemy.

f. Rapidly changing weather conditions, especially fog, snow, rain, and ice, should be considered when planning combat operations, either attack or defense, in mountainous terrain.

g. Communication is especially difficult in mountain fighting, but it must be maintained to insure the success of the mission. The Germans made no specific reference to radio communication between the battalion and the companies. The use of wire for such communication may have been due to lack of radio and other materiel, or to the technical inadequacy of the materiel on hand.

h. Supply is another difficult problem in mountain warfare where rail and motor routes are usually inadequate or entirely lacking. Air might be used to supplement, and at times replace, rail and motor supply to battalion and higher units. The Germans in this operation used pack transportation to supply units within the battalion. To insure any supply method, control of the air is essential.

i. It must be remembered that the greatest success in the attack on the bunkers was attained by that pioneer group which worked its way to the summit of Popot-Liwitsa from the rear and then operated against the bunkers from the top side while the bunker garrisons were busy engaging a company approaching them from a valley below.

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G-2/2667-220; No. 460 M.I.D., W.D. 12:00 N., August 6, 1941

SITUATION REPORTI. Eastern Theater.

Ground: The organization of the command of the Axis armies on the eastern front on August 6th appears to be as follows:

1. Army Group, Finland: German Army Group, General Oberst von Falkenhoret; Finnish Army, General Field Marshal Mannerheim.
2. "Leningrad" Army Group, General Field Marshal Ritter von Leeb: 18th Army, General Oberst Kuchler; (Estonia) 16th Army, General Oberst Busch; (Luga Front) Panzer Group, General Hoepfner.
3. "Moscow" Army Group, General Field Marshal von Bock: 9th Army, General Oberst Strauss; 4th Army, General Field Marshal Kluge; 13th Army (?), General Oberst von Weiche; Panzer Group, General Oberst Hoth; Panzer Group, General Oberst Guderian.
4. "Ukraine" Army Group, General Field Marshal von Rundstedt: 6th Army, General Field Marshal von Reichenau; 17th Army, General of Infantry von Stulpnagel; Hungarian Army; Slovak Contingent; Panzer Group, General Oberst von Kleist.
5. "Bessarabia" Army Group, Antonescu: German Moldavia Army, General von Schobert (Middle Dniester); 3rd Roumanian Army (?) (Lower Dniester).

German troops continue to advance southeastward in the lower Ukraine in the regions of Kirovo and Perwomajsk.

Novo Ukrainka and Lisaja-Gora were taken by Axis troops on August 2nd.

Air: Further bombing of Moscow was reported.

II. Western Theater.

Air: British night attacks were made on Mannheim, Frankfurt and Karlsruhe with a loss of nine bombers.

III. Mediterranean Theater.

Ground: No activity.

Air: Bombings by the British of Derna and Benghazi and by the Axis of Tobruk.

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Paraphrase of Code Cablegram
Received at the War Department
at 12:07, August 6, 1941.

London, filed 19:20, August 6, 1941.

1. British Air Activity over the Continent.

a. Day of August 5. Elmhain bombers were dispatched as follows: 8 to attack shipping off the Frisian Islands, 8 to attack the St. Omer airbase and 8 to attack shipping in the Schelde. The results of these raids were not reported. A total of 270 fighters were employed as follows: 108 on interception missions, 177 in the protection of shipping, 48 on special missions and 26 on offensive patrols.

b. Night of August 5-6. A total of 284 bombers were dispatched as follows: 97 to Karlsruhe, 98 to Mannheim, 68 to Frankfurt, 18 to Aachen, and 8 to Neuloges. Industrial areas and railway facilities were the objectives in all of these raids, which were considered successful, primary objectives being attacked by a majority of the aircraft sent out.

2. German Air Activity over Britain.

a. Day of August 4. 15 reconnaissance aircraft and 15 long range bombers were employed.

b. Night of August 4-5. No activity.

c. Day of August 5. Defense patrols were maintained and one reconnaissance carried out. Four aircraft flew over the coast near Plymouth and over Yorkshire.

d. Night of August 5-6. Scattered activity on a small scale occurred off the Tyne, the Humber and East Anglia.

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5. Albany James Bombers.

a. British James. During the day of August 5, one Spitfire and pilot were lost. Bomber James for the night of August 4-5 were as follows: 3 in the Kumbakon raid, 3 in the Kurlamban raid, 4 in the raid on Frankfurt, and 3 in the Aachen raid.

b. Axis James. On August 5, one Ju-88 and 1 He-109 were shot down.

4. British Air Lifter, Other Bombers.

a. Ballisterson Bomber. Most hits were obtained on buildings and two large motor vessels during the day of August 3 in an attack on the harbor at Tripoli by Royal Air Force planes from Malta. Blipping off Cape Ron was successfully obtained on August 5.

5. Axis Air Lifter, Other Bombers.

a. Walla Bomber Bomber. During the night of August 2-3, Axis aircraft attacked ports. On Koron Harbour, 40 bombs were dropped, causing no casualties and only slight damage to property. An attack on Yereh held back plane the night of August 2-3. About 80 civilian casualties occurred, but no naval damage took place. Some bombs fell in Ismailia and 20 Axis aircraft operated over the Delta area during the night of August 4-5. The results of this activity have not been reported.

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Material from:

- State Department
- Assistant Chief of Staff, G-3
- War Plans Division
- Office of Naval Intelligence
- G. E. O.
- Chief of the Army Air Force
- Secretary of Economy
- Assistant Secretary of War for Air

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August 7, 1941
8:50 a.m.

Speaker
Rayburn: Pretty good.

HMJr: Is this a good or bad time to call you?

R: Fine.

HMJr: Sam, two things that I'm interested in and I wondered how the situation stood. One is I'm interested tremendously in seeing this bill which is going to freeze the cotton and wheat to be defeated.

R: Yeah.

HMJr: Now, of course, it passed in the Senate yesterday - is there any chance in the House?

R: Well, I don't know. We were discussing that at our luncheon yesterday.....

HMJr: Yeah.

R:the Texas crowd, and I told them I thought it was the most terrible bill - this thing of - the worst thing that could happen to cotton would be to freeze it.

HMJr: That's right.

R: But now one of these Farm Bureau fellows - this fellow Ralph Moore.....

HMJr: Ralph who?

R: Moore - he's head of the grange in Texas, I understand.

HMJr: Yeah.

R: He ain't around there, but he was talking to me and he found out I wasn't agreeing with him.....

HMJr: Yeah.

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R:and then he said, well, he didn't want it left to you and your crowd, you know.

HMJr: Left to who?

R: Well, to you.

HMJr: Me?

R: Yeah. As to whether they'd sell this cotton.

HMJr: Oh.

R: He said it's in your hands now, is that right?

HMJr: No. I got nothing to do with it.

R: Well, now, that's exactly what he said.

HMJr: I got nothing.....

R: I certainly didn't think you did.

HMJr: I got no more to do with it than the cop on the corner.

R: (Laughs) But I don't know what - I had to leave and Hatton Sumners was taking the same position I did - that it would be the most unfortunate thing in the world.....

HMJr: Yeah.

R:for the cotton business.....

HMJr: Oh yeah.

R:to freeze these six million bales on it. Why, you could get rid of probably a million and a half of them a year.....

HMJr: Yeah.

R:and not just make the thing a bad market - it'd still be a good market. You see?

HMJr: Oh sure. Well, I don't know whether you saw the suggestion I made. A couple of years ago we supplied manufacturers with cotton to make cotton goods for WPA.

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R: That's right.

HMJr: So the cotton never went through the exchanges.

R: That's right. And on top of that, we're out of
litters for ammunition, you know.

HMJr: Yeah.

R: And there might be a million or a million and a
half bales of this damn stuff that's untenderable
anyhow and they might take it and chop it up and
make it into powder.

HMJr: Yeah.

R: I don't know. Of course, there'd be a hell of
a loss on that.

HMJr: Yeah.

R: But, if you're going to manufacture that and
give it away to WPA, well it would be just as
well to make a little something useful out of
it along the powder line.

HMJr: Well, I didn't mean WPA. I meant any Army or
Navy contract for cotton goods.

R: Yeah. Well, that's all right.

HMJr: Make them specify they take the cotton from
this reserve.

R: That's right. That'd be all right. The same
thing as I suggested about this powder business.

HMJr: Yeah.

R: Yeah.

HMJr: The other thing I want to ask you about was
how about this message that the President sent
up on highways?

R: It's going to be overridden, I think, in the
House like it was in the Senate.

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HMJr: You mean that they'll vote the President down?

R: Yeah.

HMJr: I see.

R: I don't understand. Those committees, you know, ought to get together with the President.....

HMJr: Yeah.

R:and I think they thought they had, but there's one part of the President's message there that nobody liked much.....

HMJr: Yeah.

R:and that was that - of course, a lot of people among them think this bill is too big.....

HMJr: Yeah.

R:but they don't think that they ought to be denied the right of saying how this money should be allotted in some fashion.....

HMJr: I see.

R:and just turn the whole thing over to the President and say he shall allot a stated sum or he shall allot none, as he pleases.

HMJr: Yeah.

R: That part of his speech - you remember that communities according to population and so forth he was talking about?

HMJr: Oh.

R: Well, they didn't like that part of it a bit.

HMJr: I see.

R: I think it'll pass over his veto, Henry.....

HMJr: You're going to pass.....

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R:because you've got every - it's going to be passed on today.

HMJr: Today in the House?

R: Yeah. Because it's highly privileged when it comes to the Senate, you know. Anybody can call it up. It's.....

HMJr: I see.

R:a thing of the highest privilege, and, of course, every state commission in the country and there are forty-eight of them, and all the county commissioners and there are thousands of them, are on the telephone and on the telegraph and I think it'll - it'll happen just the same thing that happened in the Senate, too.

HMJr: Well, of course, my interest is, I don't want to see the money wasted on non-defense.....

R: Yeah.

HMJr:purposes, that's it.

R: Yeah.

HMJr: And if we don't begin to stop it some day, why.....

R: You're right. I think the bill's too big. A lot of people thought that.

HMJr: Yeah.

R: But they kept putting in and in and in, and then they got stuffing in this stuff for defense, you know.

HMJr: Yeah.

R: Defense highway stuff and defense highway stuff and so forth, and it just got up to be about three hundred and twenty million, I think it was.

HMJr: Something like that.

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- R: But I think they'll pass it over the veto, Henry.
- HMJr: Well, it's too bad.
- R: I hope we can do something about that. Of course, now that cotton thing is tied in with a very popular thing, you know, that wheat business.
- HMJr: Yeah.
- R: And allowing these wheat fellows that weren't in the quota this year to seed their wheat, you see.....
- HMJr: Yeah.
- R:and if the thing stood alone, why we could go around there and whisper to the fellows that lived in the non-cotton sections to vote the damn thing down.
- HMJr: Well, they oughtn't to freeze anything. They ought to leave it free; so what I've thought up on this, when there's a buyer, sell them something.
- R: Yeah.
- HMJr: And store the stuff for the rest of the buyers.
- R: Yeah. Well the hell of this situation is, that this is a conference report.....
- HMJr: Yeah.
- R:and the damn thing's been adopted by the - no, it's been agreed on by the conferees.
- HMJr: Yeah.
- R: I talked with this fellow Fulmer the other day, and he said he thought that Smith amendment was terrible, but hell, he agreed to it - at least the conferees did and I assume he did, along with old Smith, you see.

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HMJr: Well.....

R: We're going to try and see if we can't do something about it, because Hatton Sumners and I think it's the most unfortunate thing that could happen to cotton, is to freeze these six million bales there and leave that cloud hanging over the price of cotton permanently.

HMJr: That's right.

R: I think it would be terrible. Now, what we can work out about it, I don't know; but we're going to try to do something about it, Henry.

HMJr: Okay.

R: Good-bye.

HMJr: Thank you.

August 7, 1941
9:00 a.m.

RE TAX STATEMENT

Present: Mr. Blough
Mr. Bell
Mr. Foley
Mr. Sullivan
Mr. Gaston
Mr. White
Mr. Riefler
Mr. Kuhn
Mrs. Klotz

Blough: I have been in touch with Mr. Magill already this morning on this. He got it last night and his comments are being typed and will be up here in a few minutes. I am short of copies this morning. We will have to double up somehow.

H.M.Jr: Will you go ahead and read?

Blough: "Mr. Chairman and Members of the Senate Finance Committee:"

H.M.Jr: I would like to have it read through once without any interruptions, please.

Blough: "My purpose in being here today is to discuss taxation as an essential part of national defense. 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. To solve that problem, while at the same time protecting our present and future economic foundations, our fiscal

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policy must be adapted to the needs of the times.

"On April 24, I discussed with the Ways and Means Committee of the House, the need of producing \$3,500,000,000 annually in additional revenue. The Treasury Department presented a suggested program for raising that amount of money. The Ways and Means Committee worked hard on the tax bill. As it is before you, it will produce approximately \$3,200,000,000 annually in additional revenue. In my opinion, it is very important that the revenue yield be raised to at least the original \$3.5 billion level. It is also important that the bill 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 since over seven months of the year have already elapsed. 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 in revenue from those sources."

H.M. Jr: I like the way it is going very well. It is good stuff.

Blough: "However, rapid developments of the last few months have made this bill inadequate even before it is passed. Since my statement before the Ways and Means Committee, many things have happened. Two and one half months ago, the President proclaimed the existence of an unlimited national emergency. 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 natural resources of this nation.' The people of this country have responded

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splendidly in accordance with that proclamation.

"Since I appeared before the Ways and Means Committee, the amount of appropriations over and above the Budget have increased by about \$20 billion, thus completely changing the fiscal picture and greatly increasing the need for revenue.

"Since I appeared before the Ways and Means Committee, shortages in many materials necessary for defense production have become acute and have necessitated the extension of priorities and the decrease of production of various types of civilian goods.

"Since I appeared before the Ways and Means Committee, prices and the cost of living have increased at an accelerated rate.

"In the light of these developments in the direction of 'all out' defense, I should like to point out what, in my opinion, will be necessary in taxation to support such defense.

"First of all, we shall need more revenue, much more revenue. The defense program is an absolute necessity. It must be paid for. In so far as possible, it should be finally paid for now. Borrowing should be kept to a minimum to maintain our fiscal strength. The rise in the Federal debt merely means that the burden is being postponed - that both interest and principal must be paid for later out of higher taxes imposed at a time when they may be harder to pay and less willingly paid than now.

"More revenue is needed also to maintain our economic health. The pressure of a rising purchasing power on the prices of goods of which

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the production will be increasingly limited by the necessity of diverting our resources to defense uses threatens to become inflationary. Heavy taxation which takes that purchasing power for the Government operates to relieve the inflationary pressure.

"This larger needed revenue should come from all sources where there is ability to pay. The people of this country have never been more ready to make sacrifices for the common good. I believe we have not kept pace with their feelings in the matter - that we are still thinking too much of allowing this group or that to escape its share of the burden.

"An adequate tax program for defense should reach ability to pay at several points not now fully tapped.

"1. In my opinion, such a tax program will involve a substantial lowering of personal exemptions of the income tax. Under the Bill before you, the base has been broadened to add about two million new taxpayers, but, even so, only a relatively small proportion of the population will be directly affected by the income tax. A further lowering of the exemptions would produce some additional revenue. It would help in cutting down the purchasing power of small consumers of non-essential goods. 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.

"But, if we are to extend the income tax downward to include millions more of persons with low incomes, we cannot fail, in a tax program for defense, to reach in other places ability to pay which is escaping its fair share of taxes."

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B.G. Jr: I have got to read this over. I don't know what they keep sending to you. Just a minute. O.K.

Blough: "Among these are the following:

"2. The excess profits tax exempts profits of the most prosperous corporations except to the extent that those profits are more than the profits of the years 1936 to 1939. We must not impose taxes on millions more of our low income group unless we also extend the excess profits tax to these exempt profits.

"3. In at least 8 states of the Union, income taxes are substantially lower than in the remaining States because of the splitting of incomes between husbands and wives. In other States, the income taxes of many wealthy people have been reduced by gifts between husband and wife. Here are discriminations against the rest of the taxpayers which certainly must be eliminated if we are to extend the income tax downward to include millions of new low income taxpayers.

"4. For years, the concerns engaged in extracting certain of our natural resources, notably oil, have been allowed far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape must be removed."

B.G. Jr: This is swell.

Blough: "5. A few months ago the Congress, on my recommendation, eliminated the tax exemption privilege from new issues of Federal securities. The purchasers of State and local securities still enjoy this exemption. The exemption was inequitable and expensive in more normal times. It cannot be borne longer in a time like this,

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and especially if we are to increase the direct tax burdens of persons with small incomes.

"8. In its suggestions to the Ways and Means Committee, the Treasury recommended substantial increases in estate and gift taxes, and a lower rate of exemptions. In part, this recommendation was followed, but, in my opinion, the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

"Those are some of the things that I mean when I say that a tax program for defense must go far beyond the present Bill.

"There is another condition to lowering the personal exemptions. We cannot continue to take into the income tax system millions of new taxpayers with small incomes without simplifying the ways in which their tax is computed.

"Take, for example, a person with a \$900 salary. Under the present law, he first figures out what deductions he has -- taxes paid, interest paid, contributions and so on. Then he computes his earned income credit. Then he subtracts his personal exemptions from his income after deductions. On the balance, under rates of the Bill before you, he computes a surtax at 5 per cent. Then he goes back to the income and deducts his earned income credit. On the balance, he computes a normal tax at 4 per cent. He then adds the normal tax and the surtax and takes 10 per cent of the total for defense tax. He adds the defense tax to the normal tax and surtax and finally arrives at his income tax."

W.S.Jst

This can't be so.

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- Gaston: It is a good explanation. Better than I have seen on any of our returns, a guide for how to make out your income tax.
- H.M.Jr: Isn't this swell?
- Sullivan: Swell.
- H.M.Jr: Aren't you jealous that I am going to give it?
- Sullivan: Except for one part I am. When he gets off that boat --
- H.M.Jr: Who?
- Sullivan: The gentleman across the street.
- H.M.Jr: Well, why? He will like this.
- Sullivan: On joint returns he made it abundantly clear that he wanted no part of it under any conditions.
- H.M.Jr: Well, I wasn't there.
- Sullivan: All right, just so long as it is on the record that I told you so. (Laughter)
- Gaston: It is a correction by other methods. It doesn't call for joint returns. It calls for something we can hardly quarrel with, using straightforward methods to correct the situation.
- H.M.Jr: Well, John, all I can say, as far as we have gone, Blough has in a better way expressed Henry Morgenthau, Jr. than I have ever had it expressed.
- Sullivan: Oh, I think this is swell. There is no two ways about it.
- Blough: "When he started to fill out his return, he may have been full of patriotic enthusiasm to

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pay his share toward the defense program, but by the time he has finished his last computation he will quite possibly be very much irritated."

H. M. Jr:

A punctured tire, or something. It is a little bit flat right there.

Blough:

"It is difficult enough for persons with substantial incomes who are used to dealing with financial papers and to making computations of this kind to fill out their tax returns and compute their taxes. The person with a small and simple income should not be put to this necessity when it is entirely unnecessary."

Magill has a correction there to fix that.

"Furthermore, the checking of these tax computations by the administrative authorities takes time. Frequent errors are found which must be rectified requiring correspondence and further annoyance of the taxpayer as well as expense to the Government.

"For the large taxpayers, equity requires that income computations be somewhat complicated, but for small taxpayers, the result is merely cumbersome and confusing. For such taxpayers, a simple table could be provided showing the taxes for various sizes of incomes. The table could be available in every post office and public place. The taxpayer would merely add up his income on a simple form, find the tax on the table and pay that amount. The taxpayer would be spared time, trouble and annoyance, and the Government would be spared expense.

"To indicate more clearly what I have in mind, I have had prepared a sample table showing how this might be worked out in practice. This is only a preliminary table, and improvements and changes will no doubt be desirable, but it will

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illustrate how the proposal can be applied in practice."

And then that is as far as I got last night. Magill suggests we might take the two pages at the end of yesterday morning's draft on "Taxes are onerous, but they are better than rising prices," and so on, and tack that on the end and let it go at that.

H.M. Jr: I think you have done a perfectly grand job. Have you got the table?

Blough: Yes, that is one of the things that bothered you when it came in in the course of the proceedings. I haven't looked at this. One of the boys worked this out, and I think there may be some changes we may want to make. I don't think the word "gross" probably ought to appear in there under "income".

Gaston: You are certainly going to make allowances for expenditures against income, aren't you?

H.M. Jr: No.

Blough: The deductions --

Gaston: Business deductions, you are not going to allow that?

Blough: I think there will have to be some arrangement for the business man, either to have those deducted before you call it income, or give him the option of filing one of the other types of returns.

Gaston: You will have a lot of trouble if you don't have it.

Waite: Do you feel you have to go up so high?

Blough: How high does that go?

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- White: It goes to three thousand dollars. I was wondering in the light of your general argument whether it wouldn't be more effective if it stopped around two thousand.
- Call: The Secretary suggested three thousand yesterday.
- H.M. Jr: I suggested it because when you get above three you get into other complications which he (Blough) can tell you.
- Blough: You begin to get into complications around twenty-five hundred, but it is fairly simple up to three for most people except farmers and so on. Farmers are going to have some trouble with returns this time. This is for the working man.
- H.M. Jr: Has Guy Helvering seen this?
- Blough: He has not seen this table. We have talked with Mr. Helvering and Mr. Mooney, and they have discussed the problem. This table was just completed a moment ago. But they are fully - they are working on this problem.
- H.M. Jr: I think this is grand. This is just what I wanted.
- Blough: Now we have already given these people the equivalent of deduction in computing the tax on their gross income. We have deducted ten per cent of the tax as an allowance.
- H.M. Jr: But you see, we do all this deduction and all that, and there is no reason why we can't just forget about all these things and simply say that a fellow who has got seven hundred fifty dollars pays a dollar, and never mind how you arrive at it.
- Blough: That is right.

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White: It is a very desirable form. I think it is an excellent scheme.

H.M.Jr: This happens to be mine, Harry, entirely.

White: Well, it still is excellent. (Laughter)

H.M.Jr: Didn't you have any breakfast, Harry?

White: Yes, I had breakfast.

H.M.Jr: Is your stomach a little sour?

Sullivan: You have that in mind, don't you, Mr. Secretary, that a fellow doesn't have to pay this amount, that he can still fill out his ten forty A and take his regular deductions?

H.M.Jr: No.

White: How can you arrive at this hundred and ninety-five?

H.M.Jr: This is the tax he is going to pay. There are no deductions.

Sullivan: I think you are going to avoid a great deal of trouble if he has that right.

H.M.Jr: No, this is what the man pays.

White: Suppose he has three or four children?

Blough: That is taken care of.

Sullivan: Children are taken care of, Harry, but the other deductions --

H.M.Jr: No, you have missed the whole point.

Sullivan: What I am getting at is this. These figures here are the taxes that people in these income

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brackets would pay if the deductions to which the law entitles them are the average of all the people in those brackets. That is how this table was arrived at.

Now, a person may have some unusual deductions to which the law entitles them.

- H.M.Jr: Then we are going to change the law. The law is going to be written, if they listen to me, that this is what a man pays and to hell with all the deductions.
- Gaston: You mean regardless of whether it is a business expense, whether it is money that he has to spend --
- H.M.Jr: Yes.
- Gaston: You could never get away with it.
- White: Providing it was a little lower - providing you took that limit lower I think you could get away with it. I think three thousand is a little high for that.
- Sullivan: No, this doesn't detract from your plan one bit, sir.
- H.W.Jr: Well, if you don't mind I am going to present it this way. I am not going to have any deductions or any figuring or anything else.
- Elouch: May I suggest, Mr. Secretary --
- H.W.Jr: I am going to do it my way, if you don't mind.
- Sullivan: I still think you don't understand me, sir.
- H.M.Jr: I understand.
- Sullivan: I am entirely in favor of this proposal, but

to make it constitutional it must be optional and the taxpayer must elect to pay this way rather than going through all the complications of figuring out his ten forty A form. Otherwise, it is a gross income tax, and we do not believe it will be held to be constitutional.

H.A.Jr: Well, you can write it so it will be constitutional.

Sullivan: That is just what we do by saying --

H.A.Jr: Well, anyway, John, I want to present this to Congress this way and then everybody else can pick at it. This carries out the President's idea of a simple way, that a fellow can look and see that if his income is a thousand dollars, a single man, he pays seventeen dollars.

Sullivan: Yes.

Carton: I think it is a swell thing to have a table of rates for certain incomes but I think they have got to be net incomes. I think you have got constitutionally to distinguish between a man who makes a seven hundred fifty dollar net income and the man who makes - gets seven hundred fifty but spends three hundred in making it.

Wite: I think you have to take Mr. Sullivan's point before you present it in that form, either in the way you say it in your speech or something, because if he is right, then I don't think you can say what you said.

Clough: May I make a suggestion? It seems to me the thing to do is to present this without saying anything about options and so on. If the question is raised, then, by the Committee, what about options, well, that is something that would have to be worked out. This is a plan in general.

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White: That is right.

H.M.Jr: Does that satisfy you, John?

Sullivan: That is all right if I am given the authority to protect the Treasury on this thing because we don't want them saying, "Well, gee, it is a swell plan, but it isn't constitutional."

H.M.Jr: You have got that authority.

Sullivan: All right, because I think this is perfectly swell and I am all for it.

H.M.Jr: But you take Gaston's idea. You begin to do this. Just as soon as you begin to do that the plan is ruined.

Gaston: No, I think it is impossible to do it any other way.

H.M.Jr: All right, you deduct this and you deduct that and then you are right back where you were before.

Woley: That isn't what he is saying, Mr. Secretary.

Gaston: What he has to pay out to earn his income is not income, and you can't tax him on it under any system of laws. You just can't do it.

Woley: What he is saying, Mr. Secretary, is that the fellow goes into the post office and he looks here and he says, "I make seven hundred seventy-five dollars. Therefore, I pay a dollar tax." And he gets into - reaches into his pocket and he hands the postmaster a dollar and he signs this simple form. But he must have the option to fill out the more complicated form, take some kind of a business deduction, and not pay the dollar if he wants to.

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- Gaston: I am not talking about any options. John spoke about options. I am not talking about options. I am saying that your tax has got to be figured on net income, not on gross income.
- White: What would you do, for example --
- Gaston: You have a simple table and that is all right, but you have got to give them net, not gross.
- White: In the case of a peddler or some grocery man who distributes fruit in a wagon, his gross income may be twenty-five hundred dollars. His net income may be fifteen hundred. Now --
- H.M.Jr: You are talking about --
- White: Any small business man. His gross income --
- H.M.Jr: Well, let me talk it over afterward and get one person instead of five people shooting at me. I can't have five people --
- White: Well, all I want to emphasize --
- H.M.Jr: Let me --
- White: It should be very tentative in your presentation.
- H.M.Jr: Let me get some one person to - Roy studied this thing and let me see what his objections are afterward. But I mean, you never can get a new idea but what somebody wants to just begin to tear it down by spoiling it. If I follow what Gaston said, we would be right back where we are. We will have twenty million people --
- Gaston: No, not at all.
- H.M.Jr: I differ with you.
- Gaston: Not at all.

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- W.M.Jr: All right. You have twenty million people file and you have about five million pay.
- White: The gross income and net income of every wage earner is the same.
- Caston: That is right.
- Sullivan: This is taking care of the wage earners who have a regular salary.
- E.S.Jr: Well, I will argue with Blough and Sullivan and give Foley a chance to talk about it afterward on the legal side. Now, let's go to the speech. Let's take it a paragraph at a time. Go ahead, Roy.
- Blough: I now have the Magill comments and as we go along and the others indicate, I will be glad to indicate those.
- E.S.Jr: Or anybody else.
- Blough: The first paragraph?
- E.S.Jr: Please.
- Blough: "Mr. Chairman and Members of the Senate Finance Committee: My purpose in being here today is to discuss taxation as an essential part of national defense. 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. To solve that problem, while at the same time protecting our present and future economic foundations, our fiscal policy must be adapted to the needs of the times."
- I had thought "which we have in our country" is a little flowery, and we will just change that to "ships and guns with our labor and management".

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- H.M.Jr: How will it read?
- 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 our labor, management, machinery and raw materials."
- White: Would you want to add the words "not only economic foundations but it is also a case of protecting democratic institutions," because you could get money in many ways if you wanted to destroy the democratic basis of your Government.
- Blough: "hen that would be, "protecting our economic foundations and our democratic institutions" --
- White: Or "economic and" - some phrase like that.
- H.M.Jr: Yes, that is good. Harry has got a good idea. All right, just make a note. Anybody else got a suggestion?
- Sullivan: Why not stop after "guns", Roy?
- H.M.Jr: You got a copy, Herbert?
- Weston: No, I haven't. I don't think there are enough copies here.
- Blough: Here is our file copy. If it isn't marked on it is fine. John suggests, "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."
- Bell: I like that.
- H.M.Jr: What is the matter with the labor and management? Why chop the sentence off?

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- Sullivan: I wouldn't bother to debate that.
- H.M.Jr: O.K.
- Ball: And then cut out, "which we have in our country."
- H.M.Jr: I would just go through the "machinery and raw materials."
- Blough: "On April 24, I discussed with the Ways and Means Committee of the House the need of producing three and a half billion dollars annually in additional revenue. The Treasury Department presented a suggested program for raising that amount of money. The Ways and Means Committee worked hard on the tax bill. As it is before you, it will produce approximately three billion two hundred million dollars annually in additional revenue. In my opinion, it is very important that the revenue yield be raised to at least the original three and a half billion dollar level. It is also important that the bill be passed as promptly as possible."
- H.M.Jr: Now, wait a minute. Give anybody a chance.
- Ball: Do you want to say before the three billion two that in view of the changes that have taken place since we started consideration of this tax bill that it is important that we at least get the three billion five?
- H.M.Jr: Well, I think, Dan, that is covered when we say by twenty billion extra.
- Sullivan: I think so.
- Blough: "Income taxpayers and excess profits taxpayers should know as quickly as possible what their taxes on 1941 income and profits are going to be, since over seven months of the year have

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already elapsed. 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 in revenue from those sources."

H.M. Jr: O.K.

Blough: Magill had a couple of word changes there, but it is not important.

"However, rapid developments of the last few months have made this bill inadequate even before it is passed. Since my statement before the Ways and Means Committee, many things have happened. Two and one half months ago, the President proclaimed the existence of an unlimited national emergency. 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 power, all of the moral strength, and all of the natural resources of this nation.' The people of this country have responded splendidly in accordance with that proclamation."

Kuhn: I think that last sentence could either be cut or lead on into one sentence saying that the people of this country have responded splendidly in accordance with that proclamation and they are willing to meet these new burdens, but unless you lead on to some point, the sentence is unnecessary. It could just as well be cut.

White: In fact, it weakens your point, because it seems as though they have already responded and now you are asking them to do still more.

H.M. Jr: I would cut it out.

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- Blough: It is Ferdie's sentence. I was trying to leave it in.
- Kuhn: It was put in to lead on to the point that people are willing to pay these bills, but if we don't make that point, let's cut the sentence, Roy.
- Blough: Fine.
"Since I appeared before the Ways and Means Committee, the amount of appropriations over and above the Budget have increased by about twenty billion dollars" --
- Bell: There it should be fourteen.
- Gaston: Roy, just a matter of grammar. The amount has increased.
- Blough: Oh, yes, sure. I am sorry.
"Increased by about fourteen billion dollars, thus completely changing the fiscal picture and greatly increasing the need for revenue."
- Bell: I don't know whether you want to be particularly accurate in a thing of that kind. They are not appropriations, you know, they are contract authorizations and recommendations by the President. Roy has referred to them as appropriations.
- Blough: Why don't you say "appropriations and authorizations"?
- Bell: The Budget language is "authorizations and appropriations and recommendations".
- H.M. Jr: Well, use the correct language.
- Blough: We will fix this up.

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"Since I appeared before the Ways and Means Committee, shortages in many materials necessary for defense production have become acute and have necessitated the extension of priorities and the decrease of production of various types of civilian goods."

- H.M.Jr: Just a minute. Why that paragraph?
- Blough: The economic picture has changed materially.
- White: I don't see it.
- Kuhn: The justification for ~~exise~~ taxes avoiding competition with defense goods has become even greater --
- White: If it has any relevance, it is not clear.
- Kuhn: That is the purpose of that sentence.
- White: Well, it is certainly not clear.
- Blough: Well, it is not followed up later with the recommendation. That is, I think, the principle --
- White: I think the way it stands --
- H.M.Jr: I don't think it is necessary. I think the next paragraph, perfectly adequate to - it can lead into paragraph three. I think you could leave out the first paragraph.
- White: First paragraph?
- H.M.Jr: First paragraph on page three.
- White: Yes, and the second, it seems to me.
- H.M.Jr: No, I like the second. "In the light of all these developments," two things. In the light of the

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increase of fourteen billion dollars and in light of prices and the cost of living, in light of these developments --

- White: I don't see how you tie it up - it is not made clear to the listener, it seems to me. The Budget picture, yes, the need for increased expenditure, but how do you tie up the increased cost of living to the fact in the light of these developments? What has that got to do with it?
- Blough: That is coming in later in inflation and the last two pages which aren't even on here yet.
- H.M.Jr: I tell you what let's do. For the time being, let's cut out the first paragraph on page three and leave these others in and see how it looks. What?
- Bell: I am wondering if you can't tie the one at the bottom of page two and the next two together some way, because you have got three paragraphs starting out, "Since I appeared before the Ways and Means Committee."
- H.M.Jr: I think you are right on that.
- Blough: I did that on purpose, but if it sounds too theatrical, it can be easily fixed up.
- Kuhn: I think it strengthens it.
- Bell: You mean to say it over?
- Kuhn: To say it over.
- H.M.Jr: I think they are right.
- Bell: Do you?
- H.M.Jr: Yes, I do. What do you think, Herbert?

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- Gaston: Well, it gives emphasis to your appearance before the Ways and Means Committee. I think it is all right.
- H.M. Jr: It also emphasizes that these things have happened since I appeared. I think it is all right. Go ahead, Roy.
- Blough: "In the light of these developments in the direction of 'all out' defense, I should like to point out what, in my opinion, will be necessary in taxation to support such" --
- H.M. Jr: Now, wait a minute.
- White: Couldn't you use the phrase - excuse me.
- H.M. Jr: I am going to say what will be necessary is an all out taxation. I want to bring in "all out" again. Is that what you wanted to say?
- White: Yes. I thought to meet this all out defense we must have an all out taxation.
- H.M. Jr: Yes.
- White: I think that phrase, "all out taxation" is very good.
- H.M. Jr: We had it in last night.
- White: Yes, I know.
- H.M. Jr: I like it and I want to repeat it again.
- White: I was surprised it wasn't in there, and I think this is the place for it.
- Blough: That is Magill's comment also, that this should read, "will be necessary in all out taxation to support it."

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- White: "To meet this all out defense, we must have an all out taxation," something like that.
- H.M.Jr: Or "all out tax program". Fix that up. But I like the "all out defense" and the "all out tax program".
- White: Would you want to suggest one sentence after that previous paragraph which will tie it in more, "Since I appeared before the Ways and Means Committee, prices and cost of living have increased at an accelerated rate," thereby accentuating the need for some fiscal program? We have got to tie it up in some way with taxation at that point, even if it is just a phrase.
- Riefler: Yes. The completionary argument is too far from the foundations you are laying there in paragraphs one and two.
- Gaston: That is right.
- H.M.Jr: You are both right. You are right.
- Riefler: I mean just to withdraw excessive purchasing power from America, something as simple as that.
- H.M.Jr: There has to be a transition. They are right.
- Riefler: Then you could leave in the first paragraph if you have that transition. You could restore it.
- Kuhn: That - makes it necessary to impose new excise taxes on competing goods.
- Riefler: Any short one that does the trick.
- H.M.Jr: They can do it.

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Blough: We will fix it up.

"First of all, we shall need more revenue, much more revenue. The defense program is an absolute necessity. It must be paid for. In so far as possible, it should be finally paid for now. Borrowing should be kept to a minimum to maintain our fiscal strength. The rise in the Federal debt merely means that the burden is being postponed" --

White: "Burden to the taxpayer". You can't postpone a burden.

Blough: Right.

".... that both principal and interest" --

H.M.Jr: Just a minute, "in order to maintain our present fiscal strength."

White: Could a little stronger sentence be made than, "The defense program is an absolute necessity"? "The defense program is vital," or something like that. It seems a little weak.

H.M.Jr: "Absolute necessity" is weak?

White: It seems so.

H.M.Jr: "Absolute vital necessity"?

Wiegler: "Fundamental"?

White: Well, play with the idea.

H.M.Jr: "Absolute necessity" sounds pretty strong to me, but we will listen. Go ahead.

Blough: ".... both principal and interest must be paid for later out of higher taxes imposed at a time or collected at a time." I am not sure which,

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

Boston: I think "paid" instead of "paid for" is better.

Blough: "The defense program must be paid"?

Boston: "Interest and principal must be paid," rather than "paid for".

Blough: Oh, sure. Now, Magill suggests either here or at the end of the next paragraph to put in your call for the reduction in ordinary expenditures. I think probably - maybe here or maybe a little bit later, I wondered if you wanted that in?

H.A.Jr: Yes.

White: Do you want it in?

H.A.Jr: Yes, because I am going out on the end of a limb on this highway business to support the President's message, this morning at ten thirty. I am going out on that, even though I know it is hopeless.

White: But you are not going to express an amount?

H.A.Jr: No, I am just going to support the President's message, that any highways we build now should be for strategic purposes, and not for log rolling.

White: But I mean in the statement it is not going to be an amount, just a curtailment of non-defense?

H.A.Jr: That is right.

Blough: "More revenue is needed also to maintain our economic health."

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H.M.Jr: What is our economic health? (Laughter)

Blough: I didn't like it either. Is there a better one? It means the normal functionings --

White: "More revenue is needed to strengthen our economic" --

Sullivan: "Stability"?

Riefler: Is stability the idea?

Foley: "Vitality"?

Bell: Couldn't you put it on the "economic stability"?

Riefler: "Structure".

H.M.Jr: I don't like "health", do you?

White: It is a meaningful phrase, but --

H.M.Jr: "The next thing they say is, "Is the patient sick?"

White: Economically?

Foley: He has been sick for a long time, hasn't he, Harry? (Laughter)

H.M.Jr: What is the answer to that, Harry?

White: He isn't sick but he has quite a rash.

Riefler: Why wouldn't it be well to help keep the price structure as stable as possible?

H.M.Jr: Something like that.

White: I think a comment there is worth it, because this is more or less of a strong argument.

H.M.Jr: Something.

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- White: Even if you have to put two or three sentences in.
- H.M.Jr: Write a sentence and see whether Harry likes it.
- Blough: "The pressure of a rising purchasing power on the prices of goods of which the production will be increasingly limited by the necessity of diverting our resources to defense uses threatens to become inflationary."
- Gaston: That needs to be chopped up.
- H.M.Jr: How would you do it, Herbert?
- Gaston: Oh, it would take a little work. It is just a little too difficult. The thought doesn't get over.
- Blough: I agree with you.
- H.M.Jr: All right.
- Blough: "Heavy taxation which takes that purchasing power for the Government operates to relieve the inflationary pressure."
And Magill suggests --
- H.M.Jr: I don't like that.
- Blough: Magill suggests, "Heavy taxation, which takes for the Government the increased profits from the sales of scarce goods and reduces somewhat excessive civilian purchasing power, operates to relieve the inflationary pressure."
- White: I think this whole paragraph needs to be expanded because that is one of the important points and I don't think it is treated anywhere else.

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- Blough: Unless it may be treated a little at the end.
- H.M.Jr: Well, we agree that has to be fixed up.
- Blough: "This larger needed revenue should come from all sources where there is ability to pay. The people of this country have never been more ready to make sacrifices for the common good. I believe we have not kept pace with their feelings in the matter, that we are still thinking too much of allowing this group or that to escape its share of the burden."
- Sullivan: "Helping this group or that."
- White: You wouldn't want to say - do you want to say, "The needed revenue should come from all sources where there is ability to pay"? That is what an all out tax program means.
- Hiefler: Could you phrase it this way, "The revenue needed is so large that we must go to all sources where there is ability to pay"? Put it on that basis.
- Blough: That is Mr. Magill's criticism. He says that we should indicate here that the time has come when you can't fiddle around with a bunch of special exemptions and so on, that you will have to go to all the places where there is ability to pay.
- H.M.Jr: All right.
- Blough: "An adequate tax program for defense," or all out if you want to emphasize it that way, "should reach ability to pay at several points not now fully tapped. One" --
- H.M.Jr: Repeat that all out. I would like to repeat that a couple of times.

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Blough: ".... In my opinion, such a program will involve a substantial lowering of personal exemptions of the income tax. Under the Bill before you, the base has been broadened to add about two million new taxpayers, but, even so, only a relatively small proportion of the population will be directly affected by the income tax. A further lowering of the exemptions would produce some additional revenue."

Perhaps the "some" should be eliminated.

"....It would help in cutting down the purchasing power of consumers. 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."

Bell: Magill says eliminate that last sentence on page four.

White: Either that or put it differently. It would help in cutting down the money in the hands - in the pockets of the consumer which operates to increase prices, but your argument later is that, as a matter of fact, taxation might save consuming power by preventing prices from rising so that the dollar could buy more than it otherwise would. I think that either has to be cut out or rephrased.

Riefler: I would cut it out because to explain the idea requires a lot of elaboration.

H.M.Jr: I would cut it out.

Blough: The last sentence on page four?

Riefler: Yes. You have it covered in your preceding

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paragraph as a general idea.

- H.M.Jr: I would cut it out. It isn't - the fellow who gets seven hundred and fifty dollars, he isn't going to increase --
- White: In this further lowering of exemptions, does that mean below this new proposal of seven hundred fifty?
- H.M.Jr: Yes.
- White: Then I should be inclined to cut out the word "some".
- Blough: It depends on whether three hundred million is some or --
- White: I would say it was some.
- Kuhn: Not what people would imagine.
- White: That is right. People have the notion you are taxing a new source, the largest source --
- H.M.Jr: I think he is right.
- Blough: In the last sentence at the top of page five, that first paragraph, Magill suggests "more important". It would give them a feeling --
- Bell: No.
- Blough: "More important", the very top of the page. "More important". "It would give millions of Americans an opportunity to make a great contribution."
- Bell: That is right.
- H.M.Jr: You don't want to put in there a direct quotation from what the President said on that very thing?

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- Kuhn: About people being willing and proud to chip in?
- H.M.Jr: Yes. I would put in a direct quotation of what he said. It is right there.
- White: Particularly in mind of what you say on joint returns, I think it a good idea to quote him as much as possible. (Laughter).
- H.M.Jr: I would put directly what he said in there. I am not worried about that. Go ahead. Ed is not worried. How do we know what boat he is on?
- Voley: The Potomac or Tuscaloosa.
- Sullivan: I hope it doesn't have anything over a three inch gun.
- H.M.Jr: Go ahead.
- Blough: "But, if we are to extend the income tax downward to include millions more of persons with low incomes, we cannot fail, in an all-out tax program for defense, to reach in other places ability to pay which is escaping its fair share of taxes."
- H.M.Jr: Why not say, "We must not fail."
- Kuhn: Does that make the point strongly enough, that if we do fail we are being unfair and that we are hurting national morale?
- Bell: We cannot in fairness to others.
- White: I think it needs another paragraph.
- Bell: We cannot in fairness --
- Gaston: I am not well satisfied with the way this is expressed. It seems to me it presents a program

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primarily for broadening the base, lowering exemptions, and without the necessary qualifications. Then the others are added more or less as afterthoughts.

White: I wonder whether you might help that possibly by either changing the order. I mean put the broadening of the tax base after excess profits.

H.M.Jr: No, I like it very much just in the order he has got it. I don't want it changed.

Kudin: Suppose it were made strictly conditional upon other measures?

Gaston: That is what I was thinking of.

White: That is what I thought we decided yesterday.

H.M.Jr: Could you take what Gaston suggested?

Blough: In other words, make this paragraph read more of a conditional paragraph?

Gaston: I would like to work on that a little bit, with just a suggestion.

H.M.Jr: Well, Herbert will work on it and give you a suggestion, but I don't want the order changed. I like it.

Gaston: It looks to me as if we were all hot and eager now for broadening the base and that is our first item. That is the thing that we are emphasizing. And then we add --

White: "Among these are the following."

Gaston: "Among other things you might do are the following."

H.M.Jr: Go ahead, Roy.

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- Blough: "Two. The excess profits tax exempts profits of the most prosperous corporations except to the extent that those profits are more than the profits of the years 1936 to 1939."
- Sullivan: "More than average."
- Blough: "Than the average. We must not impose taxes on millions more of our low income group unless we also extend the excess profits tax to these exempt profits".--
- Sullivan: "To the exempt profits of our most prosperous corporations."
- Gaston: Yes.
- W.C. Jr: Yes.
- Meffler: "We must not impose new taxes on millions more of our low income" --
- Eahn: Yes.
- Sullivan: He has a good one.
- Blough: New taxes, yes.
- Ball: He has got it.
- Blough: "....In at least eight States of the Union, income taxes are substantially lower than in the remaining States because of the splitting of incomes between husbands and wives. In other States, the income taxes of many wealthy people have been reduced by gifts between husband and wife. Here are discriminations against the rest of the taxpayers which certainly must be eliminated if we are to extend the income tax downward to include millions of new low income taxpayers."

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- H.M.Jr: Now I don't understand this. Am I for one return or two returns outside of the eight States? I mean, in the community property, eight States, but how about the other forty?
- Gaston: There is more than one way to do it. This problem can be attacked instead of by the joint return process - it can be attacked by forbidding this division of property in returns as they have in the community tax States, just forbidding that in your Federal law and also taxing more heavily life-time gifts.
- H.M.Jr: But it still doesn't leave it clear what we are for.
- Gaston: It won't specify the method but as it is here it just points to the evil. It doesn't point out the method for correcting it.
- White: That is right. It doesn't come out flatly for joint returns.
- Gaston: It isn't for joint returns. It could be done by another method, which I think personally is a better method.
- White: Well, the issue is joint returns. It is a little late --
- Gaston: No, I don't think so.
- Sullivan: The evil that is complained of, Harry, allowing a movie actor in Hollywood to divide his hundred thousand a year so both he and his wife report separately on fifty thousand a year, can be corrected in the statute so that it is the income earned by a person rather than the income of - the decision held that the income of - depended on who was entitled to that under the local property owners laws and that can be corrected in

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the statute so that that movie actor will have to report himself the whole hundred thousand dollars for Federal tax purposes.

White: Why wasn't it corrected before?

Gaston: You ask me.

H.M.Jr: What about the other forty states? Supposing that --

Sullivan: In the other forty states you can't do it.

H.M.Jr: But this doesn't take care of them. This takes care of the eight, but leaves the other forty in the air. There is nothing in this paragraph taking care of the other forty states.

Blough: This paragraph states the evil. The two evils which I think --

Foley: No this paragraph is directed only to community property. It has nothing to do with joint returns.

Gaston: No, it is directed to community property and gifts during --

Blough: In all the states the income taxes of many wealthy people have been reduced by gifts between husbands and wives. There are your two evils.

H.M.Jr: But that is the gifts. How about the incomes in other states?

Gaston: Well, but they can't in other states split the income now. They can't do it now. They have to return the income separately.

H.M.Jr: But how about having them not do that, only having one return?

Gaston: They have to except in the community property states, they have to return the income as - for

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the person to whom it belongs. In the community property states they take the man's income or the wife's income together and split them fifty-fifty, and the great evil of that is that they take a large - a tremendous big income, such as the man's income, and split it in two parts and reduce the taxes in that way. You can only do that in the community property states. You can't do it in other states.

- White: It isn't clear to me and I don't see how it would be clear to the public.
- H.M.Jr: You are talking about one thing and I am talking about another. In New York State you can either file a joint return or two returns.
- Gaston: You can file two returns if you report only your personal income.
- Blough: That is another evil which is left out.
- H.M.Jr: That is what I was trying to get at.
- Blough: I frankly was trying to avoid, although I am in favor of joint returns, was trying to avoid an open fight on that issue, not knowing how you wanted to go on that.
- H.M.Jr: I want it in.
- Blough: I am sorry, I didn't understand it.
- H.M.Jr: There is the evil Herbert is talking about and there is the - which exists in eight states and there is another evil which exists in forty states.
- Gaston: If you regard it as an evil, yes.
- H.M.Jr: I do. I consider that it is a loophole which

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should be closed if we are going to tax the fellow with seven hundred fifty dollars.

White: And I think the word "joint returns" ought to be used so the public will recognize it.

Blough: Oh, yes, now, definitely.

"For years the concerns engaged in extracting certain of our natural resources, notably oil, have been allowed far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape must be removed."

White: What happened to the idea that was suggested yesterday, that for eight years --

H.M.Jr: I put it out, Harry. This is just as effective.

White: O.K.

H.M.Jr: This is going to make them mad enough without my going up and saying, "Listen, you bloats, for eight years I have been telling you so." I am telling it to them without saying for eight years I have told it to them.

Kuhn: Mr. Secretary, is that strong enough, that last sentence, "If the income tax is to be extended this privilege of escape must be removed"? Would a little fireworks like "wicked" or "terrible" or "intolerable" help on there?

H.M.Jr: No, this is strong enough.

White: But it mentions --

Gaston: I have a slight objection to that. They may interpret this whole thing to mean that, all

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right, if you want to reduce exemptions, broaden the base, then you ought to do these things, as if we are not very serious about having these things done on their own account.

White: I thought you were going to take care of that in that paragraph.

Gaston: That can be done, but it seems to me these other things ought to be insisted upon in any event.

H.M.Jr: Well, you are right, Herbert, a hundred per cent. If I wasn't opposed to lowering the exemptions and the President does it this way without any notice to anybody. This is the only way I know how to do it and it brings it to the attention of the public. I am not going to get any of this stuff. We are going to get the lowering of the exemptions. I called up the Speaker this morning on two things, one on the freezing of the cotton and the other - he thinks it is terrible, the freezing of the cotton. When the representative of the Grange Association comes he will say, "You don't want to let Morgenthau sell it, do you? He is the fellow that sells the cotton." I told the Speaker he (Grange representative) was a damn liar. I have got nothing to do with it. I said, "What about the road business?" He says, "Well, we are going to pass that over today." "Well, why?" "Well, the President wants to take the allotment of road money away from us Congressmen and give it to himself." That is where he made a mistake. If he had left that out maybe we would have gone along with him. Now, I am not going to get any of this, Herbert, but it gives me for once a chance to go up there and say what I feel in not too objectionable a manner, and make the record and I can get some of the labor unions to back me up.

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- Gaston: I think there is something in what the Speaker says. If the President had been more specific in his bill they might have gone along with him.
- H.M.Jr: But anyway, if you don't mind, Herbert, this form suits me. Each person has to have it to suit himself, but this does suit me. If the President hadn't said anything, and I was starting out before the Ways and Means two and a half months ago, you would be right, but in view of what has happened, I don't see how otherwise I can do it.
- Bell: I have only one question, Mr. Secretary, on the way it has been worded. You say we must not and cannot do these things.
- H.M.Jr: You are right.
- Bell: I would like to switch it and say, "I should think that Congress could not do this in good conscience unless they do these other things."
- E.M.Jr: You are right, just as effective. In other words, not lecturing them. You don't want me to Fanny Perkins them. You are right, fix it up.
- Blough: There is one question I would like to ask. Now, I repeated this in every paragraph. If those repetitions were taken out and put in one paragraph, it would be the sort of thing Herbert has in mind.
- Riefler: I think the repetition is a good idea.
- H.M.Jr: You have got to move a little fast now, because I have got to school between now and ten thirty on roads.
- Blough: "A few months ago, the Congress, on my recommendation,

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eliminated the tax exemption privilege from new issues of Federal securities. The purchasers of State and local securities still enjoy this exemption. The exemption was inequitable and" --

H.M. Jr: Excuse me. Following Bell's suggestion, I would leave out, "on my recommendation".

Blough: Yes. "The exemption was inequitable and expensive even in more normal times. It cannot be borne longer," and we changed this again to fit this - "It cannot be borne longer at a time like this, and especially if we are to increase the direct tax burdens of persons with small incomes.

"In its suggestions to the Ways and Means Committee, the Treasury recommended substantial increases in estate and gift taxes and a lower rate of exemptions, or lower exemptions. In part, this recommendation was followed, but, in my opinion the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

"Those are some of the things that I mean when I say that a tax program for defense must go far beyond the present Bill."

H.M. Jr: Well, again, keep using that "all out tax program" every time.

Blough: Yes. "There is another condition to lowering personal exemptions. We cannot continue to take into the income tax system millions of new taxpayers"--

H.M. Jr: That is all good. I don't think anybody can argue about that.

Blough: All right.

White: Very good.

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- H.M.Jr: It is very good.
- White: Except at the end, your conclusion, I think, needs - the end of that - your deduction - after you have said all that. Excuse me, there was one place you were going to change, you remember.
- H.M.Jr: Oh, we were going to say "depressed" or "flatter" or "worn out".
- Plough: We were going to put a couple of pages of kick on the end. Oh, yes, the fellow is worn out after figuring his income tax.
- H.M.Jr: Herbert, take another crack at me on why you don't think this table should be the way it is now, will you please?
- Gaston: Well, I think this. I think it is an inequitable proposition and I think it is also an unconstitutional and illegal thing to do, to attempt to tax anybody on the gross income, that is, his gross intake of money. I think you have got to allow for expenses he makes in earning that income. I think even in the lowest income groups you will find here and there people who do have some legitimate charge-offs and I think therefore that your simplified table of taxation is grand. I think it ought to have been done long ago, but I think it will have to be on net income. A very simple calculation of your amount of money that you have received and any legitimate expenses that you have made - have disbursed against it to earn that income. No other deductions except what you have expended to earn that income for business expenses and then I think it is swell.
- H.M.Jr: Would you be satisfied if somebody - somebody said have it optional. A fellow can take this table or he can make out this form, ten forty A, and take his deductions.

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Gaston: I just think that makes it a lot more complicated.

Blough: Herbert, gross income does not mean gross receipts.

Gaston: Well, if gross income really means net income --

Blough: It is net income before such things as tax deductions, interest deductions, contribution deductions, capital losses, but it is after business expenses.

Gaston: If it means gross income after business expenses --

White: If that is --

H.M.Jr: Harry, wait a minute, please.

Gaston: If that is what you mean by gross income, I have no further objection to make, if that is what you mean by gross income.

Blough: I don't think the word "gross" ought to be used in the table. It seems to me if we said your income is --

H.M.Jr: Is it all right?

Gaston: Yes.

H.M.Jr: Otherwise you like it?

Gaston: Yes, I think it is grand.

H.M.Jr: All right. Now, Mr. White.

White: Well, I too believed as he did and I was misinformed. I thought you meant by gross income what we call gross income.

Blough: Gross receipts is the term commonly used there.

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- White: Wouldn't it be possible to follow the Secretary's idea then, and on some of these exemptions, small exemptions like gifts and what-not, to modify that on low income brackets or something?
- Blough: What we have done is to lower the tax ten per cent in order to allow for the deductions we don't give them.
- White: Then if the gross income is explained on that sheet so that the man in the street --
- Blough: A little sentence will explain that, of course.
- White: Then I change my view as he does. How about the gasoline tax, a man that uses gasoline?
- Blough: The tax in some states is deductible.
- H.M.Jr: Were you through, Harry?
- White: Yes. I think it needs some further explanation to the layman.
- H.M.Jr: Well, what I am doing is this. I have told John Sullivan to be back here at two thirty and to have Helvering and Mooney here at two thirty, just on this thing, to get it straight.
- Blough: I think that is excellent.
- H.M.Jr: Would you be here at two, Ed? And put somebody in your own shop on it, will you?
- Peleg: Yes.
- H.M.Jr: Now when am I going over this thing with you again?
- Blough: It is now ten fifteen. I should think we could have it drafted any time from noon on.
- (Mrs. Klotz entered the conference).

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H.M. Jr: Well, here is my trouble. How are you fixed, Harry?

White: You had a three o'clock meeting, didn't you?

H.M. Jr: No, you are down at eleven. I haven't got you at three.

White: Oh, at eleven, that is right.

H.M. Jr: Are you ready?

White: We will have a draft at eleven. It will be a first draft. The later you make it the more we will improve it.

H.M. Jr: I can't, because I won't be ready for you (Blough) until three forty-five. It is going to have to be pretty near perfect then.

Blough: I will do the very best I can. I will try it out on all the other people before then.

H.M. Jr: Do that, will you?

Blough: All right.

H.M. Jr: And at that time let everybody wear you down and then just you and Ferdie come in at three forty-five, which saves my - whatever is left of my disposition.

White: What would you think of the suggestion, Mr. Secretary, of your not tackling the price statement until after you come back from the tax hearing on Friday afternoon, so as to leave your mind clear for this. We still have Friday, Saturday, Sunday, and Monday, and in the meantime we will be working on it so it will be in better condition by the time you get it, so as not to mix it up.

H.M. Jr: Sold.

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- Mr. Jr: If you are free at eleven, I could see you about your own thing at eleven, you see, Win and you, and I could bring the tax thing up to three fifteen and then I am available for you (White) at eleven. Is that agreeable to you, Win?
- Deffler: Very good.
- White: I think this will be the most popular thing the Treasury has ever done.
- Edin: The table?
- White: That table.
- Mr. Jr: Are we all right now? Now, Harry, that may mean you may have to come up to the country, unless you think you can do the whole thing Monday.
- White: Well, suit yourself, but I think we will have a better draft for you, and I don't think you need to shift from taxes to the other, and since we will have several days to work on it, I think there will be adequate time.
- Mr. Jr: It is easier on me by far, but it may be harder on you over the weekend.
- Bell: Well, can't - what did you suggest, that the Secretary see it after the hearing tomorrow?
- Mr. Jr: Yes.
- Bell: It is all right, that is fine.
- White: And we will have had a chance to go over this first draft by then too, so that it will be further advanced.
- Mr. Jr: Well, what I ought to do is, no matter what

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happens, right after lunch tomorrow I ought to look at the thing.

- Bell: And then we could have a copy sent up to the farm and you could read it over the weekend and we could be in pretty good shape to concentrate on it all together.
- H.M.Jr: I will be ready for you people tomorrow at two o'clock, Friday.
- White: You don't anticipate the hearings will go over the morning, do you?
- H.M.Jr: No. How is that?
- Bell: Fine.

4th draft
DRAFT

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August 7, 1941
9 A. M.

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

Mr. Chairman and Members of the Senate Finance Committee: My purpose in being here today is to discuss taxation as an essential part of national defense. 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. To solve that problem, while at the same time protecting our present and future economic foundations, our fiscal policy must be adapted to the needs of the times.

On April 24, I discussed with the Ways and Means Committee of the House, the need of producing \$3,500,000,000 annually in additional revenue. The Treasury Department presented a suggested program for raising that amount of money. The Ways and Means Committee worked hard on the tax bill. As it is before you, it will produce approximately \$3,200,000,000 annually in additional revenue. In my opinion, it is very important that the revenue yield be raised to at least the original \$3.5 billion level. It is also important that the bill be passed as promptly as possible.

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Income taxpayers and excess profits taxpayers should know as quickly as possible what their taxes on 1941 income and profits are going to be since over seven months of the year have already elapsed. 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 in revenue from those sources.

However, rapid developments of the last few months have made this bill inadequate even before it is passed. Since my statement before the Ways and Means Committee, many things have happened. Two and one half months ago, the President proclaimed the existence of an unlimited national emergency. 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 power, all of the moral strength, and all of the natural resources of this nation." The people of this country have responded splendidly in accordance with that proclamation.

Since I appeared before the Ways and Means Committee, the amount of appropriations over and above the Budget have increased by about \$20,000,000,000, thus completely changing the fiscal picture and greatly increasing the need for revenue.

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Since I appeared before the Ways and Means Committee, shortages in many materials necessary for defense production have become acute and have necessitated the extension of priorities and the decrease of production of various types of civilian goods.

Since I appeared before the Ways and Means Committee, prices and the cost of living have increased at an accelerated rate.

In the light of these developments in the direction of "all out" defense, I should like to point out what, in my opinion, will be necessary in ^{all out} taxation to support such defense.

First of all, we shall need more revenue, much more revenue. The defense program is an absolute necessity. It must be paid for. Insofar as possible, it should be finally paid for now. Borrowing should be kept to a minimum to maintain our ^{present} fiscal strength. The rise in the Federal debt merely means that the burden is being postponed--that both interest and principal must be paid for later out of higher taxes imposed at a time when they may be harder to pay and less willingly paid than now.

More revenue is needed also to maintain our economic health. The pressure of a rising purchasing power on

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the prices of goods of which the production will be increasingly limited by the necessity of diverting our resources to defense uses threatens to become inflationary. Heavy taxation which takes that purchasing power for the Government operates to relieve the inflationary pressure.

This larger needed revenue should come from all sources where there is ability to pay. The people of this country have never been more ready to make sacrifices for the common good. I believe we have not kept pace with their feelings in the matter--that we are still thinking too much of allowing this group or that to escape its share of the burden.

An adequate tax program for defense should reach ability to pay at several points not now fully tapped.

1. In my opinion, such a tax program will involve a substantial lowering of personal exemptions of the income tax. Under the Bill before you, the base has been broadened to add about two million new taxpayers, but, even so, only a relatively small proportion of the population will be directly affected by the income tax. A further lowering of the exemptions would produce some additional revenue. It would help in cutting down the purchasing power of ~~small consumers, of non-essential goods.~~

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.

But, if we are to extend the income tax downward to include millions more of persons with low incomes, we cannot fail, in a tax program for defense, to reach in other places ability to pay which is escaping its fair share of taxes.

Among these are the following:

2. The excess profits tax exempts profits of the most prosperous corporations except to the extent that those profits are more than the profits of the years 1936 to 1939. We must not impose taxes on millions more of our low income group unless we also extend the excess profits tax to these exempt profits.

3. In at least 8 States of the Union, income taxes are substantially lower than in the remaining States because of the splitting of incomes between husbands and wives. In other States, the income taxes of many wealthy people have been reduced by gifts between husband and wife. Here are discriminations against the rest of the taxpayers which certainly must be eliminated if we are to extend the income tax downward to include millions of new low income taxpayers.

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4. For years, the concerns engaged in extracting certain of our natural resources, notably oil, have been allowed far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape must be removed.

5. A few months ago, the Congress, ~~on my recommendation~~, eliminated the tax exemption privilege from new issues of Federal securities. The purchasers of State and local securities still enjoy this exemption. The exemption was inequitable and expensive in more normal times. It cannot be borne longer in a time like this, and especially if we are to increase the direct tax burdens of persons with small incomes.

6. In its suggestions to the Ways and Means Committee, the Treasury recommended substantial increases in estate and gift taxes, and a lower rate of exemptions. In part, this recommendation was followed, but, in my opinion, the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

Those are some of the things that I mean when I say that a tax program for defense must go far beyond the present Bill.

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There is another condition to lowering the personal exemptions. We cannot continue to take into the income tax system millions of new taxpayers with small incomes without simplifying the ways in which their tax is computed.

Take, for example, a person with a \$900 salary. Under the present law, he first figures out what deductions he has-- taxes paid, interest paid, contributions and so on. Then he computes his earned income credit. Then he subtracts his personal exemptions from his income after deductions. On the balance, under rates of the Bill before you, he computes a surtax at 5 percent. Then he goes back to the income and deducts his earned income credit. On the balance, he computes a normal tax at 4 percent. He then adds the normal tax and the surtax and takes 10 percent of the total for defense tax. He adds the defense tax to the normal tax and surtax and finally arrives at his income tax.

When he started to fill out his return, he may have been full of patriotic enthusiasm to pay his share toward the defense program, but by the time he has finished his last computation he will quite possibly be very much irritated. It is difficult enough for persons with substantial incomes who are used to dealing with financial papers and to making computations of this kind to fill out their tax

- 8 -

returns and compute their taxes. The person with a small and simple income should not be put to this necessity when it is entirely unnecessary.

Furthermore, the checking of these tax computations by the administrative authorities takes time. Frequent errors are found which must be rectified requiring correspondence and further annoyance of the taxpayer as well as expense to the Government.

For the large taxpayers, equity requires that income computations be somewhat complicated, but for small taxpayers, the result is merely cumbersome and confusing. For such taxpayers, a simple table could be provided showing the taxes for various sizes of incomes. The table could be available in every post office and public place. The taxpayer would merely add up his income on a simple form, find the tax on the table and pay that amount. The taxpayer would be spared time, trouble and annoyance, and the Government would be spared expense.

To indicate more clearly what I have in mind, I have had prepared a sample table showing how this might be worked out in practice. This is only a preliminary table, and improvements and changes will no doubt be desirable, but it will illustrate how the proposal can be applied in practice.

PROPOSED SCHEDULE OF FEDERAL INCOME TAXES
For Individuals with Gross Incomes of Less Than \$3,000^{1/}

Know Your Taxes ~

If your gross income is:		Your tax is:		If your gross income is:		Your tax is:		If your gross income is:		Your tax is:	
From	To less than	Single person*	Married person*	From	To less than	Single person*	Married person*	From	To less than	Single person*	Married person*
\$0	\$750	-	-	\$1,500	\$1,525	\$62	\$1	\$2,250	\$2,275	\$126	\$59
750	775	\$1	-	1,525	1,550	64	2	2,275	2,300	128	61
775	800	2	-	1,550	1,575	66	3	2,300	2,325	130	63
800	825	3	-	1,575	1,600	68	4	2,325	2,350	132	65
825	850	5	-	1,600	1,625	70	6	2,350	2,375	134	68
850	875	7	-	1,625	1,650	73	7	2,375	2,400	136	70
875	900	9	-	1,650	1,675	75	8	2,400	2,425	139	72
900	925	11	-	1,675	1,700	77	10	2,425	2,450	141	74
925	950	13	-	1,700	1,725	79	12	2,450	2,475	143	76
950	975	15	-	1,725	1,750	81	14	2,475	2,500	145	78
975	1,000	17	-	1,750	1,775	83	16	2,500	2,525	147	80
1,000	1,025	19	-	1,775	1,800	85	19	2,525	2,550	149	82
1,025	1,050	22	-	1,800	1,825	88	21	2,550	2,575	151	85
1,050	1,075	24	-	1,825	1,850	90	23	2,575	2,600	153	87
1,075	1,100	26	-	1,850	1,875	92	25	2,600	2,625	156	89
1,100	1,125	28	-	1,875	1,900	94	27	2,625	2,650	158	91
1,125	1,150	30	-	1,900	1,925	96	29	2,650	2,675	160	93
1,150	1,175	32	-	1,925	1,950	98	31	2,675	2,700	162	95
1,175	1,200	34	-	1,950	1,975	100	33	2,700	2,725	164	97
1,200	1,225	36	-	1,975	2,000	102	36	2,725	2,750	166	99
1,225	1,250	39	-	2,000	2,025	105	38	2,750	2,775	169	102
1,250	1,275	41	-	2,025	2,050	107	40	2,775	2,800	172	104
1,275	1,300	43	-	2,050	2,075	109	42	2,800	2,825	174	106
1,300	1,325	45	-	2,075	2,100	111	44	2,825	2,850	177	108
1,325	1,350	47	-	2,100	2,125	113	46	2,850	2,875	180	110
1,350	1,375	49	-	2,125	2,150	115	48	2,875	2,900	183	112
1,375	1,400	51	-	2,150	2,175	117	50	2,900	2,925	186	114
1,400	1,425	53	-	2,175	2,200	119	53	2,925	2,950	189	116
1,425	1,450	56	-	2,200	2,225	122	55	2,950	2,975	192	119
1,450	1,475	58	-	2,225	2,250	124	57	2,975	3,000	195	121
1,475	1,500	60	-								

* For each dependent, subtract \$400 from your gross income and use the balance to determine your tax.

^{1/} At the option of the taxpayer, his income tax liability shall be either the amount indicated in this table or the amount computed under the Internal Revenue Code as amended by H. R. 5417.

August 7, 1941
10:29 a.m.

HMJr: Ed.

Edward
Foley: Yes, Mr. Secretary.

HMJr: What have we done about the credits for
Thailand? Are they frozen or not? The
ticker says.....

F: They're not frozen, Mr. Secretary. The
State Department expressly said they didn't
want them frozen.

HMJr: They're not frozen?

F: They are not.

HMJr: All right.

F: Yeah.

HMJr: Thank you.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 7, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

You will find of interest the paragraphs marked with a red pencil in the attached enclosure to Mr. Bewley's note which I received this morning, concerning Thailand.

When I telephoned Mr. Bewley to thank him for the information, he told me it was his impression that the British Embassy had made, or would make, this material available directly to the Department of State.

I am distributing this message to the usual group in the Treasury.



THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 580
Benjamin Franklin Station
Washington, D. C.

6th August, 1941.

Dear Cochran,

I enclose for your information the
gist of two interesting telegrams about Thailand.
They are copies of telegrams from Doll (the Financial
Adviser in Thailand) to the London Treasury.

Yours sincerely,

(Signed) T. K. Bewley.

(T. K. Bewley)

Mr. H. Merle Cochran,
United States Treasury,
Washington, D. C.

COPY FOR SECRETARY

Begins.

Very Secret.

Thailand anxiously desires to maintain her complete neutrality; she has treaty obligations of friendship with Japan and she is above all compelled to prevent hostile action by the Japanese armed forces now gathering on her Eastern Frontier. In consequence Thailand in face of American and British and Dutch freezing of Japanese assets had in my opinion no choice but to make a financial gesture to Japan in order to maintain trade and particularly to secure completion of large rice contracts outstanding with Japan. But the Minister of Finance is also mindful of Thailand's obligations and traditional economic ties with the British Empire, and therefore on my advice and on assurances to me by the manager of the Yokohama Specie Bank that Japan needed Thai exports so much that there would be no difficulty even about gold transfers, following Credit Agreement, based on our vis national tical and neutral gold, was proposed to Yokohama Specie Bank here.

Articles 1 and 2. A consortium of the three Thai commercial banks namely Thai Commercial Bank, Bank of Asia, and National and City Bank of Thailand agreed to grant Yokohama Specie Bank three months credit of ten million ticals at 5% where clean and 4% where against documents. (Note: this difference in rates was to force them to use the credit only for genuine trade transactions).

Article 3. Credit was to be repaid in ticals as far as possible, but any amount for which ticals could not be found was to be repaid in gold, such gold to be freely transferable to Thailand or to remain earmarked in Japan. (Note: Insistence on ticals and gold was based on a determination to avoid having anything to do with the yen).

Article 4. Credit once repaid could be renewed on similar terms.

2. You will notice Thai Government enters nowhere into the agreement, this was intentional so as to avoid wounding British susceptibilities even in the smallest way.

3. The agreement was presented yesterday to the Yokohama Specie Bank which has been in great difficulties to keep its doors open during the last few days. Agreement was declared over the telephone to be unacceptable three hours later. Japanese are now preparing counter proposals, but as I am now sure that the maintenance of trade is not the main consideration with them, I have no faith in the possibility of our arriving at any reasonable credit agreement. This lack of faith is based on the following reasons:

I have just learned so confidentially that no action in Thailand must be based on this information, that the Japanese Minister wrote last evening to the Prime Minister to say that Yokohama Specie Bank would have to close its doors in Bangkok and trade /activities of/ Thailand and Japan cease if proposed credit agreement were insisted upon, that Luang Pradist (Thai Minister of Finance) was a partisan of gold and hard currencies and old fashioned conservative finance and was "an intransigent Minister" (textually) with whom it would be quite impossible to harmonise Japanese ideas and finally that Japan could not compromise on Mr. Ono's plan for reconstruction of the Thai finance, whereby Yen and Tical would be freely interchangeable and Yen admitted to currency reserve. Mr. Ono, I learn, is not only Financial Adviser to the Japanese Government but also Financial Adviser designate, which would be tantamount to future de facto Finance Minister, of Thailand.

4. Luang Pradist told me this morning that if the Government did not support him in resisting all attempt to soil the tical with yen he would immediately resign. He also asked me what help Thailand could expect from Democracies in foiling /economic/ and financial invasion of Thailand which is already taking place. I warned him that I was not in a position to speak on political matters but that my own feeling was that the

- 3 -

Democracies would not withhold help, also that any yielding by Thais on this yen question would give Japan means of getting round British freezing order and would involve almost certainly instant freezing of Thai assets in the Democracies, repeal of the present oil fuel memorandum and off cutting of Thai British trade.

5. I firmly believe the Thais want to resist Japan. They are proud of their currency and their independence. But Britain, Netherlands East Indies and United States should already begin to prepare measures to back up Thailand economically and financially and must be ready to give in advance guarantee of such backing. It may even be necessary to prepare for a guarantee of armed help if Thailand would not be engulfed in co-prosperity space. With the full support of democracies I think there is good chance of Thailand resisting Japanese demands, but that support is indispensable, as Japanese troops at Siemreap are now within four miles of our very frontier.

Ends.

6. *I endorse entirely remarks of Mr. Doll.

- *I think "I" is the British Minister in Thailand. -

(Init.) T.B.

6/8

Copy:alm 8-7-41

Begins.

After Minister of Finance had refused twice to see Mr. Ono and after the Manager of the Yokohama Specie Bank had represented that if financial assistance was not forthcoming immediately, he must close his doors, Mr. Ono finally agreed to the conclusion by the Yokohama Specie Bank of an arrangement between itself and consortium of three Thai commercial banks along the lines indicated in my telegram, with the following points of difference: (A) Agreement takes the form of an exchange of letters whilst credit is termed "overdraft"; (B) There is no arrangement for renewal; (C) Gold will be earmarked in Japan but transfer will be subject to permission of the Japanese Government and the cost of transportation if transferred will be borne by the Yokohama Specie Bank.

2. Thailand has thus won the first round but Mr. Ono insists on seeing the Minister of Finance in order to discuss "fundamentals". He endeavored to force interview with the Minister of Finance by appealing to the Prime Minister but the latter declined to intervene.

Ends.

August 7, 1941
10:30 a.m.

Merle
Cochran: Yes, sir.

HMJr: I wish you'd get word to whoever is over there - Sumner Welles - that I'd like to give the Russians this note on gold, today, and I'm sick and tired of waiting to hear from them.

C: This morning I was talking with one of the men, Page, who's in Loy Henderson's place.....

HMJr: Yeah.

C:and I asked him what had happened on that, and he said that the whole correspondence had been transferred to Dean Acheson yesterday evening. And I told him that Dean had been over here at a meeting and that he had asked me the day before about it, and I asked him yesterday and he had nothing on it and they said it just went down late yesterday. Dean was here until seven. I can phone him and find out.

HMJr: Call him up and say I want the thing cleaned up either today or tomorrow.

C: Fine. That you want to go ahead with the exchange of notes.

HMJr: Yes.

C: I'll get in touch with him right away.

HMJr: Thank you.

C: All right, sir.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 7, 1941

TO Secretary Morgenthau

FROM Mr. Cocaruso

At 9:15 this morning I spoke with Mr. Page, in the absence of Mr. Henderson, in the Russian Section of the Department of State. In answer to my inquiry as to how the matter stood on the exchange of notes with respect to Russian gold, Mr. Page told me that the file of correspondence on this case had been sent to Assistant Secretary of State Acheson yesterday afternoon. I told Mr. Page that I had mentioned this matter to Mr. Acheson yesterday afternoon when the latter was in the Treasury, but that it was my impression that up to that time Mr. Acheson had not seen the correspondence.

Shortly after talking with Mr. Page, Secretary Morgenthau telephoned me, stating that he desired to consummate the proposed exchange of notes with the Soviet Ambassador today or tomorrow. I told the Secretary of my conversation with Mr. Page and the Secretary approved my suggestion that I phone Assistant Secretary Acheson and let the latter know of Mr. Morgenthau's urgent desire to have the exchange of notes completed today or tomorrow. Mr. Acheson was in a conference, but called me back at 12:15.

To Mr. Acheson I gave a summary of the Russian gold situation. He found the Romanian file on his desk. He said he would study it immediately. Furthermore, he has a 2:30 appointment this afternoon with Under Secretary Welles and will bring up the question at that time. I requested that either Mr. Acheson or Mr. Welles tele- phone Secretary Morgenthau directly after their meeting.



August 7, 1941.

Dear Oscar:

Thank you for your note of August 5th. I was sorry not to see you at the meeting, but I understand the pressure under which you have been working the last few days.

Indeed, I shall be delighted to have any reports you may send me as to the progress of the matters with which you are particularly concerned. I am, as you know, deeply interested in what you are doing, and I shall look forward to receiving a memorandum whenever you have anything you wish to present to me.

Sincerely,

(Signed) H. Morgenthau, Sr.

Mr. Oscar Cox,
Executive Office of the President,
Office for Emergency Management,
Washington, D. C.

GHV/4bs

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
WASHINGTON, D. C.

5 August 1941

Secretary Morgenthau:

I am sorry that I did not attend the meeting in your office this afternoon.

You, I am sure, would be the first to say that the Russian aid is the first order of business. Wayne & I were at it steadily all day long. At least I think we have it off the ground — thanks to your help.

If I may, I would like to bother you with brief reports, from time to time, on what progress is made. You were largely responsible for the birth of the effort so you have to suffer the offspring.

Oscar Cox

August 7, 1941

Present: Mr. White
Mrs. Klotz

Hall, Jr: Lunch at Claude Wickard's, to which I took Professor Noel Hall with me: They had McDougall there from Australia, who has some idea about nutrition after the war, but he never started talking until two, and I didn't have a chance to stay, so I don't know what his idea is. He is going to send me a written report, which will go to Harry White.

Then night before last the British Ambassador told me that he had had lunch with Noel Hall, and Noel Hall said that the Germans are very short of fats and will get much shorter, that the only place that they can go to is Africa. I got him started talking on the subject today, and there are some five hundred thousand tons of fat, largely under control of Weygand, and I asked him could we buy them and he said we could buy them and he doesn't know anything which would be more important, first, to keep the fats from getting to Germany and second, to buck up the Weygand people, so that they realize it is another market for their oils from nuts besides Germany.

He says it is a very delicate matter, but I gather nobody is doing it, and much to my amazement, Noel Hall had never met Wickard, and Wickard didn't even know who he was.

Under Mr. Murphy of the State Department there are thirty-three observers all along Northern Africa who are supposed to watch what is happening with food. This is all news to me, and I take it it is news to Harry White, by the expression on his face. Right?

White: Yes, it is right.

- 2 -

E.M.Jr: Now, Noel Hall, who is smart as hell, realized - I didn't know anything about it, and he said, "Would you like to know what these observers are saying?" And I said, "Sure." He said, "I will send you some of the intercepts." I said, "How do you send them?" And he said, "Through the usual channels," meaning through Merle Cochran, and I said, "No, send them to Harry White. They are not financial. We will get them that way." In other words, they are the intercepts of the messages our consuls are sending home about what they see in Africa.

The other thing is, I picked up from Dr. Parran that there is a Mr. Allen, second in command of the Red Cross in France who has just returned with a whale of a story on nutrition conditions in France, and I want Harry White to get in touch with Mr. Hall and see if he has got a written report and get it.

White: Mr. Hall or Mr. Allen?

H.M.Jr: Mr. Allen.

The other thing is, I want Mr. White to think about getting somebody on nutrition connected with us, and if we can't get somebody, the best person in town is Dr. Stanley, who never gets a chance over at Agriculture, and she wouldn't have been there today if I hadn't asked for her, but she is tops.

White: We will do both. If we get anybody --

H.M.Jr: Dr. Stanley is tops and she never gets a chance over there. There is also a school of nutrition that has just been set up at Cornell with a Dr. Maynard at the head of it. This is both animal and human. It is very well organized, and they would let us have anybody that we wanted

- 3 -

to advise with us. This is just a brand new thing that has been set up, both animal and human.

White: I should think the thing to do would be to get somebody whose chief business it would be to contact the people who know most about it.

H.M. Jr: That is right, but I think from what Noel Hall tells me - I also gather that at last Harry White got in touch with him.

White: The next day after you spoke.

H.M. Jr: After the third time I talked to you.

White: No, after the second, I think.

H.M. Jr: Isn't he smart?

White: Very.

H.M. Jr: But here is a man like Noel Hall who knows more about food conditions in Germany than anybody else in the world outside of Germany, and Claude Wickard has never met him, and didn't know who he was. It is unbelievable. But the thing that I want to get over, I want you (White) to give me another summary like you did months ago, what can we get in the way of foods out of Africa, and then please as soon as we get this thing out of the way Tuesday, get in touch with Plevin, General deGaulle's representative, and ask him what could be done in the way of buying it.

There are two kinds of things. There are peanuts and some kind of other nut which I gather grows on a tree, and they are the only two kinds of a supply of oil that they can get. But Hall says, if the Germans caught on they would immediately rush in there. There are also some in the islands off there, the Cape Verde Islands have some fats

- 4 -

but to me it is just the height of stupidity that we don't go in and buy them up. O.K., Harry?

White: Right. Did Hall mention to you what I asked of him?

H.M.Jr: No, he just said he was preparing something for you, and I didn't ask what it was.

White: Well, the arrangement I had with him, and I told him so long as it would be on a very informal and confidential basis, the only person that I would tell would be yourself, keep you completely informed, that it was for you, and that he, I hoped, would find it necessary to tell only his own chiefs, because we didn't want to get any wires crossed around here. I asked him to give me a memorandum and keep giving them to me of any ideas that he has, any criticisms that he has, any suggestions with respect to economic warfare whatsoever, which would not preclude his giving them to anybody else he wanted, but that we would examine them and if we felt they had merit and were sound we would push them from this end, but we wanted to make sure there was no idea in his head going unexplored, and he was very happy to do that.

H.M.Jr: I told him the same thing because I didn't know that you had seen him. All right Harry, my boy.

White: All right.

August 7, 1941
2:40 p.m.

HMJr: Hello.

Judge
Rosenman: Hello.

HMJr: Hello, Sam.

R: Henry, how are you?

HMJr: I'm alive. How are you?

R: All right. Look, Henry, Dorothy and I -
we're in town. We're going to be next week -
we're going down to Louis' for the week-end
and we'd like to have Elinor and you have
dinner with us some place.

HMJr: Well, Elinor's not here, Sam.

R: Well, would you do it?

HMJr: When?

R: Well, either Monday or Tuesday. Some night
next week. We're going away tomorrow down
to Louis' for the week-end.

HMJr: Well, why don't you have dinner with me Monday
night?

R: Well, we'd rather have you have dinner with
us.

HMJr: Well, I've got a house here. You and Dorothy
have dinner with me.

R: Well, we'd like to very much. I wanted to
talk to you also about priorities. They.....

HMJr: You come - you and Dorothy come and have
supper with me Monday night. Do you want
anybody else there?

R: No.

- 2 -

HMJr: Okay. You know where we live?

R: Would you rather come with us to the Shoreham or some place?

HMJr: No, no.

R: Huh?

HMJr: We'd be much more comfortable at my place.

R: Well, I know we'd enjoy it, but I'd like.....

HMJr: Well, I'm not pleading before you. You'll have to come to me.

R: Well, let's make the date.....

HMJr: Monday.

R:and Monday night.....

HMJr: Yeah.

R:and we'll see whether we come to your house or you come out with us.

HMJr: That's silly, now. I'll give you a good meal.

R: What have you got?

HMJr: Anything that you want.

R: (Laughs) Okay. All right. Well, we'll make it Monday night.

HMJr: What?

R: I don't have any tails in Washington.

HMJr: No. You don't even have to wear a coat.

R: (Laughs) Okay.

HMJr: I'll look forward to you and Dorothy Monday

- 3 -

night. Love it.

R: All right, fine.

HMJr: Good-bye.

R: All right. Good-bye.

August 7, 1941

2:35 p.m.

TAX STATEMENT

Present: Mr. Helvering
Mr. Sullivan
Mr. Blough
Mr. Wenchel
Mr. Kades
Mr. Foley
Mr. Atkeson
Mr. White
Mr. Mooney

H.M.Jr: All right, John, where are we on this thing, this table?

Blough: Here is the new draft. It is not much different.

H.M.Jr: Passed by you (Hilvering) and your people?

Hilvering: Well, not entirely.

H.M.Jr: What is the trouble?

Hilvering: Well, the thing that strikes me, I just wonder how it is going to apply, Mr. Secretary, to small individual businesses and things like that that are down in the small brackets, the little fellows who have individual businesses with incomes of twenty-five hundred dollars.

Foley: Well, it is not intended to apply to businesses. It is only intended to apply to individuals, wage earners. Isn't that right, Mr. Secretary?

Hilvering: Well, there are thousands of individual businesses that are run by an individual.

H.M.Jr: Well, would it help any to - not to go up so high?

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Delvering: Yes, to that degree.

M.M.Jr: What? Would it help any to keep it, say, up to fifteen hundred? Would that help any?

Sullivan: It wouldn't help at all with your married people then, sir.

M.M.Jr: Well, you have got to find the answer, Guy, how to do it. This is the thing to do. Now, how to do the thing I don't know. That is up to you fellows.

Delvering: Well, you see, what I am getting at, Mr. Secretary, is, here is a man who owns, just for an illustration, a little restaurant himself. It is his individual business. He makes two thousand dollars a year. Now, how are we going to compute his gross and so forth? Is it the total amount he takes in or is it after - we would have to get to his net income, really, to get a tax that he is entitled to pay. That is the question I ask.

M.M.Jr: The married fellow at fifteen hundred under this thing, up to two thousand dollars, thirty-eight dollars. Would that help any, if you kept it down to two thousand dollars?

Sullivan: I think you would have the same problem. In either event I think it is cured with the option of figuring a regular ten forty A.

Delvering: Well yes, if we make this optional.

M.M.Jr: Well, how would that be, he can take his choice? What is the matter with that? He can either pay this or he can pay the other.

Mooney: To make it optional and then only applicable to wage earners as well as wage earners that might

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have some investment income, it might bring it up to this level, and it may not be applicable to those who engage in business that requires capital. In other words, if it was restricted solely to your wage earners as well as those wage earners which might have a small investment income, it might bring it up to this ceiling.

I think it would be a swell idea if there is no objection to the elimination from this schedule, if those people who are engaged in business and use capital as material income producing factors and then it would still be optional with the wage earner.

H.M.Jr: Now say that over again.

Mooney: It would be optional, in the first place, and then the option only limited to the wage earners and even those wage earners who might have some investment income which would make their total income not in excess of this limit of three thousand, which is to be your ceiling, but your individuals who are engaged in business as distinguished from your individuals who are working for a wage, for a salary, wouldn't have the option to file on this basis. They would have to file a ten forty A return.

Foley: It is all right.

H.M.Jr: Something like that.

Foley: You will get what you have got in mind, cutting out of it these tax difficulties that Tim is suggesting.

H.M.Jr: That is all right.

Foley: But you are not trying to extend this to that class of people anyway, because they have got

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the same kind of computation problems as the fellow with the bigger income. What you want to reach is the little fellow that earns wages and doesn't know much about what he has to pay, never has paid an income tax before. He goes in to the Post Office and he sees the chart there and he sees if he has earned income of seven hundred seventy-five dollars that he has to pay his Government a dollar and a quarter. He reaches in his pocket and pays and gets a receipt for it from the postmaster. That is the kind of fellow that the Secretary wants to get to.

- H.M.Jr: That is the kind that the President mentioned in his statement.
- Foley: Yes.
- H.M.Jr: Give me some figures that I can use. If this thing was made a law, how many people do you suppose in the United States would be affected who have to pay an income tax?
- Belvering: By this broadening the base?
- H.M.Jr: Yes. Give me a guess.
- Belvering: Six million six hundred thousand.
- H.M.Jr: Altogether? What is the total?
- Belvering: About twenty-three million.
- H.M.Jr: There is about twenty-three million people.
- Belvering: Twenty-one to twenty-three.
- H.M.Jr: And you have added about seven million to this, roughly.
- Belvering: Yes.

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- H.M.Jr: Nobody can check it. You are taking what, about fourteen million now and you are adding another seven?
- Sullivan: Sixteen now.
- Blough: Those are return filers.
- H.M.Jr: Sixteen and you are adding seven, is that about right?
- Salvering: Yes.
- H.M.Jr: Now, of the sixteen million, if the thing became law, how many would pay tax - how many would pay tax under the present law?
- Sullivan: Just under eight.
- H.M.Jr: About half?
- Sullivan: A little less than half.
- H.M.Jr: Well --
- Sullivan: Not quite half.
- H.M.Jr: I am doing it in round figures. Now, if this thing was applicable to twenty-three million, everybody would have to pay something. I mean, beginning with seven seventy-five, the fellow would pay a dollar. Everybody would have to pay something.
- Foley: No, not necessarily. If the fellow had losses, Mr. Secretary, he might offset his --
- H.M.Jr: Well, with that exception.
- Blough: Well, married persons with dependents would have to file under this if they made more than fifteen hundred, but their dependents would leave them out of paying any tax until they got maybe

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nineteen hundred or twenty-three hundred. Those people would file and not pay.

H.M.Jr: Well, let me put it this way, John. If you follow me, or if I am up there and they say, "Mr. Morgenthau, what about this, what about that," the very question of - who is going to answer those for me? Who will be there to answer that for me?

Sullivan: I will.

H.M.Jr: Will you be?

Sullivan: Yes.

H.M.Jr: And will you have some of this gang here? But you are ready to answer it?

Sullivan: Yes.

H.M.Jr: Do you like it with that - the way it is now?

Helvering: Well, of course I think there is a simpler way to do it.

H.M.Jr: How?

Helvering: By just having the return filed.

H.M.Jr: How do you mean?

Helvering: Well, take our present ten forty A and leave off - just put here, "Salary received and other income," and have this table right on the back of it.

H.M.Jr: This table?

Helvering: Yes.

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- H.M.Jr: Well, for my purposes for tomorrow, this is so novel that this hits them. Now, you may get to the point that you will have form which will have the ten forty and this on the back and you will say, "You can take either one or you can have two separate forms." Those are all things which you will have plenty of time to work out.
- Helvering: Of course this will require legislation.
- H.M.Jr: Oh, sure. But I think that this will catch the imagination of the people. After they read that paragraph of Roy Blough's, what you have got to go through to figure the damn thing out - incidentally, I wish you would put something in there, just make a note - if you have this, this means that the fellow with this income doesn't have to - who can't afford to hire either a high-priced lawyer or an accountant to figure the damn thing out for him, he can do it himself.
- Helvering: You will find too, it will help --
- H.M.Jr: Excuse me. Just leave out - I mean, where the rich man, the man with the big income, can afford to hire a lawyer and an accountant to figure the thing out for him, the little fellow can't, and it is almost as complicated, you see, Roy. A little sentence on that. You neither being a lawyer nor an accountant, you and I, we can put that in. I didn't get any echoes, you see. Roy, I meant to whisper it to you. (Laughter)
- Blough: It will be there.
- H.M.Jr: All right. Don't expect any lawyer to help you write it, either.
- Helvering: The great majority of these people are people that never keep any books anyhow.

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H.H.Jr: Sure.

Balvering: And I think this will catch their imagination. Rather than to try to keep count all through the year when they have to make a return on one day, they can go and see, if I make so much, I pay just so much. It relieves them of all the responsibility of keeping books.

H.H.Jr: The other thing is this, Roy. If your figure is right, that is about half of the wage earners of the United States today. Miss Perkins said there are thirty-nine million people at work right now. I think those are her latest figures. Now, when I talk about saving a billion dollars of non-defense expenditures, these fellows don't think it means anything to them, but if they realize it means something to them and we don't say they have got to increase their taxes, maybe they will begin to get interested. That is what I am really thinking about. Maybe I can get twenty-three million people interested in saving some money so I can say, "Look at this thing. Now, of course, we are maybe going to have to increase your taxes by fifty per cent but if we could save some of this non-defense stuff, maybe we wouldn't."

Sullivan: Along the line of simplicity, Mr. Secretary, the Committee this morning, a very large number of them, strongly urged us to eliminate the Defense Tax and put it into the personal rates and save computations.

H.H.Jr: It is all right.

Sullivan: And I think either you or I ought to recommend that in our statement.

H.H.Jr: I don't care, either way.

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Sullivan: I think it would be a very popular thing to do, and the sensible thing to do, don't you, Mr. Commissioner?

H.M.Jr: Do you think it would come in to my statement?

Blough: You could put in one short sentence in passing in there, while you are at it, why not take this Defense Tax out and consolidate it with the other? Aside from that, it would sort of break in to things if we take too much time for it.

H.M.Jr: Try putting it in in one sentence.

Blough: All right.

H.M.Jr: Well, that is all I want. Are you going to be up there tomorrow? I would like you to.

Helvering: Yes.

H.M.Jr: Bring some of your fellows with you.

Helvering: Yes.

H.M.Jr: O.K.

ILLUSTRATIVE SCHEDULE OF FEDERAL INCOME TAXES

For Individuals with Total Incomes of Less than \$3,000

Know Your Taxes ~

If your total income is:		Your tax is:		If your total income is:		Your tax is:		If your total income is:		Your tax is:	
From	To	Single person*	Married person*	From	To	Single person*	Married person*	From	To	Single person*	Married person*
\$1	\$750	-	-	\$1,501	\$1,525	\$62	\$1	\$2,251	\$2,275	\$126	\$59
751	775	\$1	-	1,526	1,550	64	2	2,276	2,300	128	61
776	800	2	-	1,551	1,575	66	3	2,301	2,325	130	63
				1,576	1,600	68	4	2,326	2,350	132	65
801	825	3	-					2,351	2,375	134	68
826	850	5	-	1,601	1,625	70	6	2,376	2,400	136	70
851	875	7	-	1,626	1,650	73	7				
876	900	9	-	1,651	1,675	75	8	2,401	2,425	139	72
				1,676	1,700	77	10	2,426	2,450	141	74
901	925	11	-					2,451	2,475	143	76
926	950	13	-	1,701	1,725	79	12	2,476	2,500	145	78
951	975	15	-	1,726	1,750	81	14				
976	1,000	17	-	1,751	1,775	83	16	2,501	2,525	147	80
				1,776	1,800	85	19	2,526	2,550	149	82
1,001	1,025	19	-					2,551	2,575	151	85
1,026	1,050	22	-	1,801	1,825	88	21	2,576	2,600	153	87
1,051	1,075	24	-	1,826	1,850	90	23				
1,076	1,100	26	-	1,851	1,875	92	25	2,601	2,625	156	89
				1,876	1,900	94	27	2,626	2,650	158	91
1,101	1,125	28	-					2,651	2,675	160	93
1,126	1,150	30	-	1,901	1,925	96	29	2,676	2,700	162	95
1,151	1,175	32	-	1,926	1,950	98	31				
1,176	1,200	34	-	1,951	1,975	100	33	2,701	2,725	164	97
				1,976	2,000	102	36	2,726	2,750	166	99
1,201	1,225	36	-					2,751	2,775	169	102
1,226	1,250	39	-	2,001	2,025	105	38	2,776	2,800	172	104
1,251	1,275	41	-	2,026	2,050	107	40				
1,276	1,300	43	-	2,051	2,075	109	42	2,801	2,825	174	106
				2,076	2,100	111	44	2,826	2,850	177	108
1,301	1,325	45	-					2,851	2,875	180	110
1,326	1,350	47	-	2,101	2,125	113	46	2,876	2,900	183	112
1,351	1,375	49	-	2,126	2,150	115	48				
1,376	1,400	51	-	2,151	2,175	117	50	2,901	2,925	186	114
				2,176	2,200	119	53	2,926	2,950	189	116
1,401	1,425	53	-					2,951	2,975	192	119
1,426	1,450	56	-	2,201	2,225	122	55	2,976	3,000	195	121
1,451	1,475	58	-	2,226	2,250	124	57				
1,476	1,500	60	-								

* For each dependent, subtract \$400 from your total income and use the balance to determine your tax.

Note: The taxes in the above schedule, which is purely illustrative, were calculated on the following assumptions: personal exemption for single person, \$750 and for married persons, \$1,500; rates the same as in E. R. 5417; tax for each income block is the average of the tax on the lower and upper limit of the block, reduced by 10 percent as a rough equivalent for deductions from income; and the tax is shown to the nearest dollar.

August 7, 1941
3:30 p.m.

RE TAX STATEMENT

Present: Mr. Blough
Mrs. Klotz
Mr. Kuhn

H.M.Jr: Let's get going, boys.

Blough: I have written in suggestions from some other people besides Ferdie, and I haven't gotten his yet and I have tried to put on yours the suggestions I have gotten, if you can read my handwriting.

H.M.Jr: You read out loud, please.

Blough: "Mr. Chairman and members of the Senate Finance Committee: My purpose in being here today is to discuss taxation as an essential part of national defense. 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 labor, management, machinery and raw materials. To solve that problem, while at the same time protecting our economic foundations and democratic institutions, our fiscal policy must be adapted to the needs of the times."

H.M.Jr: I will have him stop at each paragraph. If anything doesn't ring right, you (Mrs. Klotz) speak up.

Blough: "On April 24, I discussed with the Ways and Means Committee of the House, the need of producing \$3,500,000,000 annually in additional

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revenue. The Treasury Department presented a suggested program for raising that amount of money. The Ways and Means Committee worked hard on the tax bill. As it is before you, it will produce approximately \$3,200,000,000" --

H.M.Jr: Wait a minute. Don't you think you could say, "The Ways and Means Committee" - wait a minute, don't write it out - "and Chairman Doughton," would you pay him a little compliment?

Blough: "Chairman Doughton and the Ways and Means Committee."

H.M.Jr: Don't you (Klotz) think it would be nice? Maybe not, maybe the President wouldn't like that. I would leave it out. Right? He might not like it. Why go out of your way to say something nice?

Kahn: He wasn't so sweet to you the other day.

Blough: While we are at that point, Mr. Bell suggested we might want to say that the Ways and Means Committee worked hard and reported a bill which raised that amount and then as it is before you it is down to three, two. In other words, I thought it complicated itself.

H.M.Jr: Why don't you say it all in that sentence, "The Ways and Means Committee worked hard on this bill."

Blough: Well, originally we did more with it than that. Maybe as it stands now it isn't worth much.

H.M.Jr: I don't see why you say it at all.

Klotz: I agree with you.

H.M.Jr: You sort of drag it in by the tail. I would leave it out. And another thing, appearing

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before the Senate Finance, you say, "Well, the Ways and Means Committee worked so hard," and they say, "Well, what do you think we do?" I would cut it out.

Blough: All right.

Klotz: Definitely.

Kahn: John is going to throw some bouquets to them in his statement.

H.M.Jr: He would.

Kahn: Well, he should.

H.M.Jr: It is all right. "But why come up and tell us how hard the Ways and Means Committee worked?"

Blough: I think you are right.

"As it is before you" --

H.M.Jr: Henry would say, "Why should I worry about the Ways and Means Committee?"

Blough: Perhaps we should say, "As it passed the House," rather than, "As it is before you." "As it passed the House, this bill will produce" --

H.M.Jr: That is all right, "As it passed the House."

Blough: "This bill will produce approximately three billion two hundred million annually in additional revenue. In my opinion, it is very important that the revenue yield be raised to at least the original \$3.5 billion level. It is also important that the bill be passed as promptly as possible. Income taxpayers and excess profits taxpayers should know as quickly

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as possible what their taxes on 1941 income and profits are going to be since over seven months of the year have already elapsed. 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 in revenue from those sources."

H.M.Jr: That is a new sentence, isn't it?

Clough: No, that has been in for some time.

H.M.Jr: All right, go ahead. You (Klotz) speak up any time.

Clough: "The rapid developments of the last few months have made this bill inadequate even before it is passed. Since my statement before the Ways and Means Committee, many things have happened. Two and one half months ago, the President proclaimed the existence of an unlimited national emergency. 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 power, all of the moral strength, and all of the natural resources of this nation'".

H.M.Jr: Is that new?

Clough: No, but that doesn't necessarily make it good. I will indicate when we come to the new things.

H.M.Jr: It is all right.

Klotz: I think it is all right.

H.M.Jr: It is true. All right.

Edna: There is only one other thing, you might put it in later.

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- W.M.Jr: Oh, no, unless it is something major, I am not going to fuss with it.
- Blough: "Since I appeared before the Ways and Means Committee" -- you will notice this is repeated. "Since I appeared before the Ways and Means Committee, the amount of appropriations, authorizations and recommendations over and above the Budget has increased by about \$14,000,000,000, thus completely changing the fiscal picture and greatly increasing the need for revenue."
- W.M.Jr: Just make a note to yourself, "Mr. Morgenthau supposing you applied for two thirds and one third, how much taxes would you have to raise?" Just have it there for me.
- Blough: The next sentence Harry White doesn't like very well.
- "Since I appeared before the Ways and Means Committee, prices and cost of living have increased at an accelerated rate, thereby accentuating the need for a strong fiscal program."
- W.M.Jr: He doesn't like that?
- Blough: He didn't think it tied in with the next sentence, which is, "In the light of these developments in the direction of 'all out' defense," --
- W.M.Jr: Suppose you said, "These and other developments"?
- Blough: His idea was that the cost of living wasn't in the direction of all out defense.
- Plotz: That is true.
- Blough: It is really developments of an all out defense.
- W.M.Jr: Resulting from an all out defense.

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- Blough: Maybe that would cure it.
- W.M.Jr: Well, "Since I appeared before the Ways and Means Committee, prices" - that is all right.
- Blough: I like it. I wish it would stay.
- W.M.Jr: "In the light of these developments" --
- Blough: What I would like to say in the next sentence, change it this way - as Mrs. Klotz suggested, "In the light of these and other developments of an all out defense program," something like that. "I should like to point out" --
- Klotz: "Resulting from" --
- W.M.Jr: You (Blough) and Ferdie can fix that up. I think you are perfectly right. You see, we cut out practically everything about inflation and so forth and so on. I go up there and I am talking about taxes. I don't say a thing about the cost of living.
- Klotz: Well, I agree on this sense, though. It is really dragged in there.
- W.M.Jr: Well, what has happened, it is a condensation of about five pages on inflation. They have got it down to one paragraph. That is the trouble.
- Blough: I stuck some more on the end, Mr. Secretary.
- W.M.Jr: I am willing to say it. I think it is important.
- Blough: "In the light of these and other developments in the direction of all out defense, I should like to point out what, in my opinion, will be necessary in all out taxation to support such a program.
- "First of all, we shall need more revenue," --

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H.M. Jr: That is a new phrase.

Blough: "...much more revenue. The defense program is an absolute necessity. It must be paid for. Insofar as possible, it should be finally paid for now."

H.M. Jr: That is new.

Blough: No.

H.M. Jr: "Should be finally paid for now"? I would leave out the word "finally".

Edin: Meaning, we shouldn't pass it on to future generations.

H.M. Jr: Why not, "Insofar as possible it should be paid for now"? I don't like the "finally"

Blough: That gives the sense. The idea was, you pay for it in money and then you have to go back later and get it in taxes.

"Insofar as possible, it should be paid for now. Borrowing should be kept to a minimum to maintain our present fiscal strength. The rise in the Federal debt merely means that the taxpayer's burden is being postponed - that both principal and interest must be paid later out of higher taxes collected at a time when they may be harder to pay and less willingly paid than now."

Wetz: Very good.

Blough: "Along with increased taxation should go the maximum reduction in the ordinary non-defense expenditures of Government. The burden of paying for defense is so heavy that it should be relieved at every possible point."

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- Wain: I only wondered if it was strong enough in view of the way you have gone at it before.
- W. J. Jr: I think so. I think it is all right.
- Watz: I think so.
- Wough: "Increased taxation is needed also to maintain economic stability."
- W. J. Jr: One moment, please. All right. "Increased taxation," what?
- Wough: "...is needed also to maintain economic stability. Rising purchasing power is exerting increasing pressure on the prices of many kinds of goods, while at the same time production of these goods is being increasingly curtailed by the necessity of diverting our resources to defense uses. This complication of increased demand and restricted output threatens to cause inflationary price rises."
- That is new and Herbert Gaston thought something was needed there and that seems to do it.
- Wain: It is wise, Roy.
- W. J. Jr: There is just one thing here. "Increased taxation is needed to maintain economic stability." Well, haven't we talked about economic stability earlier?
- Wough: It was fiscal strength before.
- W. J. Jr: Oh, all right.
- Wough: "This larger needed revenue should come from all sources where there is ability to pay - that's what an "all out" tax program means."
- Do you want to contract that "that" to "that's what it means"?

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H.M.Jr: It is all right.

Blough: "The people of this country have never been more ready to make sacrifices for the common good. Our tax program has not kept pace with the defense program - we are still thinking too much of helping this group or that to escape its share of the burden. We have now come to the point where it is a matter not merely of fundamental equity, but of the utmost necessity that all exemptions from taxation be reduced to the absolute minimum."

Kuhn: I like that. It is good and strong.

Blough: "An 'all out' tax program for defense should reach ability to pay at several points not now fully tapped.

"1. In my opinion such a tax program might well involve a substantial lowering of personal exemptions and a consequent broadening of the base of the income tax, if at the same time we take immediate steps to remedy defects in the application of the principle of ability to pay in other parts of the tax structure."

H.M.Jr: Do you mind, instead of saying "at the same time," say "simultaneously"?

Blough: Not a bit.

Kuhn: You might want to shorten that. "If at the same time we apply the principle of ability to pay to all parts of the tax structure." It just cuts out a couple of lines.

H.M.Jr: It is all right the way it is.

Blough: "In my opinion such a tax program might well involve a substantial lowering of personal exemptions and a consequent broadening of the base

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of the income tax if simultaneously we take immediate steps to remedy defects in the application of the principle of ability to pay in other parts of the tax structure. Under the bill before you the base has been broadened to add about two million new taxpayers, but even so there will remain a relatively large proportion of the population in the lower income groups which will not be directly affected by the income tax. A further lowering of the exemptions would produce some additional revenue and in addition it would give millions of Americans an opportunity - a welcome opportunity, I believe - to make a direct contribution through taxes to the defense of their country."

H.M.Jr: Cut out the word "I believe". "A welcome opportunity."

Blough: That is Gaston.

"It would enable them to feel that they were participating" - he fixed this paragraph up.

"It would enable them to feel that they were participating personally directly in the defense program."

H.M.Jr: Let me see. "Further lowering of the exemptions would produce additional revenue and in addition would give Americans a welcome opportunity to make a direct contribution through taxes for the defense of their country. It would enable them to feel that they were participating personally and directly in the defense program."

Blots: That is very good.

H.M.Jr: It is all right.

Blough: "But I believe this Committee will agree with

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me that we ought not to accept such sacrifices, even though willing sacrifices, from millions more of persons with low incomes on whom the burden of other types of taxes falls" --

H.M.Jr: "Millions more," no. "From millions of additional persons," if you want to say it, but not "millions more of persons". "Millions of additional persons."

Klotz: No, I don't like that.

H.M.Jr: You don't like that?

Klotz: Not "additional persons".

H.M.Jr: Then just say, "From millions of persons".

Kuhn: "Millions with low incomes."

H.M.Jr: "Millions of persons with low incomes." Leave out "more".

Klotz: What do you mean, persons?

H.M.Jr: The people.

Klotz: I don't think you need anything.

Kuhn: "From millions with low incomes."

Klotz: That is right. It has got to be persons.

Kuhn: It can't be anything else.

H.M.Jr: No, I think you have got to have to put it in.

Blough: We might get a little mixed up with millions of dollars and incomes and that sort of thing. "Millions of people."

H.M.Jr: Yes.

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Blough: "... with low incomes on whom the burden of other types of taxes falls most heavily, unless through proper tax reforms we reach in other places ability to pay which is escaping its fair share of taxes."

Now, we are saying that for the second time, but you wanted to say it several times.

H.M.Jr: Did Gaston write that?

Blough: Yes.

Kuhn: Do you need "through proper tax reforms," Roy? "Unless we reach" - if it is escaping, obviously we have to reform.

Blough: No, I don't think we need that.

Kuhn: It shortens it just a shade.

H.M.Jr: All right.

Blough: "Among these are the following:"

Now, Foley suggested maybe the numbers ought to start here, but I don't know.

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

Blough: I have no opinion myself.

H.M.Jr: No. Well, you fellows decide it.

Blough: All right.

Kuhn: It is O.K. this way.

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

Blough: And also on the next paragraph on excess profits, he thought we ought to have an example. I

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didn't put an example in. You asked to have it short.

H.M.Jr: I don't want an example.

Blough: "2. The excess profits tax exempts profits of even the most prosperous corporation, except to the extent that such profits are in excess of its average profits for the years 1936-1939."

Does that make sense?

H.M.Jr: Yes.

Blough: "Surely Congress will not wish to impose additional taxes on millions more of our low income group, unless we also impose the excess profits tax on the exempt excess profits of such corporations."

Kuhn: "Unless it also imposes." We aren't imposing. Congress is imposing.

Blough: "3. Families."--

Now this one is that joint return. "Families pay lower Federal income taxes when both husband and wife receive income than when income is received by only one of them."

H.M.Jr: Now, wait a minute.

Klotz: I don't get that.

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

Blough: Then I didn't get it right. Let me read the rest of the paragraph and we will come back.

H.M.Jr: All right.

Blough: "This is a discrimination of which many wealthy people have taken advantage by large gifts of

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income producing property between husband and wife. Furthermore, in at least eight states of the Union, the Federal income taxes are made substantially lower than in the remaining states because the local law permits the splitting of incomes between husbands and wives. Here are discriminations against the rest of the taxpayers which I believe your Committee will agree must be eliminated if we are to extend the income tax downward to include millions of new persons with low incomes. The discriminations can be eliminated by requiring husbands and wives to file a single joint return with appropriate relief granted only where both husband and wife work outside the home.

The first sentence, though, doesn't click.

Klotz: I had to wait until the very end to get the full meaning of it.

H.M.Jr: Take your time and fix up that first sentence, but you have got the idea. You see what they had before, he left it just with the eight community property states, he didn't do the other thing, but I am more than willing to leave it to the two of you.

Blough: It is a matter of clarifying that idea, but you do believe, as I understand it, that where husband and wife both receive income, that it is a discrimination if their tax isn't the same as where one of them alone receives it, except where they are working?

H.M.Jr: Yes, to the extent of three hundred million dollars.

Blough: Well, it is a question of fundamental view, and we wouldn't want to misinterpret you.

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- H.M.Jr: Wait a minute, that is just what the President said in his letter and that is what Sullivan said on the Hill representing me.
- Blough: That is right.
- H.M.Jr: They went over there and the President said, "Where did you stand?" And they said, "This is where we stood." And he put that in his letter.
- Blough: There is this difference, that some people are in favor of joint returns because of community property and one or two other things and in spite of the fact that it will mean other joint incomes, but as I understand it, you are in favor of it primarily because of the main thing, which is that husband and wife both receive income and that income ought to be joint?
- H.M.Jr: No, I am only in favor of it because this is something which under the present law I benefit by. Therefore, I have got to be against it.
- Klotz: That isn't so.
- H.M.Jr: Sure. The way it is now, I benefit.
- Klotz: But that is not why you are against it.
- H.M.Jr: That is why I have got to say - because I benefit by this loophole I have got to be for closing the loophole. Don't you follow me?
- Klotz: Yes, I follow you but that is not the basic reason for it.
- H.M.Jr: Isn't it?
- Klotz: Sure, it isn't.
- H.M.Jr: It is a very important one. In other words, I have got a rule of thumb. If I benefit by any particular provision of the tax, I have got to be against it.

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Klots: That is right.

Kuhn: Put it the other way. If a lot of rich people get away with murder, then you are against it, aren't you?

Klots: That is right.

W. Jr: Well now, I am having my little fun, but the only - I will be very serious. The only way you can keep this kind of - form of Government is that you make it more and more difficult for the very rich people to escape their share of taxes while they live, and their inheritance taxes when they die. You have got to eliminate at the top these people and if you do that, then you can keep a happy nation. If you don't do it, you are not going to keep a happy nation. The most striking example I have ever seen of the thing and it seemed to work, but I don't know how long, was in Sweden where you have your Countesses and your Barons living on their estates, and at the same time you have got the strongest cooperative movement in the country who dominate the Parliament.

Kuhn: There are no extremes of riches or poverty there.

W. Jr: True, but they had three billionaires there, I think. They had three people with several hundred million dollars. Then you have got these Barons living on their land. Then you have got the lower strata which as Kuhn said, where there is no poverty. It is an amazing situation, but there is only six million people, that is the answer.

Clough: Well, I think I can get it now.

W. Jr: I have got to be a little facetious. You can't be so serious all the time. But when you get

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right down to the thing, you have got to gradually remove the people at the top through democratic processes. Now, if you do that and don't do it the way they do it in Germany, through capital levies, then this kind of Government can continue to live. We can approach in some respects Sweden where we have - take it off the top and put it on the bottom. That is my rule of thumb.

Kuhn: Better still, if the people at the top understand the need of it better than they do in other countries.

H.M. Jr: They will in the next life. (Laughter)

Kuhn: Maybe.

Blough: Sometime I would like to follow that statement up, Mr. Secretary, by pointing out how the estate and gift taxes need serious patching up in order to prevent a terrifically big loophole that is now present.

H.M. Jr: Not this statement, but this is the place to do it. I invite it.

Blough: Thank you.

"4. For years, the concerns entered in extracting certain of our natural resources, notably oil, have been granted far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape should first be removed.

Kuhn: The word "first" is new, isn't it?

Blough: Maybe simultaneously we moved once before.

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- W.M.Jr: Keep using the word "simultaneously".
- Fahst: "First" means that you can't put on a lower exemption.
- W.M.Jr: No.
- Blough: "5. A few months ago, the Congress eliminated the tax exemption privilege from new issues of Federal securities. The purchasers of new state and local securities still enjoy this exemption. The exemption was inequitable and expensive in more normal times. It cannot be borne longer in a time like this, and especially if we are to increase the direct tax burdens of persons with small incomes."
- We will keep harping on that.
- W.M.Jr: That is right.
- Blough: "6. In its suggestions to the Ways and Means Committee, the Treasury recommended substantial increases in estate and gift taxes, and lower exemptions. In part, this recommendation was followed, but, in my opinion, the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes."
- "Those are some of the things that I mean when I say that an 'all out' tax program for defense must go far beyond the present bill."
- W.M.Jr: Now, you left out the President of the United States at the proper place on this business.
- Blough: I did?
- W.M.Jr: On purpose?

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- Clough: No, indeed, I did not. It is purely an oversight, Mr. Secretary.
- H.M.Jr: Well, please bring it in right at the beginning where we first talk about it. I think it is under number one. Wherever it is. "As the President said" --
- Edna: And then you want to quote him again on the simpler form, don't you, later on?
- H.M.Jr: That is right, we will do it twice. You say it is an oversight?
- Clough: It was a pure oversight, and I would have undoubtedly caught it before it was final, but I should have caught it this time.
- H.M.Jr: You are excused. Do it twice, the second time where you say a person ought to be able to do it in a simple way. Do you agree, Ferdie?
- Edna: Yes. I wouldn't do both Presidential quotations at the beginning or you give away your simple form.
- H.M.Jr: One applies to one and the other applies to the other. Divide it in half.
- Clough: I think it is a very good thing to do, and I certainly didn't leave it out just to get it out.
- H.M.Jr: Granted.
- Clough: You don't want to go beyond this estate and gift tax statement here? I mean, this is no time to go into any further elaboration.
- H.M.Jr: This is enough.

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Blough: "There is another condition which I would attach to lowering the personal exemptions."

This is Gaston's addition and I think it is good.

"I think we ought not to take into the income tax system millions of new taxpayers with small incomes without simplifying the ways in which their tax is computed.

"Take, for example, a person with a \$900 salary."

H.M. Jr: This is the most amazing thing. You would think he had faked it. You don't think it could be so.

Blough: "Under the present law he first figures out what deductions he has" - you see, I started --

H.M. Jr: May I interrupt you? There was this paragraph with no explanation, so I invited him to the house and said "I want to go to school. Will you please explain to me how this is done?" After he gave me the explanation which he is going to read now, I said, "This just can't be. We have got to do it some other way," and it was that explanation which he gave me at breakfast and I said, "It can't be done this way, we have got to do it some simpler way," which gave me the idea of the table, you see. Go ahead.

Blough: I don't mention the income to begin with because that is what you want to begin with. I simply begin where you are going to stop.

H.M. Jr: That is right.

Blough: "Under the present law he first figures out what deductions he has - taxes paid, interest paid, contributions and so on. Then he computes

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his earned income credit. Then he subtracts his personal exemptions from his income after deductions. On the balance, under rates of the bill before you, he computes a surtax at 5 per cent. Then he goes back to the income and deducts his earned income credit. On the balance, he computes a normal tax at 4 per cent. He then adds the normal tax and the surtax and takes 10 per cent of the total for defense tax. He adds the defense tax to the normal tax and surtax and finally arrives at his income tax."

Klotz: That is marvelous. That is wonderful.

H.M. Jr: When he did that to me at breakfast, I said, "It just can't be so. How can you expect anybody to figure a thing like that, a working man or a postmaster?"

Klotz: That is marvelous.

Blough: I don't know how you will like this next.

"When he started to fill out his return, he may have been full of patriotic enthusiasm to pay his share toward the defense program, but by the time he has finished his last computation he may well be in a towering rage or a state of mental collapse."

Is it too strong?

Kuhn: A little bit.

Blough: What would you do with it?

Kuhn: "By the time he has finished his return, much of his patriotic enthusiasm may have evaporated under the strain," or something like that.

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- H.M. Jr: "By the time he has finished his computation, he may well be in a state of both mental and physical exhaustion."
- Kuhn: It is more than that. You destroy his willingness and his cheerfulness by imposing this additional fussing on him. He starts out with perfectly good cheerful emotions, and by the time he has gone through this --
- H.M. Jr: He says, "To hell with the Government." Deems Taylor last night said to us, "It is the Government who is against us on the tax thing," you see. I mean, when you get through, he says, "Oh, to hell with the Government."
- Kuhn: That is right, and that is what this schedule is --
- H.M. Jr: You fix those things up.
- Klotz: I don't agree, but it is all right.
- Kuhn: You don't agree?
- Klotz: No, because I don't think he becomes unpatriotic because he has to do all that figuring. He becomes unpatriotic when he gets through and finds out how much he has to pay.
- Kuhn: I think it exasperates him.
- Klotz: Yes.
- Kuhn: But he starts without being exasperated.
- Klotz: Well, I don't know.
- Kuhn: All right, I am going to do my share.
- Klotz: It may be a good point.

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- H.M. Jr: I think for this purpose it is a good point to say how he is willing to do his share but, by the time he gets through with the thing, his enthusiasm is gone, something like that. I am willing to leave it to you fellows.
- Kuhn: All right.
- Blough: "It is difficult enough for persons with substantial incomes who are used to dealing with financial papers and to making computations of this kind to fill out their tax returns and compute their taxes. The person with a small and simple income should not be put to this necessity of making elaborate computations."
- H.M. Jr: You didn't put in what I told you.
- Blough: That was at two thirty.
- H.M. Jr: Tell Mrs. Klotz about it.
- Blough: To the effect --
- H.M. Jr: I will put it in. "It is difficult enough for persons with substantial incomes who are used to dealing with financial papers and who can afford to hire lawyers and accountants."
- Klotz: That is right, I agree with you.
- H.M. Jr: "Who can afford to hire high priced lawyers and accountants."
- Blough: "To make his computations for him."
- H.M. Jr: "Who can afford to pay high priced lawyers and accountants to make his computations for him."
- Klotz: You will have them all down on you.
- Blough: Oh, no, they like to be told that.

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- Kuhn: Not the lawyers and accountants, do they?
- Blough: Oh, sure, they want people to think you need lawyers and accountants to fill in your income tax blanks. Every night when they go to bed they pray for the Federal income. May it be more difficult. (Laughter)
- H.M.Jr: "The person with the small income" - leave out "simple" - "should not be put to this necessity and expense, of making elaborate computations."
- Kuhn: We don't need "elaborate computations". Just "necessity and expense".
- H.M.Jr: Just "necessity and expense" - and "undue expense".
- Klotz: No. It is under --
- H.M.Jr: Just "necessity and expense".
- Blough: That is a little bit stronger.
- H.M.Jr: Simpler is always stronger.
- Blough: I am trying to think at what point we had better get the President in here. A little later, I believe.
- H.M.Jr: Well, you can work that in.
- Blough: "Furthermore, the checking of these tax computations by the administrative authorities takes time. Frequent errors are found which must be rectified requiring correspondence and further annoyance of the taxpayer as well as expense to the Government.
- "For taxpayers with relatively large incomes, refinements in determining income and computing taxes" --

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- H.M.Jr: Excuse me. Couldn't you say right after that, "We in the Treasury don't enjoy heckling the taxpayer any more than he enjoys being heckled."
- Kuhn: That is good. That is good will.
- H.M.Jr: "We in the Treasury don't enjoy heckling the taxpayer any more than he enjoys being heckled."
- Klotz: You know what the comment will be. "You may feel that way, Mr. Secretary, but I have dealt with Internal Revenue."
- H.M.Jr: Well, again, it pays me much more to spank my child --
- Kuhn: Hectoring. Heckling is oratorical. Hectoring is bothering, pestering.
- H.M.Jr: Pestering?
- Kuhn: Pestering is all right.
- Blough: It is good in the Middle West. I don't know how it is here.
- H.M.Jr: That is a good word, pestering.
- Blough: "...pestering the taxpayer any more than he enjoys being pestered."
- H.M.Jr: Pester.
- Klotz: I like the word "annoy".
- Blough: "Pestering" means keeping at it like henpecking.
- H.M.Jr: Yes, I like it.
- Blough: There are all kinds of ways of annoying people, but pestering is the thing we do.

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H.M.Jr: If you get a better word before we get through --

Klotz: It is all right.

H.M.Jr: You don't like it?

Klotz: No, but that is all right, it is not important.

Kuhn: Fussing at a taxpayer?

H.M.Jr: No, I like the word "pestering".

Blough: Henpecking?

H.M.Jr: That is another kind of thing.

Blough: "For taxpayers with relatively large incomes, refinements in determining income and computing taxes are troublesome but are necessary in the interest of equity."

We may be able to smooth that a little bit.

"For small taxpayers, however, especially those now taxed for the first time, these refinements are cumbersome and confusing without serving any important purpose. The income taxes of millions of people can be determined with acceptable accuracy by less involved methods."

Kuhn: This is where I would put in the President.
"As the President said, it should be possible to compute these taxes on a simple form by simple methods."

H.M.Jr: A direct quote?

Kuhn: Yes.

Blough: "For such taxpayers, a simple table could be provided with the aid of which the small taxpayer

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could compute his tax bill in a very few moments. He would be spared time, trouble and annoyance and the Government would be spared expense.

"To indicate more clearly what I have in mind, I have had prepared a sample table showing how this might be worked out in practice. This is only a preliminary table, and improvements and changes will no doubt be desirable, but it will illustrate how the proposal can be applied."

Now I go in to the end of it.

"The taxes imposed by the bill before you are very heavy; the taxes of an all-out program would be even heavier."

- Kuhn: At that point, you have had prepared a table and it will illustrate. Will you then go to the table and produce it --
- A.M.Jr: I will distribute it.
- Kuhn: And there will be a big one up there that you can point to, because there are people in the Committee room --
- A.M.Jr: We can have enough to give everybody in the room a copy.
- Blough: That Committee room is a little hard to use a wall chart with.
- H.M.Jr: You can have enough copies to distribute them around.
- Kuhn: I see.
- A.M.Jr: You can distribute them around, have Chick Schwarz go around and hand them out.

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- Blough: Now, it is your intention to withhold those?
- H.M.Jr: Until I reach this point.
- Kahn: And then you distribute them and ad lib?
- H.M.Jr: Sure.
- Blough: "The taxes imposed by the bill before you are very heavy; the taxes of an all out program would be even heavier. I am convinced that the people are not opposed to heavy taxes, that in fact they favor heavy taxes because they know that the alternatives are much more onerous. At a time when expanding incomes are operating to force prices upward, all kinds of measures must be employed if prices are to be kept under control. Without heavy taxation the other measures have little chance to succeed.
- "Rising prices would take much more" --
- H.M.Jr: Wait a minute. Go ahead.
- Blough: "Rising prices would take much more away from our people now and in the future than higher taxes now will take."
- H.M.Jr: Wait a minute. All right.
- Blough: "Under the tax bill in its present form, 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 per cent of its income. If two-thirds of the family's income is spent on items affected by a changing cost of living, an increase in the cost of living of 5 1/2 per cent would impose as great an additional burden on this family as would the proposed income tax."

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- Kahn: There Roy, would it be better to say, "Assuming that two-thirds of the family's income would be spent"?
- H.M.Jr: Just let me get the drift. You can fix it up.
- Blough: "The cost of living index has increased $5\frac{1}{2}$ per cent in less than a year, since September 1940. It is clear from this simple illustration that rising prices tax the family income just as surely" --
- H.M.Jr: Excuse me. The cost of living index has increased $5\frac{1}{2}$ per cent since September, 1940?
- Blough: Yes.
- "It is clear from this simple illustration that rising prices tax the family income just as surely as do income taxes."
- H.M.Jr: You see, this is new.
- Flets: Yes.
- Blough: It is taken out of that material yesterday.
- "Although as prices rise, the incomes of some families will increase, many incomes will not increase and most incomes will not increase as fast or as much as prices.
- "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, - and we shall still have the costs of defense to pay later from taxes."
- H.M.Jr: I want to get over that the costs of defense will go up too.

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- Kuhn: You have that in, don't you?
- H.M. Jr: But right here. "We will still have the increased cost of defense."
- Kuhn: "Swollen costs."
- H.M. Jr: "The inflated costs."
- Kuhn: That is right.
- Blough: That ties it right in.
- H.M. Jr: "The inflated costs of defense." That is good.
"The inflated costs of defense."
- Blough: Now to try to put in a peroration.
- "An all-out tax program will foster public morale in an all-out defense program. By reducing the necessity for borrowing it will strengthen confidence in the impregnable fiscal position of the Government. By contributing to the control of prices it will help prevent the demoralization which would result from inflation. By distributing the defense burden equitably it will help avoid the bitterness and dissatisfaction that raises when the many must carry as extra burdens the taxes which the few escape. It will make all the people equal partners in the defense of our country."
- I had a little in the other.
- H.M. Jr: I think --
- Blough: That I don't like as well.
- H.M. Jr: "By contributing to the control of prices it will help prevent demoralization as a result of inflation." That is truly a defense burden --

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Kuhn: I like it very much.

Klotz: So do I.

H.M.Jr: It is very good. That is the fifth draft.

Blough: You have been very patient, Mr. Secretary.

H.M.Jr: No, it is the other way around. You have been very industrious in your work. "It will make all the people equal partners" - I want to put in, "in sharing the costs of the defense of our country."

Kuhn: "Paying for the defense."

H.M.Jr: Just think of that. We are talking about the taxes. Wouldn't that be the thing? Now how is the last sentence?

Blough: The last sentence is, "It will make all the people equal partners in paying for the defense of our country," or if you prefer, "in sharing the costs of the defense of our country."

H.M.Jr: Read it both ways again.

Blough: "It will make all the people equal partners in sharing the costs of the defense of our country."

H.M.Jr: And the other way.

Blough: "It will make all the people equal partners in paying for the defense of our country."

H.M.Jr: Which way do you like?

Klotz: I think I like yours.

Kuhn: "Paying" is an unpleasant word, and "sharing" is a pleasant, positive one. That is right.

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B.M.Jr: I think it is fine.

Glouch: Are you willing to give it?

B.M.Jr: One little thing. Were you going to put in this thing that I suggest we drop the ten per cent or let Mr. Sullivan do that?

Wahn: They will ask you questions about that table, won't they?

Glouch: Why don't you let that be taken care of otherwise?

B.M.Jr: I think so, too.

Glouch: You are making your contribution to simplicity.

B.M.Jr: Isn't this the - this is the fifth draft, isn't it?

Glouch: I think it is the fifth one you have seen.

B.M.Jr: Yes.

Glouch: I will never forget the one in the spring of 1939.

Wahn: I have been hearing about that.

B.M.Jr: What was that?

Glouch: That was Johnnie Haines' article.

B.M.Jr: I think you have done a swell job.

Glouch: We will fix this up then. Are you going to see it again before it is typed up?

B.M.Jr: No, just this. Have it typed on the kind of type that I can read, and see that it is on my desk - well, how can I get it so if I come down

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here the first thing in the morning? Does anybody go home my way tonight?

Kuhn: I do.

H.M.Jr: Well, you are not going to be here while the girl types it?

Kuhn: Well, I will be here for certainly a couple or two and a half hours.

H.M.Jr: I will tell you what I would like. I would like it just put on my desk so when I walk in here tomorrow morning it is here.

Klotz: You are going to do it on the very large type. Do you know the difference?

Kuhn: Yes, I know.

H.M.Jr: And just see that it is left on my desk. I don't want it sent to the house. Put it here so that when I come in tomorrow morning it will be here.

Klotz: Supposing you want to read it the first thing in the morning?

H.M.Jr: I am coming down here to read it. I will get down here - I will come down here and I will be here in plenty of time to read it. It doesn't take long, you see. Do you like it?

Klotz: I think it is a swell statement.

Kuhn: Nobody can be in doubt what you want.

Klotz: No.

Kuhn: You want --

H.M.Jr: If I am down here at eight thirty and I read

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it once in fifteen minutes, that is all I have to do.

Klotz: You sometimes wake up very early and there may be something in it you don't like.

H.M.Jr: No, I don't want to wake up early.

Blough: We can get it out to you tonight, Mr. Secretary, if you want it.

H.M.Jr: I would like to have it on my desk.

Blough: Yes, sir.

Statement of Secretary Morgenthau before the Senate
Committee on Finance, Friday, August 8, 1941.

3:15 P.M.
8-7-41

Mr. Chairman and members of the Senate Finance Committee: My purpose in being here today is to discuss taxation as an essential part of national defense. 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 labor, management, machinery and raw materials. To solve that problem, while at the same time protecting our economic foundations and democratic institutions, our fiscal policy must be adapted to the needs of the times.

On April 24, I discussed with the Ways and Means Committee of the House, the need of producing \$3,500,000,000 annually in additional revenue. The Treasury Department presented a suggested program for raising that amount of money. The Ways and Means Committee worked hard on the tax bill. As it is before you, it will produce approximately \$3,200,000,000 annually in additional revenue. In my opinion, it is very important that the revenue yield be raised to at least the original \$3.5 billion level. It is also important that the bill be passed as promptly as possible. Income taxpayers and excess profits taxpayers should know as quickly as possible what their taxes

imposed at war - 1941 - as at present
taxpayers -
3:15 P.M. - 8-7-41

on 1941 income and profits are going to be since over seven months of the year have already elapsed. 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 in revenue from those sources.

The rapid developments of the last few months have made this bill inadequate even before it is passed. Since my statement before the Ways and Means Committee, many things have happened. Two and one half months ago, the President proclaimed the existence of an unlimited national emergency. 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 power, all of the moral strength, and all of the natural resources of this nation."

Since I appeared before the Ways and Means Committee, the amount of appropriations, authorizations and recommendations over and above the Budget has increased by about \$14,000,000,000, thus completely changing the fiscal picture and greatly increasing the need for revenue.

Since I appeared before the Ways and Means Committee, prices and the cost of living have increased at an accelerated rate, thereby accentuating the need for a strong

fiscal program.

In the light of these developments in the direction of "all out" defense, I should like to point out what, in my opinion, will be necessary in "all out" taxation to support such a program.

First of all, we shall need more revenue, such more revenue. The defense program is an absolute necessity. It must be paid for. Insofar as possible, it should be finally paid for now. Borrowing should be kept to a minimum to maintain our present fiscal strength. The rise in the Federal debt merely means that the taxpayer's burden is being postponed--that both principal and interest must be paid later out of higher taxes collected at a time when they may be harder to pay and less willingly paid than now.

Along with increased taxation should go the maximum reduction in the ordinary non-defense expenditures of Government. The burden of paying for defense is so heavy that it should be relieved at every possible point.

Increased taxation is needed also to maintain economic stability. Rising purchasing power is exerting increasing pressure on the prices of many kinds of goods, while at the same time production of these goods is being increasingly curtailed by the necessity of diverting our

our resources to defense uses. This complication of increased demand and restricted output threatens to cause inflationary price rises.

This larger needed revenue should come from all sources where there is ability to pay -- that's what an "all out" tax program means. The people of this country have never been more ready to make sacrifices for the common good. Our tax program has not kept pace with the defense program -- we are still thinking too much of helping this group or that to escape its share of the burden. We have now come to the point where it is a matter not merely of fundamental equity, but of the utmost necessity that all exemptions from taxation be reduced to the absolute minimum.

An "all out" tax program for defense should reach ability to pay at several points not now fully tapped.

1. In my opinion such a tax program might well involve a substantial lowering of personal exemptions and a consequent broadening of the base of the income tax, if at the same time we take immediate steps to remedy defects in the application of the principle of ability to pay in other parts of the tax structure. Under the bill before you the base has been broadened to add about two million new taxpayers, but even so there will remain

a relatively large proportion of the population in the lower income groups which will not be directly affected by the income tax. A further lowering of the exemptions would produce some additional revenue and in addition it would give millions of Americans an opportunity -- a welcome opportunity, I believe -- 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.

But I believe this Committee will agree with me that we ought not to accept such sacrifices, even though willing sacrifices, from millions more of persons with low incomes on whom the burden of other types of taxes falls most heavily, unless through proper tax reforms we reach in other places ability to pay which is escaping its fair share of taxes. Among these are the following:

2. The excess profits tax exempts profits of even the most prosperous corporation, except to the extent that such profits are in excess of its average profits for the years 1936-1939. Surely Congress will not wish to impose additional taxes on millions more of our low income group, unless we also impose the excess profits tax on the exempt excess profits of such corporations.

3. Families pay lower Federal income taxes when both husband and wife receive income than when it is

received by only one of them. This is a discrimination of which many wealthy people have taken advantage by large gifts of income producing property between husband and wife. In at least eight States of the Union, Federal income taxes are made substantially lower than in the remaining States because the local law permits the splitting of income between husbands and wives. Here are discriminations against the rest of the taxpayers which, I believe your Committee will agree, must be eliminated if we are to extend the income tax downward to include millions of new persons with low incomes. The discriminations can be eliminated by requiring husbands and wives to file a single joint return with appropriate relief granted only where both husband and wife work outside the home.

4. For years, the concerns engaged in extracting certain of our natural resources, notably oil, have been granted far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape should first be removed.

5. A few months ago, the Congress eliminated the tax exemption privilege from new issues of Federal securities. The purchasers of new State and local securities

still enjoy this exemption. The exemption was inequitable and expensive in more normal times. It cannot be borne longer in a time like this, and especially if we are to increase the direct tax burdens of persons with small incomes.

6. In its suggestions to the Ways and Means Committee, the Treasury recommended substantial increases in estate and gift taxes, and lower exemptions. In part, this recommendation was followed, but, in my opinion, the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

Those are some of the things that I mean when I say that an "all out" tax program for defense must go far beyond the present bill. |

There is another condition to lowering the personal exemptions. We cannot continue to take into the income tax system millions of new taxpayers with small incomes without simplifying the ways in which their tax is computed.

Take, for example, a person with a \$900 salary. Under the present law, he first figures out what deductions he has -- taxes paid, interest paid, contributions and so on. Then he computes his earned income credit. Then he subtracts his personal exemptions from his in-

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come after deductions. On the balance, under rates of the bill before you, he computes a surtax at 5 percent. Then he goes back to the income and deducts his earned income credit. On the balance, he computes a normal tax at 4 percent. He then adds the normal tax and the surtax and takes 10 percent of the total for defense tax. He adds the defense tax to the normal tax and surtax and finally arrives at his income tax.

When he started to fill out his return, he may have been full of patriotic enthusiasm to pay his share toward the defense program, but by the time he has finished his last computation he may well be in a towering rage or a state of mental collapse. It is difficult enough for persons with substantial incomes who are used to dealing with financial papers and to making computations of this kind to fill out their tax returns and compute their taxes. The person with a small and simple income should not be put to this necessity of making elaborate computations.

Furthermore, the checking of these tax computations by the administrative authorities takes time. Frequent errors are found which must be rectified requiring correspondence and further annoyance of the taxpayer as well as expense to the Government.

For taxpayers with relatively large incomes, refinements in determining income and computing taxes are troublesome but are necessary in the interest of equity. For small taxpayers, however, especially those now taxed for the first time, these refinements are cumbersome and confusing without serving any important purpose. The income taxes of millions of people can be determined with acceptable accuracy by less involved methods. For such taxpayers a simple table could be provided with the aid of which the small taxpayer could compute his tax bill in a very few moments. He would be spared time, trouble and annoyance and the Government would be spared expense.

To indicate more clearly what I have in mind, I have had prepared a sample table showing how this might be worked out in practice. This is only a preliminary table, and improvements and changes will no doubt be desirable, but it will illustrate how the proposal can be applied.

The taxes imposed by the bill before you are very heavy; the taxes of an all-out program would be even heavier. I am convinced that the people are not opposed to heavy taxes, that in fact they favor heavy taxes because they know that the alternatives are much more onerous.

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At a time when expanding incomes are operating to force prices upward, ~~of the limited available supply of commodities,~~ all kinds of measures must be employed if prices are to be kept under control. Without heavy taxation the other measures have little chance to succeed.

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 in its present form, 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 two-thirds of the family's income is spent on items affected by a changing cost of living, an increase in the cost of living of $5\frac{1}{2}$ percent would impose as great an additional burden on this family as would the proposed income tax. The cost of living index has increased $5\frac{1}{2}$ percent in less than a year, since September 1940. It is clear from this simple illustration that rising prices tax the family income just as surely as do income taxes. Although as prices rise, the incomes of some families will increase, many incomes will not *increase* and most incomes will not increase as fast or as much as prices.

If in an attempt to protect the incomes of our people we hold down taxes and as a result the cost of living

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rises, we shall have taxed them just as surely as if we had levied on them directly, -- and we shall still have the costs of defense to pay later from taxes.

An all-out tax program will foster public morale in an all-out defense program. By reducing the necessity for borrowing it will strengthen confidence in the impregnable fiscal position of the Government. By contributing to the control of prices it will help prevent the demoralization which would result from inflation. By distributing the defense burden equitably it will help avoid the bitterness and dissatisfaction that arises when the many must carry an extra burden the taxes which the few escape. It will make all the people equal partners in the defense of our country.

aug 7, 1941.

Statement of Secretary Morgenthau before the Senate Committee on Finance, Friday, August 8, 1941.

Mr. Chairman and members of the Senate Finance Committee: My purpose in being here today is to discuss taxation as an essential part of national defense. 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 labor, management, machinery and raw materials. To solve that problem, ~~while at the same time protecting our economic foundations and democratic institutions,~~ *without impairing our economy or weakening the structure of democracy* our fiscal policy must be adapted to the needs of the times.

On April 24, I discussed with the Ways and Means Committee of the House, the need of producing \$3,500,000,000 annually in additional revenue. The Treasury Department presented a suggested program for raising that amount of money. The Ways and Means Committee worked hard on the tax bill. As it is before you, ~~it~~ *this bill* will produce approximately \$3,200,000,000 annually in additional revenue. In my opinion, it is very important that the revenue yield be raised to at least the original \$3.5 billion level. It is also important that the bill be passed as promptly as possible. Income taxpayers and excess profits taxpayers should know as quickly as possible what their taxes

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on 1941 income and profits are going to be since over seven months of the year have already elapsed. 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 in revenue from those sources.

The rapid developments of the last few months have made this bill inadequate even before it is passed. Since my statement before the Ways and Means Committee, many things have happened. Two and one half months ago, the President proclaimed the existence of an unlimited national emergency. 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 power, all of the moral strength, and all of the natural resources of this nation."

Since I appeared before the Ways and Means Committee, the amount of appropriations, authorizations and recommendations over and above the Budget has increased by about \$14,000,000,000, thus completely changing the fiscal picture and greatly increasing the need for revenue.

Since I appeared before the Ways and Means Committee, prices and the cost of living have increased at an accelerated rate, thereby accentuating the need for a strong

- 3 -

fiscal program.

In the light of these developments in the direction of "all out" defense, I should like to point out what, in my opinion, will be necessary in "all out" taxation to support such a program.

First of all, we shall need more revenue, ^{much more} revenue. The defense program is an absolute necessity. It must be paid for. Insofar as possible, it should be finally paid for now. Borrowing should be kept to a minimum to maintain our ~~present~~ fiscal strength. The rise in the Federal debt merely means that the taxpayer's burden is being postponed--that both principal and interest must be paid later out of higher taxes collected at a time when they may be harder to pay and less willingly paid than now.

Along with increased taxation should go the maximum reduction in the ordinary non-defense expenditures of Government. The burden of paying for defense is so heavy that it should be relieved at every possible point.

Increased taxation is needed also to maintain economic stability. Rising purchasing power is exerting increasing pressure on the prices of many kinds of goods, while at the same time production of these goods is being increasingly curtailed by the necessity of diverting our

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our resources to defense uses. This complication of increased demand and restricted output threatens to cause inflationary price rises,

which would increase the cost of the defense program, unbalance family budgets, and seriously disturb our economic life.

This larger needed revenue should come from all sources where there is ability to pay -- that's what an "all out" tax program means. The people of this country have never been more ready to make sacrifices for the common good. Our tax program has not kept pace with the defense program -- we are still thinking too much of helping this group or that to escape its share of the burden. We have now come to the point where it is a matter not merely of fundamental equity, but of the utmost necessity that all exemptions from taxation be reduced to the absolute minimum.

An "all out" tax program for defense should reach ability to pay at several points not now fully tapped.

1. In my opinion such a tax program might well involve a substantial lowering of personal exemptions and a consequent broadening of the base of the income tax, if at the same time we take immediate steps to remedy defects in the application of the principle of ability to pay in other parts of the tax structure. Under the bill before you the base has been broadened to add about two million new taxpayers, but even so there will remain

- 5 -

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But I believe this Committee will agree with me that we ought not to accept such sacrifices, even though willing sacrifices, from millions more of persons with low incomes on whom the burden of other types of taxes falls most heavily, unless through proper tax reforms we reach in other places ability to pay which is escaping its fair share of taxes. Among these are the following:

2. The excess profits tax exempts profits of even the most prosperous corporation, except to the extent that such profits are in excess of its average profits for the years 1936-1939. Surely Congress will not wish to impose additional taxes on millions more of our low income group, unless we also impose the excess profits tax on the exempt excess profits of such corporations.

3. Families pay lower Federal income taxes when both husband and wife receive income than when it is

- 6 -

received by only one of them. This is a discrimination of which many wealthy people have taken advantage by large gifts of income producing property between husband and wife. ^{Furthermore,} In at least eight States of the Union, Federal income taxes are made substantially lower than in the remaining States because the local law permits the splitting of income between husbands and wives. Here are discriminations against the rest of the taxpayers which, I believe your Committee will agree, must be eliminated if we are to extend the income tax downward to include millions of new persons with low incomes. The discriminations can be eliminated by requiring husbands and wives to file a single joint return with appropriate relief granted only where both husband and wife work outside the home.

4. For years, the concerns engaged in extracting certain of our natural resources, notably oil, have been granted far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape should first be removed.

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For taxpayers with relatively large incomes, refinements in determining income and computing taxes are troublesome but are necessary in the interest of equity. For small taxpayers, however, especially those now taxed for the first time, these refinements are cumbersome and confusing without serving any important purpose. The income taxes of millions of people can be determined with acceptable accuracy by less involved methods. For such taxpayers a simple table could be provided with the aid of which the small taxpayer could compute his tax bill in a very few moments. He would be spared time, trouble and annoyance and the Government would be spared expense.

To indicate more clearly what I have in mind, I have had prepared a sample table showing how this might be worked out in practice ^{for incomes up to \$3000.} This is only a preliminary table, and improvements and changes will no doubt be desirable, but it will illustrate how the proposal can be applied.

The taxes imposed by the bill before you are very heavy; the taxes of an all-out program would be even heavier. I am convinced that the people are not opposed to heavy taxes, that in fact they favor heavy taxes because they know that the alternatives are much more onerous.

- 10 -

At a time when expanding incomes are operating to force prices upward, ~~of the limited available supply of commodities,~~ ^{many} ~~all~~ kinds of measures must be employed if prices are to be kept under control. Without heavy taxation the other measures have little chance to succeed.

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 in its present form, 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 two-thirds of the family's income is spent on items affected by a changing cost of living, an increase in the cost of living of 5½ percent would impose as great an additional burden on this family as would the proposed income tax. The cost of living index has increased 5½ percent in less than a year, since September 1940. It is clear from this simple illustration that rising prices tax the family income just as surely as do income taxes. Although as prices rise, the incomes of some families will increase, many incomes will not ^{increase} and most incomes will not increase as fast or as much as prices.

If in an attempt to protect the incomes of our people we hold down taxes and as a result the cost of living

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An all-out tax program will foster public morale in an all-out defense program. By reducing the necessity for borrowing it will strengthen confidence in the impregnable fiscal position of the Government. By contributing to the control of prices it will help prevent the demoralization which would result from inflation. By distributing the defense burden equitably it will help ^{unite the nation.} avoid the bitterness and dissatisfaction that arises when the many must carry as extra burdens the taxes which the few escape.] It will make all the people equal partners in the defense of our country.

PROPOSED SCHEDULE OF FEDERAL INCOME TAXES For Individuals with Gross Incomes of Less Than \$3,000^{1/}

Know Your Taxes -

If your gross income is:		Your tax is:		If your gross income is:		Your tax is:		If your gross income is:		Your tax is:	
From	To less than	Single person*	Married person*	From	To less than	Single person*	Married person*	From	To less than	Single person*	Married person*
\$0	\$750	-	-	\$1,500	\$1,525	\$62	\$1	\$2,250	\$2,275	\$126	\$59
750	775	\$1	-	1,525	1,550	64	2	2,275	2,300	128	61
775	800	2	-	1,550	1,575	66	3	2,300	2,325	130	63
800	825	3	-	1,575	1,600	68	4	2,325	2,350	132	65
825	850	5	-	1,600	1,625	70	6	2,350	2,375	134	68
850	875	7	-	1,625	1,650	73	7	2,375	2,400	136	70
875	900	9	-	1,650	1,675	75	8	2,400	2,425	139	72
900	925	11	-	1,675	1,700	77	10	2,425	2,450	141	74
925	950	13	-	1,700	1,725	79	12	2,450	2,475	143	76
950	975	15	-	1,725	1,750	81	14	2,475	2,500	145	78
975	1,000	17	-	1,750	1,775	83	16	2,500	2,525	147	80
1,000	1,025	19	-	1,775	1,800	85	19	2,525	2,550	149	82
1,025	1,050	22	-	1,800	1,825	88	21	2,550	2,575	151	85
1,050	1,075	24	-	1,825	1,850	90	23	2,575	2,600	153	87
1,075	1,100	26	-	1,850	1,875	92	25	2,600	2,625	156	89
1,100	1,125	28	-	1,875	1,900	94	27	2,625	2,650	158	91
1,125	1,150	30	-	1,900	1,925	96	29	2,650	2,675	160	93
1,150	1,175	32	-	1,925	1,950	98	31	2,675	2,700	162	95
1,175	1,200	34	-	1,950	1,975	100	33	2,700	2,725	164	97
1,200	1,225	36	-	1,975	2,000	102	36	2,725	2,750	166	99
1,225	1,250	39	-	2,000	2,025	105	38	2,750	2,775	169	102
1,250	1,275	41	-	2,025	2,050	107	40	2,775	2,800	172	104
1,275	1,300	43	-	2,050	2,075	109	42	2,800	2,825	174	106
1,300	1,325	45	-	2,075	2,100	111	44	2,825	2,850	177	108
1,325	1,350	47	-	2,100	2,125	113	46	2,850	2,875	180	110
1,350	1,375	49	-	2,125	2,150	115	48	2,875	2,900	183	112
1,375	1,400	51	-	2,150	2,175	117	50	2,900	2,925	186	114
1,400	1,425	53	-	2,175	2,200	119	53	2,925	2,950	189	116
1,425	1,450	56	-	2,200	2,225	122	55	2,950	2,975	192	119
1,450	1,475	58	-	2,225	2,250	124	57	2,975	3,000	195	121
1,475	1,500	60	-								

* For each dependent, subtract \$400 from your gross income and use the balance to determine your tax.

^{1/} At the option of the taxpayer, his income tax liability shall be either the amount indicated in this table or the amount computed under the Internal Revenue Code as amended by E. R. 5417. Regraded Unclassified

August 7, 1941

My dear Mr. Ambassador:

It might be a friendly Anglo-American gesture in both directions if British army and navy bands were to play the two new songs which Irving Berlin has contributed to our government for use in the defense program.

Accordingly I am sending you twenty-five band arrangements of each of these songs in the hope that you may find a way to place them in the hands of the best British bandmasters. As you may remember, one of these songs is being used in the Defense Savings program; the other was written for the Ordnance Division of the War Department, and is intended to build morale in the industrial areas.

As both these songs are the property of the government, British bands are perfectly free to play them at any time without charge. The songs themselves are so good that I think British bandmasters and the British public will be glad to have them.

I shall be very grateful to you if you can distribute the scores for me.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

The Honorable
John G. Winant,
American Ambassador,
London, England.

FK/hkb
8/7/41

Mr. Winant

August 7, 1941

Dear Mr. Gershwin:

I wonder if you would have time to write the lyrics of a song which we could use to help with our Defense Savings program. I have just written to Mr. Jerome Kern asking him whether he would do the music for such a song, and he may get in touch with you in Hollywood so that you could discuss it together.

As you know, Irving Berlin wrote such a song for us, and it has not only been a great success as a song but has been of invaluable help to the Treasury.

I can think of nothing which could be of greater assistance to us at this time than to have a song from you and Mr. Kern. All of us here will be deeply grateful to you if you can undertake the lyrics. Will you let me know soon?

Sincerely yours,

(Signed) E. Margentha, Jr.

Mr. Ira Gershwin,
Warner Brothers Studios,
Hollywood, California.

FK/hkb
8/7/41

Copies to Mr. Thompson

August 7, 1941

Dear Mr. Kern:

I wonder if you would have time to compose a song which we could use to help with our Defense Savings program.

As you know, Irving Berlin wrote such a song for us and it has not only been a great success as a song but has been of invaluable help to the Treasury.

I have just written to Mr. Ira Gershwin in Hollywood to ask whether he could undertake the lyrics, and you might wish to communicate with him so that you could discuss the project together. As I wrote to Mr. Gershwin, I can think of nothing which could be of greater assistance to us at this time than a Kern-Gershwin song. All of us here will be deeply grateful to you if you can undertake it. Will you let me know soon?

Sincerely yours,

(Signed) E. Wergentzen, Sr.

Mr. Jerome Kern,
917 Whittier Drive,
Beverly Hills,
California.

Copy to Mr. Thompson

FK/hkb
8/7/41

Henry Morgenthau, Jr.
Ext. 332

366 ✓

STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Baby Snooks
care Miss Fanny Brice
412 North Faring Road
Belair, West Los Angeles, Calif.

You were wonderful last night I enjoyed every minute of your
performance and hope you will find it possible to go on the air for us
again later in the year Sincere thanks for your help and all good
wishes

FK/hkb 8/7/41

Henry Morgenthau, Jr.
Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

August 7, 1941

CONFIDENTIAL

POSTAL SAVINGS STAMPS

Estimated Total Value and Number of Units Sold,
by Denominations, During May, June, and July, 1941

(All figures in thousands)

Denomination	Number of Units by Denominations				Total
	May	June	July		
\$.10	2,536	1,594	1,525		5,754
.25	5,364	5,728	7,341		18,433
.50	1,213	875	1,038		3,126
1.00	698	468	533		1,699
5.00	<u>115</u>	<u>61</u>	<u>48</u>		<u>224</u>
Total	<u>9,926</u>	<u>8,725</u>	<u>10,584</u>		<u>29,236</u>
Total Value	\$3,475	\$2,802	\$3,288		\$9,566

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

August 7, 1941.

Source: Division of Postal Savings, Post Office Department.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals. For the same reason, the sum of units times denominations does not necessarily agree exactly with total value.

OFFICE OF CIVILIAN DEFENSE
WASHINGTON, D. C.

*Lynch with
Major Tolson
8/13/41-*

August 7, 1941

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

My dear Mr. Secretary:

Under date of July 14, 1941, the President approved the setting up, in the Office of Civilian Defense, the Bureau of Facts and Figures. The plan submitted was based on the instructions contained in the Executive Order of May 20, 1941, as follows:

With the assistance of the Volunteer Participation Committee, described in paragraph 5 of this Order, consider proposals, suggest plans, and promote activities designed to sustain the national morale and to provide opportunities for constructive civilian participation in the defense program...

I have approached the plan very cautiously because I do not want to duplicate any existing effort or overlap the activities of other Departments. As I understand the assignment to this Office, we should utilize all existing agencies and coordinate efforts. The task is far more difficult than it might appear. For instance, I find that the following departments and agencies of government have a set-up on morale, or public relations, or intelligence, or for collecting information, etc.:

1. War Department: A Bureau of Public Relations; Bureau of Morale; Military Intelligence
2. Navy Department: Bureau of Public Relations; Naval Intelligence
3. Office of Government Reports, headed by Lowell Mellett
4. Office of Information of the Office of Emergency Management
5. Justice Department: FBI; Analysis Division for studies of foreign language press in this country; Alien Division, radio programs

Mr. Henry Morgenthau, Jr.

July 7, 1941

6. Treasury Department: Secret Service; has an excellent publicity organization, promoting the sale of defense bonds through use of radio and other mediums
7. Federal Communications Commission: Foreign short-wave monitoring service
8. The newly-created Office of Coordinator of Information
9. The Office of Coordination and Cultural Relations Between the American Republics

The above are in addition to many agencies and bureaus. Practically every agency in the city of Washington is doing some work of this kind.

May I call to see you sometime Tuesday? In the meantime, you may be thinking the matter over. I want to get your frank reaction as to what this Office should or should not do. We want to be helpful and do a good job. At the present time, it is a considerable mess and I say this without any reflection on any one of the activities but because of the duplication and the enormous amount of information sent out and effort employed.

I would also greatly appreciate it if, after we have talked the matter over, some one in your Department might be designated by you with full authority to help us work out a plan.

With kind personal regards, I am

Sincerely yours,



F. H. LaGuardia
U. S. Director of Civilian Defense

8/7/41

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Reviewed this correspondence to Mr. Morgenthau today. He read Chief Wilson's memo and also the letter from LaGuardia. He said that inasmuch as Wilson had handled the matter verbally it would not be necessary to write a letter to Mayor LaGuardia.

Mrs. McHugh

Sub-Dir. Hays
REFER TO FILE NO. *8/5/41* 371



OFFICE OF THE CHIEF
U. S. SECRET SERVICE

TREASURY DEPARTMENT

WASHINGTON, D. C.

August 5, 1941

Memorandum for Administrative Assistant to the Secretary

From: Chief, U. S. Secret Service

Referring to the attached copy of letter from the U. S. Director of Civilian Defense addressed to the Secretary of the Treasury under date of August 4, 1941:

We have been negotiating with the Office of Civilian Defense in this matter and have arranged to send two men to the Civilian Fire Defense school at Edgewood Arsenal, Maryland, to take this course of training.

We have chosen these two men from the Uniformed Force of the Secret Service, the Assistant Superintendent of that Force and one of the Captains.

We have orally advised the Director of Civilian Defense that these two trainees will be sent to attend the school.

We are sending this to you tonight for the Secretary's information.

JCH

hs

August 14, 1942

Wm. J. Bennett

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

My dear Mr. Morgenthau:

You are hereby invited to send the two men that you designated to attend the civilian fire defense school at Edgewood Arsenal, Maryland, for the third session which extends from August 11 to August 23.

This school was established by the War Department under the jurisdiction of the Chemical Warfare Service at the request of the Office of Civilian Defense. The course of instruction is designed to train civilian firemen and policemen in certain highly specialized problems occasioned by war or sabotage, and includes the following subjects:

- a. Incendiaries
- b. Gas defense
- c. Protection against high explosive bombs
- d. Training methods

All expenses incidental to the operation of the school itself are borne by the War Department. The various fire and police services designating trainees to attend the school bear the individual expenses of their representatives. These expenses include such items as laundry, meals, room service, and transportation to and from the school. Meals will cost \$23, and room service \$3 for the two weeks' period. Rooms for the students will be provided without charge.

Trainees, on completing these courses and returning home, will instruct the regular members of their own and neighboring departments. Accordingly, the selection of your delegates should be made with the following qualifications in mind:

- age—young enough to withstand the physical demands of training in the field and later instruction work, but old enough to be thoroughly experienced;
- aptitude—alertness in grasping completely and accurately the subjects taught at the school and teaching ability to transfer the information received clearly and forcefully.

Mr. Henry Morgenthau Jr.

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August 4, 1941

To secure enrollment of your designees, the following steps must be taken:

- I. The enclosed application blanks must be executed by your designees, approved by you, and forwarded to the Commanding General, Third Corps Area, Washington D. C., who has authority to give final approval of the applications.
- II. The executed applications must be accompanied by a letter from you which includes (a) a statement that the applicants are loyal citizens of the United States and are recommended by you, (b) a statement of the manner in which the expenses of the individuals will be paid.
- III. This Office must be advised whether or not you desire to send some one to the August 11-August 23 session in order that none of the places available for the quota of 50 students shall remain unfilled.

Persons accepted for this course should report at the Edgewood Arsenal, Maryland, not earlier than August 9, and not later than August 10.

Sincerely yours,

F. H. LaGuardia,
U. S. Director Civilian Defense

Enclosures

WFB/apn

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389 was held in Mr. Foley's office at 4 o'clock on August 7, 1941, attended from time to time by the following:

Messrs. Foley (Chairman), Pehle, Cochran, E. M. Bernstein, DuBois, Gass and Timmons for the Treasury; Messrs. Acheson, Luthringer, Miller and Fisher for the State Department; Mr. Shea for the Justice Department; Messrs. Goldenweiser and Knapp for the Board of Governors of the Federal Reserve System.

Mr. Pehle distributed to the Committee copies of a memorandum prepared on trade with Japan and Manchuria. This memorandum summarizes the action that is presently being taken by the Foreign Funds Control with respect to applications involving the export to Japan (a) of merchandise which is subject to export controls; (b) of certain other merchandise whether or not subject to export controls, such as wood pulp, metals and manufactures, machinery and vehicles, rubber and rubber products, and chemicals and related products (except pharmaceuticals); (c) petroleum products and tetraethyl lead; (d) cotton; (e) and all other merchandise. Three additional memoranda are in the process of preparation by the Treasury Department, discussing respectively the use of cash funds held in the United States or in South America for purchases of petroleum products and cotton in the United States by Japan; the problem of cotton exports to Japan; and the policies that should be followed with respect to the exportation of merchandise not subject to export controls.

Mr. Pehle also reported that the first application to release raw silk from Customs custody had been approved after clearance with the Office of Production Management. The firm involved was Chaney Brothers, New York, who had received a general preference order from OPM. A procedure is being worked out whereby all such applications will be cleared with a designated person in the Office of Production Management.

Mr. Pehle referred to two related applications which have been filed with respect to the German Standstill claims. One such application proposed to utilize approximately \$1,500,000 held in blocked accounts of German banks in the United States for payment of interest on the German Standstill claims. The other proposed transaction would have involved the acceptance by such banks of registered marks as a capital reduction of the Standstill claims.

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While considering these two applications, the Treasury Department was informed that if the first was not approved, consideration need not be given to the second. The first application was denied as it involved the use of approximately one quarter of the blocked German assets in the United States to accord preferential treatment to a group of favored creditors. Mr. Harvey D. Gibson of the Manufacturers Trust Company has recently addressed two telegrams to the Treasury Department requesting reconsideration of the denial of the application. The denial of such application was unanimously approved by the Committee.

Mr. Acheson referred to a group of applications involving the financing of shipment of merchandise from South America to Japan by debit to blocked Japanese accounts in the United States. It was agreed that such applications should be denied.

Mr. Acheson also reported that the State Department had been advised by the Japanese Government that in view of existing conditions the Japanese merchant marine was to be withdrawn from American trade. It would thus appear that until boats are available to carry merchandise to Japan, the use of free funds for the purchase of petroleum products and cotton for export to Japan will not be a real problem.

It was agreed that a telegram should be despatched to the Governor of Honolulu outlining present policy with respect to exports to Japan from the United States and suggesting that exports to Japan from Hawaii be handled in a similar manner.

Mr. Goldenweiser offered to the Treasury the use of Room 1202 in the Federal Reserve Building for the forthcoming meeting with representatives of the various Federal Reserve Banks on the use of Form TFR-300. The Committee expressed its appreciation.

Mr. Acheson announced that all inquiries received by the State Department relative to transactions involving persons on the "Proclaimed List of Certain Blocked Nationals" should be referred to the Treasury Department for reply. It was agreed, however, that inquiries as to why certain firms are on the Proclaimed List, or letters suggesting that firms be added to the Proclaimed List, should continue to be referred to Mr. Raymond Geist.

August 7, 1941.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Schwarz @

I have culled out some of the forecasts on aircraft production in the United States and, in response to your memorandum of August 7, am attaching them herewith.

I call your especial attention to the story from the New York Times of September 11, 1940, and the one from the New York Sun of September 10, 1940, which contain a prediction for July, 1941, made by Mr. Knudsen after he had toured aircraft plants late last summer with General Arnold.

THE WALL STREET JOURNAL

AUG. 8 1941

OPM Wants Plane Output Speeded; Sets Goal of 2,700 for December

WASHINGTON — Aircraft manufacturers will have to increase their output sharply during the remaining months of this year in order to meet the production schedule set up by the Office of Production Management.

Preliminary figures for July indicate that output last month was approximately equal to that for June when 1,476 units, more than in any previous month on record, were delivered. In July last year deliveries totaled 577.

Since April, when deliveries increased by more than 200 units to cross the 1,400 mark for the first time, production has held fairly steady. Starting with August deliveries must expand at the rate of approximately 250 units per month in order to meet the latest OPM schedule which is understood to call for an output of about 2,000 units in September and of better than 2,700 in December.

Goal Centers on Combat Ships

The goal set by the OPM is even more difficult of accomplishment than the base figures indicate as the expansion will have to be attained principally on combat ships. Last month more than 55% of the total production is estimated to have consisted of trainer types. By December combat ships are scheduled to be accounting for close to 60% of the total production.

Some defense officials state that the aircraft industry faces its crucial test in the next few months. Up to date the industry has been devoting a major part of its activities to tooling up for so-called "mas" production. New facilities, constructed during the past year, are now coming into production and should begin

to be reflected in monthly output figures. A further sharp upturn in output should develop as still newer plants, principally the large assembly plants to be supplied with parts and sub-assemblies by the automobile industry, come into use early in 1942.

The aircraft industry now has ample business on its books. Available figures indicate that roughly 65,000 airplanes are on order for delivery to the Army, Navy, and the British. What this means to the industry can be appreciated from the fact that in the year ended July 1 this year its total deliveries were less than 12,000 units.

Schedule May Have To Be Revised

Some defense officials believe that the goal set for the industry is somewhat too ambitious. Others, however, express the belief that the aircraft manufacturers will succeed in meeting the latest schedule although they point out that there is always the possibility that the schedule will have to be revised again in order to provide for changes in requirements either on the part of the Army, the Navy or the British.

The most recent revision in the production schedule was necessitated by the heavy bomber program which calls for the output of 500 four-engine bombers per month. This goal, on the basis of present plans, is not scheduled for attainment until early 1943. The output of these large bombers probably will rise relatively slowly during the balance of the year, but after attaining a figure of about 100 monthly in the early part of next year, should expand rapidly.

Bomber Output Of 500 a Month In Sight for '42

N. Y. Herald Tribune
Ford's Offer to Build Craft
Complete Accepted, Other
Plants To Be in Program
MAY 22 1941
By C. B. Allen

WASHINGTON, May 21.—President Roosevelt's recent call for a "substantial increase" in the production of heavy bombers had its first tangible results today in the announcement by William S. Knudsen, associate director of the Office of Production Management, that the government has accepted the Ford Motor Company's offer to build complete four-engine Consolidated B-24 bombardier planes in addition to its original program of manufacturing wing and fuselage assemblies for ships of this type to be put together in government plants now being constructed in the mid-West. Mr. Knudsen added that contracts were being awarded to three aircraft manufacturers—Lockheed, Douglas and Boeing—for the production of four-engine bombers under the "elaborated" program for such craft.

It was learned simultaneously from other sources that defense officials are negotiating for the construction of four-engine bombers at a total of ten plants in various parts of the country. Their objective is a production rate of 500 heavy bombers a month by the latter part of 1942—the goal set by the President as necessary to give the Democratic aerial supremacy over the Axis powers.

Fleet of 6,000 Planned

The new program visualizes a fleet of 6,000 long-range, four-engine bombers of the Consolidated B-24 and Boeing B-17 "flying fortress" type. In addition to 1,100 such ships which are already on order for the air forces of the United States and Great Britain, industry estimates indicate that such a complement of heavy bombers, costing well over a quarter of a billion dollars each, cannot be completed before the summer of 1943, at the earliest. Slightly more than a hundred of them are now in Army service, though these are of an early and now obsolete design.

By way of implementing the new program, Jesse Jones, Federal Loan Administrator, announced during the day that the Reconstruction Finance Corporation, on request of the O. P. M., will allocate \$350,000,000 for expansion purposes to the aircraft industry if Congress approves a bill now pending, which would increase the R. F. C.'s lending power by a billion dollars. The Rules Committee of the House of Representatives deferred today action on this measure after its Republican opponents charged that it would give

the government "the power to set up a fascist state in America" by its threat to "all industries that don't line up with a competing government industry."

In addition to the R. F. C.'s contemplated loans to the aircraft industry in the heavy bomber program, Mr. Jones said that the O. P. M. had recommended and he had approved a projected grant of \$20,000,000 to expand the country's aluminum production facilities, while \$50,000,000 had been earmarked for a similar increase in the output of magnesium, another strategic defense material.

Proposed new plants for this purpose, he said, would be owned by the government but operated under lease by private concerns. He estimated present production of aluminum in the United States at 800,000,000 pounds annually and said that the \$250,000,000 loan should increase this by 500,000,000 pounds. The contemplated magnesium loan, he added, would almost double present production of 80,000,000 pounds a year.

Under the augmented heavy bomber production program, the Lockheed company will undertake the production of modernized Boeing Flying Fortresses at its Burbank, Calif., plants, while the Douglas company is expected to produce both Boeings and Consolidateds at its new plants in Long Beach, Calif., and Fort Worth, Tex. Boeing will expand production at its plant in Seattle and launch a new bomber building project at its Stearman aircraft division in Wichita, Kans., to date in the communal output of Boeing and Consolidated four-engine bombers include North American Aviation Inc. and the Glenn L. Martin Company of Baltimore, as well as two plants operated by the Consolidated Aircraft Company itself. The Ford Motor Company, in addition to building complete bombers in the new plant it is now building near Ypsilanti, Mich., will fabricate sub-assemblies of Consolidated bombers there to be put together as finished airplanes in government-built but industry-operated plants at Tulsa and Fort Worth.

Although no announcement to this effect has been made by defense officials, it is believed in the industry that such companies as Lockheed, Douglas, North American and Martin, all of which are now engaged in turning out medium or light bombers of the twin-engine class for this country or Great Britain, will be forced to curtail or postpone their production in this field in order to meet the sudden demand for four-engine bombers.

Output Is Doubled

The Navy received nearly 1,000 planes of all types during the first four months of this year more than double the number delivered during the last four months of 1940, Frank Knox, Secretary of the Navy, revealed today at his press conference.

Mr. Knox made public a report from the Bureau of Aeronautics on progress in the Navy Air Force which showed that the Navy had ordered 4,000 planes in 1941, as compared with a total of

4,724 last July 1. Deliveries during the last four months totaled 970 planes, including trainers, as compared with 464 in the last four months of 1940.

Although he was unwilling to discuss the number of the various types of planes received by the Navy, Mr. Knox refused to question on some parts of the report to Capt. Marc A. Mitscher, assistant chief of the Bureau of Aeronautics who attended the press conference.

Capt. Mitscher explained that the Navy had received about 600 combat planes since July 1, and, as the Secretary explained later, that the United States and Great Britain had shared on a fifty-fifty basis in these deliveries. It was understood the British had received an equal number.

The Secretary also stated that thirty-six Consolidated PRY long-range, four-engine bombers had been produced during April and that the May production rate was about the same.

The Navy has been able to get planes quicker than it has been able to train the pilots to man them, and the Navy air force will have a shortage of pilots at the present schedule until January of next year, Mr. Knox continued, when the training program will catch up.

Mr. Knox said that while there had been talk of the Navy wanting British pilots and he believed it was perfectly possible under the terms of the lend-lease bill, no pilots were being trained at present and there were no plans yet for any such program.

The students who enter the naval air stations are selected at six-week naval reserve aviation bases which conduct elimination flight training, the report stated. The successful candidates are appointed aviation cadets and sent to Pensacola, Jacksonville or Corpus Christi.

By July the Navy expects that the rate of student entrance will be 800 a month, with an ultimate goal of 1,100 students.

President Orders Army, Navy, O. P. M. to Give Rapid Planes Priority
Early Superiority Is Declared Vital
U. S. and Britain Agree War in Air Soon Must Be Carried to Enemy

By Joseph Driscoll

WASHINGTON, May 5.—President Roosevelt, asserting tonight that "the effective defense of this country and the vital defense of other democratic nations require that there be a substantial increase in heavy bomber production," directed the War Department, the Navy Department and the Office of Production Management to co-operate to step up bomber production substantially.

"Command of the air by the democracies must and can be achieved," the President said. "Every month the democracies are gaining in the relative strength of the air forces. We must see to it that the process is hastened and that the democratic superiority in the air be made absolute."

1,427 Planes in Month

Earlier today the O. P. M. announced that the United States aircraft industry had turned out 1,427 military planes in April, setting a monthly record. There was no breakdown in the brief O. P. M. announcement to reveal how many of these planes were bombers and how many were fighters, pursuit and training planes. To judge by President Roosevelt's words, the most urgent need now is for heavy bombers to carry the war to the enemy by pounding Berlin, Hamburg, Bremen and other vital spots.

An improved model of the Bell Aircraft's new model develops more horsepower than the old it was said, and has been tested under simulated combat conditions.

President Roosevelt's declaration of heavy bomber production was contained in a letter to his Secretary of War, Henry L. Stimson, copies of which were sent to the Secretary of the Navy, Frank Knox, and to William S. Knudsen and Sidney Hillman, Director General and Associate Director General of the Office of Production Management.

The President's Letter

Text of the letter follows:
 "My Dear Mr. Secretary:
 "The effective defense of this country and the vital defense of other democratic nations require that there be a substantial increase in heavy bomber production. To this end will you take whatever action is needed, including the procurement of aircraft, to obtain substantially the production rate which I am indicating to you in a private memorandum?"

"I am advising the Office of Production Management to take the necessary steps to provide appropriate priority ratings applicable to this increased bomber program. Will you in cooperation with the Secretary of the Navy and the Office of Production Management work out the proper procedure to accomplish this very important task with all possible speed?"

"I am fully aware of the fact that increasing the number of our heavy bombers will mean a great strain upon our production effort. It will mean a large expansion of plant facilities and the utilization of existing factories not now engaged in making munitions. But command of the air by the democracies must and can be achieved. Every month the democracies are gaining in the relative strength of the air forces. We must see to it that the process is hastened and that the democratic superiority in the air be made absolute."

"Very sincerely yours,

FRANKLIN D. ROOSEVELT.

"The Honorable
 "The Secretary of War"

By virtue of the stress it places on heavy bomber production to the exclusion of lighter craft such as fighters and pursuit planes as well as medium bombers, President Roosevelt's letter was generally interpreted as meaning that he is not satisfied with any static defense of the Western Hemisphere and the Monroe Doctrine and is resolved to carry the war to the Germans; and that he and Prime Minister Winston Churchill are in agreement that it is not enough merely to defend the British Isles from invasion and that the European continent itself must be recovered from Nazi domination.

Officials here recall that Prime Minister Churchill's predecessors, Neville Chamberlain and Stanley Baldwin, concentrated on the British Isles and Hurricanes fighters and refused from building up a large bomber force for fear of irritating Hitler. Mr. Churchill, of course, entertains no such fear, and neither, for that matter, does Mr. Roosevelt—all indications are that they would like to bomb Berlin again and again like to bomb Berlin again and again.

For such long-range bombing expeditions, the American Flying Fortress and similar types should be selected. It is pointed out in subsequent numbers. Entirely

Members President Roosevelt called for in his private memorandum for Secretary Stimson is an official secret which cannot be guessed, but the President is already on record as favoring an American air force of 50,000 planes, including many bombers. It is no secret that realization of this dream of 50,000 planes is still many years away, at the present rate of production. If he can achieve the substantial increase which he desires, the President should be able to build up the American force and supply the E. A. F. simultaneously.

President Roosevelt's assertion that "every month the democracies are gaining in the relative strength of the air forces" would seem to contradict the thesis of Charles A. Lindbergh that Germany, by years of intensive preparation, gained such a head start over the British air force that it will be impossible for Britain, even with American assistance, to regain air supremacy over Europe.

New Fighter Tested

The War Department announced that the Air Corps has completed intensive service testing of the YF-39C, a pursuit plane manufactured by the Bell Aircraft Company, of Buffalo. The tests, which included flying under "simulated combat conditions," were conducted at Patterson Field, Dayton, Ohio.

The new pursuit plane is a single-engine, single seater, armed with a cannon and machine guns. It is an improvement on the Airacobra (P-39), but is virtually the same in external appearance. It is powered with an Allison V-1710-35 liquid-cooled engine, which develops more horsepower than the Allison engine used in the P-39.

In the P-39 series the engine is mounted amidship, behind the pilot and the cannon and machine guns are installed in the nose. The three-bladed metal propeller is of the constant-speed type. The landing gear is the tricycle type, retractable in flight.

United States exports of aeronautical products during the first quarter of 1941 reached an all-time high at a value of \$124,303,803, the Department of Commerce reported today.

Principal markets for March were the British Empire and Egypt, which received 414 planes valued at \$29,741,202; 983 engines valued at \$13,369,030; engine parts and accessories valued at \$2,870,969; and other aeronautical equipment amounting to \$4,332,647. February shipments to those areas included 238 planes valued at \$16,726,284; 637 engines totaling \$4,190,014; engine parts and accessories valued at \$1,247,198; and other aeronautical products amounting to \$4,106,269.

Shipments to the Dutch East Indies in March totaled \$1,444,709, practically all of which represented the value of thirty-five planes exported.

In addition, there were exported in March ten engines to China, valued at \$191,450, and eight engines to Brazil, valued at \$27,865.

Plane Output Of U. S. Put on Par With Reich

Times-Herald 10 * *
Col. Jouett Warns

Commerce Body of
Nazi Latin Invasion
APR 30 1941

By SANDOR S. KLEIN

Col. John H. Jouett, spokesman for the aircraft industry, told the Chamber of Commerce of the U. S. today American plane production now almost equals Germany's.

Combined United States-British production, he said, substantially exceeds that of the Germans. He added that American planes equal or surpass the performance of war-planes made anywhere else.

He tempered his optimistic reports on American plane production with a warning that axis influence in South America "bodes ill for the future of the Americas." That influence, he said, must be uprooted and the only way to do that is "to apply the old slogan that 'fire must be fought with fire.'"

German and Italian commercial pilots are familiarizing themselves with terrain and flight conditions in South America, he said, and this is "valuable experience, should the axis powers attempt military invasion of the Southern continent."

OPM Production Director John D. Biggers told the delegates that present American plane production "now and will be doubled" by the end of 1941. Biggers also said that output of some items would have to be increased five-fold and that the defense program is going to interfere with normal business "more than we thought would be necessary."

Production Increases

Disclosing that nearly 7,000 fighting planes have been built since last July, Jouett declared that the United States is very near the British and German monthly production rates, which he estimated at about 1,500 a month each.

Jouett said that he has been told by "Government sources" that requirements under consideration for the defense and air-to-democracies program will bring the total of planes on order from the present 44,000 to 80,000.

Biggers gave an optimistic report of progress so far in rearming America, but said that the effort was not enough. He presented a tabular prediction of new requirements.

Colonel Jouett, president of the Aeronautical Chamber of Commerce, told the session that German and Italian aviation activities in South America at the present moment may pave the way for a future axis invasion of the Western Hemisphere. He said Germany and Italy control nine out of 42 Latin-American airlines operating in Brazil, Argentina, Chile, Peru, Ecuador, Uruguay, and Bolivia.

"German and Italian pilots are familiarizing themselves with terrain and flight conditions—valuable experience should the axis powers attempt military invasion of South America," he asserted.

Axis airlines in South America move over routes totalling more than 21,000 miles, or 22 per cent of the total aviation routes flown over that continent, Jouett added.

Italian Flight Cited

"Just a month ago, a plane of the Italian trans-Atlantic line last took off on several over-water flights, returning to its base at Natal, Brazil, each time," he continued. "The crew claimed that the purpose for these flights were merely to test the engines. Was it a coincidence that two heavily laden Italian freighters, knowing the coast was clear, made a dash from Brazilian ports, headed for Europe?"

An earlier speaker, W. C. Mullendore, Los Angeles utility executive and vice president of the chamber of commerce, said that the extent of aid this country is promising embattled democracies is "perilously close to being fool-hardy." He said that America is doing such nations no kindness in leading them to rely on aid which "we cannot furnish."

Mullendore served with the American relief expedition in London and Berlin after the World War. He once served a year as an assistant to Herbert Hoover, when the former president was Secretary of Commerce in the Harding cabinet.

U. S. Aircraft Production Up Sharply Since December

WAR 5 - 1941

By a Staff Correspondent of The Christian Science Monitor

WASHINGTON, March 5 — Latest reports on America's aircraft industry are increasingly encouraging. Two hundred more airplane engines were produced during the short month of February than in the long month of January. Aircraft exports in January were \$9,800,000 higher than in December.

Although the White House, the Office of Production Management, and the public have made it clear that still greater efforts are needed to spur production, America's plane output apparently is rising at an accelerated pace. The same seems to be true of deliveries to the British.

According to the Department of Commerce, American exports of aircraft and parts rose by 27.4 per cent between December and January. Whereas the United States exported \$32,100,000 dollars worth of aircraft and equipment in December, it sent out \$40,900,000 worth in the first month of this year.

This news is coupled with a report, carried by the Wall Street Journal, that despite the fact that February was a short month approximately 2,600 airplane engines were manufactured during that month as compared with 2,400 during January. Computing February's production rate on the basis of a 31-day month, the jump from January to February would be closer to 500 engines than it would be to 200.

Substantial Increase

While the January export figures are given in dollars rather than in number of planes, they are being interpreted as indicating a substantial rise in the number of American planes sent to Britain. During December, Britain and Canada received 200 American planes

delivery at the same rate would have given them approximately 400 American planes during January.

This latter figure receives corroboration from the recent OPM announcement that 987 planes were delivered to the United States Army and Navy and to the British during January as compared with 799 the previous month. Since Britain's share of the 799 was 200, its share of the 987 would be approximately 400.

Since the principal "bottleneck" in plane production to date has been a shortage of engines, the February jump tends to confirm word that plane production also rose substantially during the month. It is reliably reported that plane production during February was at the rate of 1,200 for a 31-day month as compared with the 1,036 announced for January by William S. Knudsen, OPM Director-General.

18,000 Planes in 1941

Experts here are sanguine that the period of great expansion in plane and engine production is at hand, pointing out that a great amount of additional floor space, whose construction was started last fall, will be coming into use during March and April.

Mr. Knudsen recently estimated that the United States would produce at least 18,000 military planes of all types during the current year, this being an average monthly production of 1,500.

Others in close touch with the aviation industry believe that perhaps as many as 20,000 military planes can be looked for this year, giving a monthly average of more than 1,650. This estimate is based on the belief that plane production will rise rapidly during the last half of 1941.

Air Production Czar Urged by War Department

Plea Expected for
Increase of 17,000

In Plane Program

JAN 28 1941

War Department officials have urged the new super defense agency—the Office of Production Management—to appoint an aircraft production “czar,” it was learned today.

The names of several prominent industrialists were said to have been suggested for the post, which would be similar to that of Britain's Lord Beaverbrook. Officials declined to say whether Wendell L. Willkie was among them. Willkie revealed in London yesterday that he was there to study aircraft production.

Increase in Program

At the same time informed sources said Congress probably would be asked to increase the present military airplane construction program, which includes both American and British orders, from 33,000 to 50,000 planes. The proposal probably will not be presented until action has been completed on President Roosevelt's British-aid bill.

Both revelations came as Government officials made every effort to speed plane production. At present there is an aircraft section in the production division of the OPM, headed by Merrill Meigs, Chicago publisher-flyer. That set-up, which deals with engineering, production planning, and manufacturing problems, would not be disturbed. The proposed plane production dictator would be charged with, among other things, seeing that recommendations by Meigs' section are carried out.

Present Program

Of the 33,000 planes now on order, 14,000 are for the British and 19,000 for the U. S. Army and Navy. Production Chief William S. Knudsen expects that program to be completed by July, 1942.

Knudsen, it was learned, told congressional friends last month that he expected plane production, which now is approximately 800 a month, to reach the 1,500 mark by next mid-year and increase steadily thereafter. But now, according to associates, he has reassessed his estimate.

PREDICTS INCREASE IN PLANE OUTPUT

Knudsen Reaffirms Faith in a
Production of 33,000 Total
Before July 1, 1942
JAN 23 1942
PART WOULD GO TO BRITAIN

Four Bomber Plants Expected
to Go into Operation by the
Last Quarter of This Year

Special to The New York Times
WASHINGTON, Jan. 22—William S. Knudsen, Director of the Office of Production Management, said today that he had not given up the goal of producing by July 1, 1942, 33,000 military airplanes to be divided between this country and Great Britain. In a first press conference he remarked:

"I have not given up yet, although we have been slowed down due to the enormous expansion."

He repeated the figure already made public, showing production of 739 such craft in December, and said that the makers would do "a little better" in the current month. Mr. Knudsen estimated that military aircraft production was divided by categories into about 40 per cent training planes and 60 per cent combat planes of all types.

The four large plants, which are being constructed for assembly of bombers by automobile manufacturers, should be in operation by the last quarter of this year, Mr. Knudsen added. He expects one plant at Kansas City to start operation first and to be followed by others at Omaha, Fort Worth and Tulsa.

Mr. Knudsen talked for forty-five minutes of airplanes, raw materials, general manufacturing problems and labor in a press conference. Hereafter, it was stated, there will be a conference every two weeks, with Mr. Knudsen and Sidney Hillman, co-director, alternating in holding them.

Bare Aid-to-England Questions

Mr. Knudsen answered all questions except those concerning the number of airplanes actually being delivered to England. Asked for his view as to the status of defense operations, he said:

"We have got part of the tooling-up job done and the biggest part will be practically over the hill in April or May. I asked the manufacturers for a three-months' speed-up, and I think the program is getting ahead. As fast as we can put people on, we are doing it."

Mr. Knudsen said that the note-
worthy of the OPM commenced
in trying "to get hold of shortages
as they appear."

"Then we try to spread the tools
as they are available," he went on.
"We are now a sort of follow-up
agency."

The director said that there was
no steel shortage and that he would
soon have a report on specific re-
quirements.

He said that there would probably
be expansion of facilities for vari-
ous types of steel as well as new
operations for increasing the pro-
duction of aluminum.

Mr. Knudsen minimized criticism
that stop orders issued by the Army
and Navy Department, because of
new designs, had interrupted the
flow of defense material.

Calls Army, Navy Cooperative

"I have had every cooperation
from the Army and Navy," he said.
"Sometimes something has to be
fixed. That's all. When some-
thing bursts, we have to fix it. It's
no good making a lot of others that
will burst."

"Do these changes mean that
plants have to stop all operations?"
he was asked.

He replied that he did not think
that change in design of an item
necessarily interfered with a
plant's full operation.

Mr. Knudsen said that he saw no
present need for invoking priorities
in transportation, since the rail-
roads had been well able to handle
all defense transportation require-
ments.

When an inquirer asked about the
status of the Reuther plan, sub-
mitted with a view to adapting au-
tomobile factories to mass produc-
tion of airplanes, Mr. Knudsen said
that he had made no decision.

He said he wishes to discuss this
plan with Sidney Hillman, co-di-
rector of the OPM, who is still con-
fined to Johns Hopkins Hospital.

When Mr. Hillman leaves the hos-
pital next week, Mr. Knudsen will
talk over the plan with him and
with Philip Murray, chairman of
the Congress of Industrial Organi-
zations.

Calls Tank Shutdown Temporary

Mr. Knudsen said that although
there was a temporary shutdown in
the making of light tanks, due
to necessary changes, production
would be resumed in a couple of
weeks. A total of thirty-eight was
produced in December. He added
that the plant being constructed by
the Chrysler Corporation would
produce ten medium tanks a day,
working two shifts.

He declined to discuss the loan-
lend bill, but answered emphatic-
ly "Yes" when asked if he thought
that Congress should speed its en-
actment. The role of the OPM, he
said, would be to fill orders when
they were placed under the pro-
gram contemplated in the bill.

In response to questions about
the possible effect of the arms pro-
gram on automobile production,
Mr. Knudsen indicated that there
would be fewer changes in design,
since these required machine tools
needed for defense program, but
he thought that there would be an
ample production of automobiles.

He remarked that manufacturers
were cooperating to cut down the
use of chromium for decoration on
cars, since this material involves a
heavy use of zinc.

"How do you like your new job?"
he was asked.

"It's the only job I got," he re-
plied with a shrug. "I have learned
a lot."

N. Y. Herald Tribune
17,000 Planes Forecast in 1941
As U. S. Aviation Doubles Speed
JAN. 1 1941

By Ansel E. Talbert

The American aircraft industry, now producing at a rate which would give an annual total of slightly better than 8,000 planes, will turn out more than 17,000 military aircraft during 1941, according to informed sources in the industry.

In January about 750 planes are expected to come off factory assembly lines throughout the United States and within six months the monthly output is expected to reach 1,600. More than 9,000 planes will be produced after next Aug. 1, when the industry is really in stride. Virtually the entire 1941 plane output will be a result of the training and expansion programs of the regular aircraft industry, for the automobile manufacturers' efforts at plane building are not expected to turn out finished products until very late in the year.

Most of the aircraft manufacturers emphasized that the present plane production figures of 700 a month revealed in Washington by the National Defense Advisory Commission were not characteristic of the real state of the industry. During 1940, they pointed out, a large amount of the industry's

efforts had been directed toward expansion of plant facilities.

Now, they added, the foundations had been built and the industry could concentrate on the real job ahead of it—the mass production of military airplanes. How well the industry had done its job, the manufacturers said, was shown in a survey completed yesterday by the aviation news committee of the Aeronautical Chamber of Commerce of which most of the manufacturers are members. The committee, of which Howard Minges is secretary, found that at the start of 1940 the industry had 11,963,896 square feet of working space and that last night this had been expanded to more than 22,500,000 square feet.

About 165,000 aircraft production workers will go back to their factory jobs tomorrow after New Year celebrations, according to the committee's survey. One year ago there were only about 60,000 workers employed on production lines and assembly in the factories.

Col. John H. Jousit, former Army Air Corps pilot, who is president of the Aeronautical Chamber of Commerce, emphasizing that 1940 was

essentially a year of planning and ~~training~~ asserted that the industry was ready to make the coming twelve months ones in which mass production was attained to the limits of its abilities.

A round-up of the leading aircraft manufacturers of the East showed the following expansions during 1940:

Bell Aircraft Corporation, Buffalo: Floor space increased from 219,000 to 435,000 square feet; workers from 1,100 to 4,300.

Brewster Aeronautical Corporation, Long Island City, Queens, and Newark, N. J.: Floor space increased from 170,000 to 350,000 square feet; personnel from 660 to 8,700.

Curtiss-Wright Corporation, Buffalo and St. Louis: Floor space increased from 799,000 to 949,000 square feet; workers from 4,981 to 11,600.

Fairchild Engine and Airplane Corporation, New York: Floor space increased from 84,000 to 106,500 square feet; working personnel from 485 to 1,210.

Martin Aircraft Corporation, Middle River, Md.: Floor space increased from 1,103,070 to 1,683,000 square feet; personnel from 13,000 to 17,800.

Republic Aviation Corporation, Farmingdale, L. I.: Floor space increased from 300,000 to 530,000 square feet; personnel from 1,350 to 7,000.

Voight-Sikorsky Division of United Aircraft Corporation, East Hartford, Conn.: Floor space increased from 300,000 to 370,000 square feet; personnel from 1,800 to 4,300.

In the West, comparable expansions were made by Boeing, Consolidated, Douglas, Lockheed, North American Aviation, Northrop, Ryan and ~~others~~.

U.S. Plane Outlook for 1941:

1700 Monthly Before August

Christian Science Monitor

LONDON, Dec. 31 (P)—American aircraft, flown to England under their own power, are being dispatched to the Middle East in increasing numbers and have proved their effectiveness there already, a Royal Air Force spokesman said today.

The disclosure indicated the American-made planes might be in use against Italians in Africa or Albania or both.

The spokesman characterized as "entirely incorrect" British press statements that the American craft had proven inferior to British planes.

"I prefer to take reports of the Minister of Aircraft Production based on official reports of test pilots, which say American planes are very satisfactory and of the utmost value," he said.

American aircraft will prove a decisive factor in the air war in 1941, the RAF official also told United States correspondents.

By Joseph G. Harrison

Staff Correspondent of
The Christian Science Monitor

WASHINGTON, Dec. 31—Aviation experts here are still optimistic over the 1941 plane production outlook despite the fact that America is ending this year with an output of but 700 military planes a month.

With more and more additional floor space due for production during the coming months, industry officials predicted today that the United States will be building military aircraft at the rate of 1,700 a month by next August and that the year's total output may reach 16,000.

These predictions are based upon a recognition that certain bottlenecks cannot be eliminated overnight and are tempered by an admission that unforeseen obstacles of a major nature may be in the offing. Nevertheless, these estimates are drawn from an analysis of the industry's present productive capacity, its expansion program, and from the current rate of bottleneck elimination.

Example of Expansion

In discussing new production facilities, an official for the aircraft industry pointed out today that approximately 22,000,000 square feet of factory space are now being devoted to building planes and that additional space of nearly the same size will be finished, equipped with machine tools and in production by next August.

An example of the way in which output is rising slowly but surely is furnished by the statement of G. W. Vaughan, President of the Curtiss-Wright Corporation, that

the company's Buffalo plant is now delivering eight pursuit planes a day to Great Britain. Several months ago it was learned that this same plant was turning out from five to six P-40 pursuit planes a day for Great Britain and today's production is understood to be of the same type.

Included in the current 700 planes a month production figure cited yesterday by the National Defense Advisory Commission are bombers, pursuit ships, transports, and trainers. Although no official figures are released on the percentage in each category, it is reliably reported that trainers now comprise approximately 50 per cent of all military aircraft built in this country.

Frankness Desirable

Satisfaction is being expressed in aviation circles here today over the Commission's now formal admission that this country was building but 700 military planes and 2,400 airplane engines a month. It is felt that a frank admission of production status is healthier than vague rumors and "big talk" concerning 850 to 1,000 planes a month heard so frequently early in the fall.

Since the Commission's latest figures are held to be the correct ones and since they are far short of earlier predictions, they will give the public a clearer view of the country's defense position as well as impressing it with the need of stepping up production as quickly as possible, it is believed.

While aviation circles in Washington maintain that the aircraft industry is now working at the fullest capacity permitted by the availability of raw material, they report that the industry is gradually increasing the number of hours a week its plants are in production as bottlenecks are broken and the flow of subcontracted equipment regulated.

Air Plants Expected To Finish Expansion Programs in Spring

OCT 3 1940
20,000-Plane Level
Due to Be Reached
Soon After March 1

Believing that quantity production of combat airplanes at the earliest possible moment is the key to American security, as well as the greatest contribution this Nation can make to Great Britain, under our policy of "all aid short of war," The Star has undertaken a survey to determine the state of affairs in the American aircraft industry. This is the final article of a series based on this information.

By JOSEPH S. EDGERTON.

Aviation plant expansion programs totaling approximately \$300,000,000, which have been initiated since President Roosevelt's declaration of limited national emergency on September 8, 1939, will be completed by late spring of 1941, according to a survey just completed by the Aeronautical Chamber of Commerce.

All this expansion is within the aircraft and aircraft engine industries and does not include expansion programs undertaken by subcontractors, who today have taken over 15 to 20 per cent of the air defense construction load.

The \$200,000,000 total is greater by approximately \$50,000,000 than previous estimates, and the amount of plant expansion may be still further increased during the winter.

According to the best available estimates, the American aircraft factories now are turning out about 1,000 airplanes a month, of which about half are going to Great Britain. This production level is expected to remain constant throughout the year, but the effects of current plant expansion programs will begin to show about January 1. During January, February and March production is expected to increase gradually to a level of about 1,500 airplanes per month.

20,000 Level After March 1.

Soon after March 1, 1941, according to Aeronautical Chamber of Commerce estimates, total production will reach a level of 20,000 airplanes a year, or about 40 per cent of the 50,000 production total set up as a goal by President Roosevelt a year ago.

This level of 20,000 airplanes a year can be attained ~~without~~ a very great increase in the present aeronautical manufacturing industry pay roll of about 125,000, it is estimated. The lack of supervisory officials is one of the most serious personnel bottlenecks acting to slow down expansion.

As has been pointed out earlier in this series, the training of employes for the aviation manufacturing industry is one of the great problems of the defense program and one which can only be solved by the most thorough co-operation of industry and Government. Vocational schools, as well as factory schools, now are training thousands of workers for the industry. It is estimated that 21,000 of the 125,000 workers in the industry now are in training, many of them for supervisory and administrative positions in which their experience can be used to best advantage.

Not Yet at Capacity.

The industry has not attained full productive capacity with the plant facilities now available, but is not expected to change materially the time spent in production, now estimated at 65 per cent of the total working time, computed on a basis of 24 hours a day, 7 days a week, as additional plant space becomes available. On the other hand, as additional employes leave the schools, the amount of time the factories remain in operation is expected to increase.

The power of regulating the time actually worked by the factories is possessed by the Army and Navy and the National Defense Commission in arranging contract delivery dates for airplanes and engines. These dates are determined by negotiation. It is considered probable the Federal Government could further speed up the delivery of warplanes today if it chose by shortening the time limit in contracts now nearing the signature stage.

As a general rule the industry is not operating more than two full shifts daily. Part-time third shifts are employed chiefly to equalize production of parts which cannot be turned out with sufficient rapidity during the two-shift period to keep pace with general production because of lack of tools, skilled labor or supervision.

It is the consensus of opinion that the expansion program is proceeding along sound lines without development of bottlenecks which cannot be opened by the time full production schedules are undertaken during 1941.

WASHINGTON STAR - September 26, 1940

U. S. to Have 25,000 Planes by July, 1942, Defense Aide Says

Program Will Create
3½ to 5 Million Jobs,
Ad Club Is Told

SEP 26 1940
The entire aircraft procurement program being undertaken by the National Defense Commission—about 25,000 planes—is either under contract or embodied in letters of intention filed with manufacturers. Robert W. Horton, director of information for the commission, said yesterday.

Mr. Horton, speaking before the Advertising Club of Washington at the Raleigh Hotel, said this number of planes will be delivered by July 1, 1942.

The speaker estimated that the defense program will create from 3,500,000 to 5,000,000 jobs in industry. Thus far the Defense Commission has authorized contracts totaling \$7,500,000,000 for everything from "safety pins to battleships," he said.

Mr. Horton said the question is frequently asked of members of the commission as to why they do not have more power in facilitating the program. One answer, given by William S. Knudsen, in charge of production, to a questioner on one occasion, was, according to Mr. Horton: "If I had any more power I wouldn't know what to do with it."

As to charges that the Government has neglected the defenses of the Nation Mr. Horton said: "We haven't neglected our defenses as much as some people would have you believe. It depends on whose paper you read."

The speaker said the commission has found co-operation "strong and willing" in the main from ~~every one~~ called on to aid

PLANE PRODUCTION HAILED BY KNUDSEN

— York Times

He Says in Buffalo Interview
We Will Have 11,000 Combat
Planes by April, 1942

SEP 11 1940

By The Associated Press

BUFFALO, Sept. 10.—In nineteen months the Army and Navy will have about 11,000 combat airplanes, fighters and bombers, William S. Knudsen of the National Defense Commission said today as he approached the end of a nation-wide tour of aircraft plants with Major Gen. H. H. Arnold, chief of the Army Air Corps.

"We know the United States is making the best airplanes," he said, and added:

"I believe that presently we can say we are making the most airplanes."

The figure of 11,000 was based on a total production by April 1, 1942, of 23,000 planes, 14,000 destined for Great Britain and 10,000 for the armed services of the United States. General Arnold said that of those to be delivered to the Army and Navy, about 80 per cent would be so-called combat types.

Mr. Knudsen said the current American airplane production of 900 a month, including both military and large commercial types, would be doubled in twelve months. Seated in the office of Burdette S. Wright, president of the Curtiss Aeroplane Division of the Curtiss-Wright Corporation, he fixed at three a day the delivery of new Curtiss P-40 fighter planes to the Air Corps.

General Arnold added that 834 P-40's, one of the newest types of American fighters, were on order for the Air Corps, and that 140 had been delivered.

The visitors saw two of these fighter planes, the American counterpart of British and German pursuit craft, streak at 320 miles an hour across Buffalo's Municipal Airport in a rare public demonstration of the progress of the nation's air rearmament drive.

Delivery of P-40's to both the Air Corps and to Great Britain's Royal Air Force has been slowed down by the limited manufacture of engines by the Allison Engineering Corporation, a General Motors subsidiary at Indianapolis. But Mr.

Knudsen said the Allison company ~~production~~ was stepping up production and soon would reach an output of 400 engines a month.

Mr. Knudsen estimated the total United States engine production at from 2,200 to 2,400 a month, of all horsepowers, and said that by July, 1941, production would be up to 3,000 to 3,600 engines a month. He predicted that airplane production, including military and large commercial planes in the United States, would be 3,000 a month by July, 1941.

Confirming that a trend toward construction of aircraft plants inland for better protection against any bombing raids had been established, Mr. Knudsen mentioned on the forthcoming location of a new Curtiss-Wright plant at Columbus, Ohio; and extensions to the company's Buffalo and St. Louis plants.

Workmen for the new factories will be supplied, he said, through vocational schools running twenty-four hours a day.

North American Aviation, Inc., whose plant is in the Los Angeles area, will establish another factory at Dallas, Texas, containing 1,000,000 square feet of floor space. The new plant extension will increase American Aircraft plants' floor space by 250 per cent from what it was July 1, Mr. Knudsen said.

KNUDSEN FINDS U. S. ON WAY TO AIR SUPREMACY

New York Sun
Says We Make the Best
Planes Now and Soon
Will Make Most.
SEP 10 1940
HE CONTINUES FACTORY TOUR

Predicts Army and Navy Will
Have 11,000 Combat Craft
19 Months Hence.

BUFFALO, Sept. 10 (A. P.)—In nineteen months the army and navy will have approximately 11,000 combat airplanes—fighters and bombers—William S. Knudsen, chairman of the National Defense Commission, said today.

Almost through with a nationwide tour of aircraft plants in the company of Gen. H. H. Arnold, Chief of the Army Air Corps, Mr. Knudsen said, "We know the United States is making the best airplanes," and added:

"I believe that presently we can say we are making the most airplanes."

The figure of 11,000 was based on a total production by April 1, 1942, of 33,000 planes, 14,000 destined for Great Britain and 19,000 for the armed services of the United States.

Gen. Arnold said that of those to be delivered in the army and navy, approximately 80 per cent, or slightly more than 11,000, would be so-called combat types.

Double in a Year.

Repeating a statement made yesterday, that the current American airplane production, including both military and large commercial types, was 900 a month, Mr. Knudsen said that the figure would be doubled in the next twelve months.

With frequent reference to data in a brief case, the chairman of the Defense Commission, seated in the office of Burdette B. Wright, president of the Curtiss-Wright division, fixed at three a day the delivery of new Curtiss P-40 fighter planes to the Air Corps.

Gen. Arnold said that 324 P-40's, among the newest types of American fighters, were on order for the Air Corps, and that 100 had been delivered.

Admitting that some trouble had been encountered in the production of the Allison in-line liquid-cooled engines which power the P-40, and which came from an Indianapolis subsidiary of the General Motors Corporation, Mr. Knudsen estimated that the Curtiss company would receive 180 engines this month.

"About eighty engines were delivered in August," he said, "and production will be up to 400 engines a month by the end of the year."

He estimated the total United States production at from 2,300 to 2,400 engines a month, of all horse powers, and said that by July, 1941, production would be up to 3,500 to 3,600 engines a month. He said that he could not answer a question as to the sizes of the engines to be produced by that time in terms of horse power.

He added that airplane production, including military and large commercial planes in the United States, would be 3,000 a month by July, 1941.

New Plant Sites.

Confirming the existence of a trend toward construction of aircraft plants inland for better protection against raids, Mr. Knudsen commented on the forthcoming location of a new Curtiss-Wright plant at Columbus, Ohio, and extensions to the company's Buffalo and St. Louis plants.

Workmen for the new factories will be supplied, he said, through vocational schools running twenty-four hours a day.

North American Aviation, Inc., with a plant in the Los Angeles area, will establish another factory at Dallas, Tex., containing 1,000,000 square feet of floor space. Mr. Knudsen declined to answer a question as to other prospective factory developments inland, but it was understood unofficially that several more such plants are in contemplation.

The expansion now under way and immediately contemplated will increase American aircraft plant floor space by 250 per cent over what it was last July 1, Mr. Knudsen said.

He and Gen. Arnold, leaving for Maryland by plane today, will complete visits over a period of weeks to sixteen aircraft plants throughout the United States. Last on their list this afternoon will be the Fairchild plant at Hagerstown, Md., and the Glenn L. Martin factory at Baltimore.

PLANE PRODUCTION NOW 1,000 A MONTH

To Be Increased to 2,000 Month
Early in New Year, Defense
Commission Reveals

3,000 BY THE END OF 1941
—New York Times

Difficulties Encountered in
Swinging Nation Over to New
Industrial Basis Cited

SEP 3 1940

Special to The New York Times

WASHINGTON, Sept. 2—Present airplane production of "roughly 1,000 airplanes a month" will be increased to 2,000 a month early next year, and to 3,000 by the end of 1941, the National Defense Advisory Commission revealed today.

No information was given as to how many of the planes currently being produced and those to be turned out under expanded schedules later are bombers, fighters and trainers.

The report asserted that by next spring mass production of defense materials generally will be developing rapidly and revealed that automobile factories will not be "turned over" for the present to manufacturing airplanes.

The Advisory Commission was laced on record as favoring "voluntary cooperation of government and industry" with regard to aircraft production until "it appears that more authoritative measures are necessary."

"Tooling up will take all the Fall 1940," the report said. "But the beginning of next year, material should begin to roll into the plants. By the Spring of 1941, production should be rising rapidly."

Why Auto Plants Will Wait

"There has been quite a bit of discussion as to why not turn over automobile factories to manufacturing airplanes," the report said. "There are a couple of reasons why this would not work so well.

To the first place the country needs automobiles for private use, and in the second place, we are going to need plenty of auto-shops and truck units for our own defense program.

"And when it comes in equipment, automobile factories could not handle the new machine tools they use. By and large, they are set up to handle automobile size units, and automobiles turn out 100 horsepower, while airplane plants turn out 1,000 horsepower. Therefore, they would have to wait for the machinery before they really could start production.

"But the automobile industry is turning out a great number of small pieces for the aircraft industry. The companies specializing in the manufacture of valves, for instance, can turn out airplane valves in addition to their present automobile valves."

Difficulties confronting the commission are noted.

"A modern aircraft factory has grown so big that it takes two men to see from one end to another," the report says. "One man would go blind if he tried to see all the way himself."

Speaking of aircraft production, the document asserts that "the whole process still starts as a paternal gleam in a man's eye," adding significantly that "these days that eye belongs to some Army or Navy officer."

Explaining the reasons for making wooden models of planes, it says that "this is done so that a machine gun won't turn out to be firing through the middle of a gas tank, or the wheels won't fold up into the space where the pilot is supposed to ply his trade."

"A plane has more trick metal alloys tucked away inside it than you could ever learn to identify," the report remarks. "Take these few hundred thousand rivets. They all look just like the stuff that your aluminum saucer is made of. Hardened metal rivets are needed. If the soft units are used, when the 10-ton plane kisses the ground at a hundred miles an hour it will be the kiss of death.

"Under the policy of building a two-ocean Navy we will have to about double the size of our present fleet," the report stated. "But it is planned to double that size in about half the time."

Tools Not the Only Problem

Explaining that machine tools are only a "potential bottleneck" in production of defense material, the report said that, after materials have been obtained for defense implements:

"The next thing for the manufacturer to do is reach for the nearest catalogue and start ordering machine tools. Naturally, they want the machines delivered early that afternoon so that they can go to work turning out raw materials into defense materials. When hundreds of manufacturers all start doing the same thing, it is obvious the machine-tool industry can't deliver."

Vividly outlining the amount of planning that goes into producing a battleship, a tank or some other item, the report said:

"It takes thirty tons of blueprints for the design of a battleship. The gun carriage alone for a 155 mm. gun requires a thousand separate drawings and 600 more are required for the recoil mechanism. Specifications (from contracts) often take up a full-size book.

"Some think a tank is a simple little item to produce. It takes 300 individual drawings, each drawing exactly to scale, to build a tank. Or rather, it takes that many to build a light tank. A heavy tank takes more."

The American citizen, suddenly becoming defense-minded, is liable to jump one of two ways, the commission remarked.

"He reads," it explains, "that President Roosevelt has asked Congress for \$10,000,000,000 to build up our national defense. The following week he looks out the window and is disappointed not to see the sky darkened by new planes and the highways rumbling with new armored divisions.

"His neighbor, across the street, jumps to the other extreme. He feels that it takes forever to build a battleship—that it will be ten years before this country can begin to have a proper defense machine."

"The truth, of course, lies between these two."

The latter statement is the thesis of the report.

SEES PLANE OUTPUT UP 50% BY YEAREND

Prediction Made by Defense Board—Predict More Jobs on Production and Draft

(Bureau of Journal of Commerce) WASHINGTON, Sept. 2.—An increase of 50 per cent in plane production by the end of the year was forecast today by the National Defense Advisory Commission, as Administration leaders predicted that the national defense program in conjunction with the proposed conscription of 900,000 men for Army training would reduce unemployment ranks by one-half by next July.

Declaring that there is tremendous activity in industrial production, the commission revealed that William S. Knudsen, in charge of the production division, after completion of a two-week inspection trip of major plane factories and facilities, reported that "aircraft manufacturers are showing progress".

Sees 50% Production Rise
"New plants are under construction and employment in industry rising rapidly," the commission reported. "There is tremendous activity. Plane production should increase 50 per cent by the end of 1940. Right now work is under way to coordinate demands of the Army and Navy to avoid confusion and speed up production."

The commission pointed out that during the past week reserves supplies of raw materials necessary to the defense program has been materially increased.

"Arrangements were made to increase the stock pile of rubber by 180,000 tons, bringing reserves arranged for in this particular commodity 415,000 tons," the report continued.

"Over three quarters of the stock pile of manganese has already been arranged for. Various other strategic materials are flowing into the country every day, insuring the nation against shortages in case of emergency."

Meanwhile, it was predicted in Administration circles by the middle of 1941, when the defense program is fully under way, approximately 3,000,000 additional men, now unemployed, will be required by industry for production of additional supplies required by the augmented Army and Navy. An additional 1,000,000 men will be accounted for by the mobilization of the National Guard and inauguration of conscription, it was estimated.

The unemployment totals might be decreased both by conscription of unemployed workers and by hiring new workers to take the place of those mobilized into the Army for training.

In addition to increased employment due to manufacturing activity directly responsible to the defense program, such as uniform factories, plants manufacturing equipment for the military services, and those engaged in the production of munitions, tanks and other articles of war, there will be increased activities not directly concerned with the defense program. It was pointed out. Many restaurants, stores and other businesses, having no direct connection with the program, will be forced to employ additional help to care for the new business emanating from workers in defense industries.

Outlines Labor Policies

Outlining its labor policies, the Defense Commission issued a statement declaring that among its primary objectives is an increase in production of materials required by our armed forces and assurance of an adequate future supply of such materials with the least possible disturbance in production of supplies for the civilian population.

"The scope of our present program, the commission asserted, "requires bringing into production many of our unused resources of agriculture, manufacturing and man power."

"This program can be best in the public interest as a vehicle to reduce unemployment and thereby strengthen the human fiber of our nation. In the selection of plant locations for new production, in the interests of national defense, great weight must be given to this factor."

"In order the surplus and unemployed labor may be absorbed in the defense program, all reasonable efforts should be made to work hours in excess of forty per week, whenever in emergencies or where needs of national defense cannot otherwise be met, exceptions to this standard should be permitted. When the requirements of the defense program make it necessary to work in excess of these hours, or where work is required on Saturdays, Sundays or holidays overtime should be paid in accordance with local practices."

"All work carried on as part of the defense program should comply with Federal statutory provisions affecting labor wherever such provisions are applicable. This applies to the Walsh-Healey Act, Fair Labor Standards Act, the National Labor Relations Act, etc."

Urges Compliance With Law

There should also be compliance with State and local statutes affecting labor relations, hours of work, workers' compensation, safety, sanitation, etc.

"Adequate provision should be made for the health and safety of employees."

"As far as possible the local employment or other agencies designated by the United States employment service should be utilized."

"Workers should not be discriminated against because of age, sex, race or color."

"Working facilities should be made available for employees."

The commission reaffirmed the principles enunciated by the chief of Ordnance of the United States Army during the World War. In his order of November 18, 1917, relative to the relation of labor standards to efficient production:

"In view of urgent necessity for prompt increase in the volume of production . . . vigilance is demanded of all those in any way associated with industry lest safeguards with which the people of this country have sought to protect labor should be unwisely and unnecessarily broken down. It is a fair assumption that for the most part these safeguards are the mechanisms of efficiency. Industrial history proves that reasonable hours, fair working conditions and a proper wage scale are essential to high production . . . Every attempt should be made to conserve in every way possible all of our achievements in the way of social betterment. . . The pressing argument for maintaining industrial safeguards in the present emergency is that they actually contribute to efficiency."

4,700 WAR AIRCRAFT PLEGGED BY JULY '41

Journal of Commerce

Defense Commission Also
Sees 18,000 Yearly Output
by January 1941

AUG 27 1940

By CLARENCE L. LINK

WASHINGTON, Aug. 26.—Military forces of the United States will be equipped with 4,700 new type airplanes by July 1, 1941, President Roosevelt was told in a report of the National Defense Advisory Commission presented to him today, which showed ~~5,700~~ planes on order August 7.

Production of military planes is now progressing at the rate of 10,000 a year, but hope was expressed that the schedule of William S. Knudsen, member of the commission for production, contemplating a rate of 18,000 planes annually, will be reached by January 1, 1941, and that by the end of next year it will have increased to 30,000 planes.

To Train 1,000 Monthly

To man the planes now on contract the Army contemplates taking 1,000 men a month for training, a

was explained. The major part of the military airplane program is contained in the supplemental defense appropriation bill which has passed the House but is still pending before the Senate. It was indicated in White House circles that this latter fact is looked upon as a cause for delay in making contracts or even commitments for additional planes.

The report was seen designed to refute charges by New Deal critics that the defense program had bogged down and to head off the demand for a Congressional investigation.

It was insisted that orders for 342 combat planes in the last 100 days for all branches of the military service is no progress at all. It also was declared that there is marked difference between the signing of actual contracts for definite performance and giving assurances by the Government to contractors that the latter can go ahead in the procurement of materials for the building of a given number of planes later to be contracted for.

The defense program may be nearing a showdown in Congress with members "annoyed" by suggestions that the defense program is being delayed because the excess profits tax bill is being held up and that there has not been sufficient haste in passing the pending supplemental defense bill. It is pointed out that if the tax bill is holding back armament contracts because new rules are necessary respecting amortization and depreciation, those sections of the measure should be separated from the rest of the bill and promptly passed. It is maintained that it is impossible to rush the excess profits tax provisions because they are so highly technical and complicated.

Gap Held Too Wide

It is argued that there is too wide a gap between 50,000 planes a year and the pitifully small number coming into use, Senator Vandenberg (Rep., Mich.) declared.

The report is said to show that on June 1 unfilled orders under Army contracts covered 751 observation planes, 144 pursuit ships and 354 observation planes. In addition there were 1,120 other types of planes, primarily for training. On August 17 latest date for which statistics are available, unfilled orders numbered 2,628, while other types, primarily training aircraft, approximated 1,807 airplanes.

Navy figures of unfilled orders as of June 2 showed 224 bombers, 143 pursuit planes and 194 observation planes yet to be delivered, in addition to 787 other types, primarily for training purposes. On August 27 these figures had increased to 1,321 combat and observation planes and 1,610 other types, primarily for training purposes.

Unreliable last July 1 provided

only for 4,247 airplanes for the Army and 3,006 for the Navy, and the Air Force still needs money for 14,204 airplanes to complete its program, and the Navy requires 4,005 for its purposes. This money would be provided in the \$4,900,000,000 appropriation bill which the Senate will be called upon to pass.

It was revealed also that the abolition of Congress in reducing the allowable profits to airplane builders from 12 per cent to a maximum of 8 per cent was the cause of considerable delay in getting contracts placed. Army procurement with funds already made available was about to be put under way at that time, but contracts then in the works had to be rewritten and to date only thirty-three have been so revised and signed.

Letter of Intention Given

In order to save time, it was added, the contractors were given a "letter of intention" by the Secretary of War pending the tender of formal contracts. The schedule of production worked out by the Defense Advisory Commission contemplates 25,000 completed planes ready for military service on July 1, 1942, the full number of planes that can be used in view of the need for training of many additional pilots.

Preliminary studies for an expanded national airport program now in progress, were discussed with President Roosevelt today by Assistant Secretary of Commerce Robert H. Hinckley. Mr. Hinckley, who is in charge of civil aeronautics, told newspaper correspondents he was in agreement with the President that civil aviation is the backbone of national defense, adding that "whatever is done should be on a long-range program." That, he suggested, should cover a period of six years.

There should be expansion of existing airports and establishment of new ones, of which there is "an acute" need. Private air fields are inadequate to handle requirements for military planes, it was indicated, and the need is for expansion of municipal airports.

"It is very important that this time, both for the growth of national aviation and for national defense purposes," Mr. Hinckley said.

Federal funds for the proposed expanded program will have to be appropriated by Congress, Mr. Hinckley stated, adding, however, that studies are now the preliminary stage and, therefore, it is too early to make figures public.

The Bureau of Ordnance, Navy Department, announced today award of a negotiated contract to Carnegie-Illinois Steel Corporation, Pittsburgh, for increased facilities at a cost of \$2,275,000.

The War Department made known the placing of a contract with the Hercules Powder Co., Wilmington, Del., for powder in the amount of \$10,075,000. Among other large contracts listed by it were: Brown & Sharpe Manufacturing Co., Providence, R. I., milling machines, \$134,000; Clouston's Milling Machine & Cincinnati Grinders, Inc., milling machines, \$148,000.

1,500-a-Month Plane Output Seen by Jan. 1

Defense Board Reports Strides In All Divisions

Chairman William S. Knudsen of the National Defense Advisory Commission predicted last night that "substantial deliveries" of national defense materials, including aircraft, tanks and guns, would be obtained by January 1.

"I expect that the tooling up process will more or less take up the balance of this fall," he said. "By spring 1941 production should be going at a good rate."

Production Stepped Up

Knudsen, in charge of production, and the other six members of the defense commission were interviewed by radio commentators in a broadcast carried on nationwide hookups by the three major networks.

The present plane production of 900 a month, or 10,800 a year, he said, should be boosted to 1,500 or 18,000 by January and "increased steadily thereafter."

Edward R. Stearns Jr., in charge of raw materials, reported that synthetic rubber, now being produced in limited quantities for commercial use, "can ultimately be used effectively in an emergency" as a substitute for crude rubber.

Ready for Emergency

Karl W. Fischer, speaking for Transportation Commissioner Ralph Budd, said he was confident that rail, waterway, and air transportation, necessary to keep defense materials moving, "are capable of meeting any emergency which we may foresee."

N Sidney Hillman, labor supply coordinator, reported that his division had "helped to avert stoppages in the automobile, shipping, shipbuilding and copper industries" in carrying out the defense program. Approximately 80,000 persons, he added, are being trained in vocational schools.

Lesau Henderson, in charge of price stabilization, said his division was working on plans to "help keep prices down and lay back and private funds for plant expansion." He said there would be no need for Government price-fixing "if supplies are kept adequate and new facilities are built when needed."

RFC to Loan Plants

150 Millions for Planes

By JOHN M. FISHER

The Reconstruction Finance Corporation has made informal commitments for loans of 150 to 200 million dollars for new airplane factories, Federal Loan Administrator Jesse Jones disclosed yesterday before the House banking and currency committee.

Jones said these commitments were the results of recent discussions with William S. Knudsen, production coordinator for the National Defense Commission. The money would be used for construction of six plants, Jones said.

He explained that 7 or 8 million dollars has been earmarked for the Packard Motor Car Company to enable it to expand facilities for handling a contract for 2,000 Rolls-Royce engines, of which the British are to get 8,000 and the United States 3,000. The balance of the money will be loaned to leading airplane companies.

He told the committee of the RFC's lending activities, while signing in support of a provision in the 500 million dollar bill for loans to Latin American countries through the Export-Import Bank.

Knudsen Predicts 1000-Plane Output

JUL. 27 1940

By Dotted Press

Government officials today predicted American military plane production will reach 1000 planes a month by the end of 1940.

Their forecast coincided with reports that Congress soon may be asked to modify provisions of the Vinson-Trammell law, which limits plane manufacturers to an 8 per cent profit on Government contracts.

Members of a House Appropriations sub-committee revealed that two defense commission members—Production Co-ordinator William S. Knudsen and Edward R. Stettinius, in charge of raw materials—have reported that because of the provision some sub-contractors have refused to handle Government orders.

The 1000-plane-a-month forecast was based on Mr. Knudsen's progress report, which disclosed that the schedule for August calls for completion of 895 planes. Changes in type of production may cause a slightly lower rate in September, he said, but November output is expected to top August.

Great Britain's request for 3000 American-built planes a month can not be fulfilled before mid-1942 and

then only if Britain builds 28 new factories in this country, he reported.

He emphasized that he has made no commitment to the British purchasing mission on the proposed orders, explaining he has been asked merely to work up cost estimates for new plants and equipment.

25,000 Planes a Year Predicted for U. S.

Production Rate Expected by End of 1940, Admiral Towers Tells Senate Group

By DORIS FLEESON

America's air defense program is over the top with our aircraft manufacturers producing sensational fighting planes at a swift and constantly increasing rate, the Senate Naval Affairs Committee was assured yesterday by Rear Admiral John H. Towers, chief of the Navy's Bureau of Aeronautics.

Since the outbreak of the war, Towers said, American capacity to produce warplanes has increased from about 4,000 to 17,000 units annually and the end of this expansion is not yet in sight.

Startling Advances

Great as this achievement is, he went on, further startling advances may be expected soon. Calmly the veteran pilot, whose distinguished career in aviation goes back to its earliest days, told the Senators that:

By the end of 1940, the U. S. will probably be producing first class airplanes at the rate of 25,000 annually. Ultimate speeds, he said, may reach 750 miles an hour or 12½ miles per minute—which equals the speed of sound.

It is estimated by naval experts here that Air Marshal Goering, whose Nazi air armada has terrorized Europe for two years had at the beginning of the war about 10,000 warplanes.

Sales to Allies Aid U. S.

Sales of warplanes to the Allies made possible the expansion of aviation manufacture here and the subsequent healthy state of our air defenses, Towers declared in staunch support of the Roosevelt policy. The Army and Navy, he went on, can buy planes at mass production costs because of foreign purchases.

Since the war began, Towers estimated that foreign governments have bought about 7,000 fighting aircraft here of which about 3,000 have been shipped. The bulk of this trade, he said, was with Great Britain and France.

No planes, he said, had been sold to Italy which is competing with American industry for dominance of South American markets.

War Department Policy

Veteran isolationist Senator *Johnson* of California asked Towers if the policy of allowing foreign governments to buy our latest

type planes originated in the White House.

The naval chief replied that the program was drafted in the War Department and the Navy was directed to follow suit by the President.

No instances of sabotage have been reported in American aircraft factories, the Rear Admiral testified. Workers there, he explained, must be American citizens and are closely watched by Government inspectors.

To buttress Towers' defense of the practice of permitting foreign governments to buy late model U. S. planes, Maj. Gen. H. H. Arnold, chief of the Army Air Corps, will probably be called before the committee, Chairman David I. Walsh (D.), of Massachusetts, announced.

Aircraft Carriers Needed

The Navy's fight for additional tonnage was renewed before the committee yesterday by Rear Admiral Samuel Robinson, chief of the Engineering Bureau. He declared that existing shipyards can handle the proposed 11 per cent expansion of combat strength and that in two years enlarged facilities will enable them to handle another 14 per cent increase.

Robinson declared that more aircraft carriers are needed and suggested that the Navy be allowed to make contract authorizations for new vessels without congressional authority.

Backbone of Defense

Striking statistics supporting the Navy's contention that "ships and more ships" are the backbone of this nation's national defense, were placed before the committee by Senator Gerry, of Rhode Island. They showed that aircraft has succeeded in sinking only 32,379 tons of merchant shipping since the European conflict began. Losses due to aircraft, Gerry said, comprised 6 per cent of all merchant shipping sent to the bottom, contrasted with 592,000 tons, or 30 per cent, by submarines. Mines, his figures showed, sank 123 ships, or 25 per cent.

"I think the figures show that the campaign to starve out Great Britain has not been successful," Gerry commented.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE August 7, 1941

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Airplane Deliveries

Summary

1. A total of 56 planes shipped is reported in the latest statement received. Except for the delivery of five Tomahawks to the Middle East, all the planes were shipped to England.

2. There has been practically no shipment of planes reported to the Far East in the last six weeks. In this period, only six planes were sent to the Far East.

Airplane Shipments to the British
(From February 1 to August 3 by air
January 11 to July 12 by sea)

Table A. - Shipments by Area

	Latest Week	Total Reported To Date
<u>To the United Kingdom</u>		
Light and medium bombers	45	652
Heavy bombers	0	41
Naval patrol bombers	0	72
Pursuit	<u>6</u>	<u>23</u>
Total to United Kingdom	51	788
<u>To the Middle East</u>		
Light and medium bombers	0	150
Pursuit	<u>5</u>	<u>486</u>
Total to Middle East	5	636
<u>To the Far East</u>		
Light and medium bombers	0	6
Naval patrol bombers	0	9
Pursuit	0	145
Trainers	<u>0</u>	<u>55</u>
Total to Far East	0	215
<u>Totals</u>		
Light and medium bombers	45	808
Heavy bombers	0	41
Naval patrol bombers	0	81
Pursuit	11	654
Trainers	<u>0</u>	<u>55</u>
Grand Total	56	1,639

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Division of Monetary
Research

Table B. - Shipments by Types

	Latest Week	Total Reported To Date	
Bell Airacobra (P-39)	6	14	
Boeing B-17	0	21	
Brewster Buffalo	0	145	
Consolidated Catalina	0	81	
Liberator	0	20	
Curtiss Tomahawk	5	486	
Douglas Boston I	0	1	
Boston II	0	72	
Boston III	6	113	
Glenn Martin Maryland	0	150	
Grumman Martlet II	0	9	
Lockheed Hudson I	0	1	
Hudson III	19	76	
Hudson IV	0	18	
Hudson V	16	340	
North American Harvard II	0	55	
United Chesapeake	<u>4</u>	<u>37</u>	
Grand Total - All Types	56	1,639	

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Division of Monetary
Research

Table C. - Plane Deliveries to the British by Weeks

Week Ended	Light and Medium Bombers	Heavy Bombers	Naval Patrol Bombers	Pursuit	Trainers	Total
Feb. 8 *	22	-	3	-	-	25
Feb. 15 *	39	-	-	100	-	139
Feb. 22 *	35	-	-	27	-	62
Mar. 1 *	7	-	5	25	-	37
Mar. 8 *	16	-	3	10	-	29
Mar. 15 *	26	1	4	-	-	31
Mar. 22 *	17	-	2	22	-	41
Mar. 29 *	25	-	3	18	-	46
Apr. 5 *	21	-	7	73	-	101
Apr. 12 *	21	2	2	27	-	52
Apr. 19 *	20	3	4	5	-	32
Apr. 26 *	23	2	3	-	28	56
May 3 *	61	1	2	15	27	106
May 10 *	36	1	8	10	-	55
May 17 *	61	13	7	19	-	100
May 25 *	30	10	-	25	-	65
June 1 *	28	5	5	21	-	59
June 8 *	37	2	7	-	-	46
June 15 *	26	1	4	20	-	51
June 22 *	28	-	4	52	-	84
June 29 *	45	-	1	50	-	96
July 6 *	19	-	3	20	-	42
July 13 *	34	-	3	48	-	85
July 20 *	41	-	1	32	-	74
July 27 *	45	-	-	24	-	69
Aug. 3 *	<u>45</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>-</u>	<u>56</u>
	808	41	81	654	55	1,639

* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending August 3 would report the shipment of planes by water for the week ending July 12.

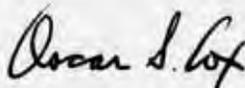
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
WASHINGTON, D. C.

August 7, 1941.

Dear Secretary Morgenthau:

I wish to thank you for your letter of August 5th, designating Mr. Harry White as the Treasury representative of the Committee to deal with the use of Lend-Lease funds to carry out the Hyde Park agreement with Canada.

Sincerely yours,



Oscar S. Cox

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
United States Treasury Department,
Washington, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai, China,
via H.K.

DATE: August 7, 1941, 3 p.m.

NO.: 1034

1. The report made by American bankers is that the local export business has practically reached a standstill so far as it concerns new business. At least for the present such business has been paralyzed by the freezing order since the banks are (?) to offer accommodations due to the difficulty of determining what constitutes business that is legitimate.

Likewise, the traders are confused by the complexities of the regulations. For the most part, the smaller traders are not trying to go ahead. Little exchange business is being done by the banks. Without doubt, discouragement is in evidence everywhere.

There has not been such a despondency in regard to the economic future of Shanghai since the beginning of hostilities in 1937. The Americans pessimistic outlook extends beyond business matters.

It is freely predicted that there will be an economic struggle for a bare existence this winter by many thousands of Chinese workers. This will be due to the fact that many of the workers will probably not have employment because of a general (?) depression and also because there is a lack of imported raw materials for manufacturing purposes.

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The problem of fuel is gradually becoming worse in spite of the fact that most diligent efforts have been made to improve the situation. The possibility of political agitation, leading to unrest, is another potential factor.

2. Apparently, the full import of the freezing order has not yet fully been realized by the Chinese except in banking circles and among the leading businessmen.

The order directly affects the war effort of Japan, and the Japanese are somewhat concerned. There is some doubt as to whether the Japanese have a proper conception of the ultimate effect which the freezing order will have on their war effort as well as on the Japanese economy in Shanghai and other places in the Far East.

3. It will probably no longer be profitable for American businessmen in Shanghai to engage in trade, since the freezing rules as they are now applied by the bankers and the difficulties which are experienced by the traders under these rules restrict the American businessmen's activities in Shanghai.

This picture of the state of mind which prevails in Shanghai at the present time is presented in the knowledge that the situation may be eased by some unforeseen circumstance or that -- on the other hand--it may further deteriorate to the point where there may be a general exodus, in the not distant future, of American businessmen from the port.

This message was sent to the Department; the text of
the

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the message--code--was sent to Tokyo by air mail. It was repeated to Peiping and Chungking.

LOCKHART

EA:PAK

TO THE SECRETARY OF THE ARMY
TECHNICAL STAFF COLLEGE
WASHINGTON, D. C.

840.51 Frozen Credits/2940

81 AUG 12 6M 5 28

RECEIVED
TECHNICAL STAFF COLLEGE

TELEGRAM SENT

PM

GRAY

August 7, 1941.

6 p.m.

AMEMBASSY,

TOKYO (JAPAN).

RUSH

478.

The Department desires that you call at the Japanese Foreign Office and leave an aide-memoire reading substantially as follows:

QUOTE With reference to Executive Order 8389, as amended, which, among other things, prohibits banks and banking institutions from making transfers of credits or permitting withdrawals from accounts in which Japan or nationals thereof have an interest, except under licenses and regulations issued by the Secretary of the Treasury, the following procedure is provided in order that appropriate consideration may be given for the issuance of requisite licenses permitting the Japanese Government to withdraw funds for the maintenance of its diplomatic, consular, and other official establishments in the United States and permitting the official personnel of such establishments to withdraw funds for living and traveling expenses

in

-2- #478, August 7, 1941., 6 p.m., to Tokyo.

in the United States. The procedure outlined below is conditioned upon the Japanese Government according reciprocal treatment.

A. In order that appropriate consideration may be given to the issuance of the aforementioned licenses, the Japanese Government is requested to furnish this Government with a list of the various official accounts of the official Japanese representation in Washington, whether in the name of the representation, any individual, or otherwise, indicating the name of the account, the name and address of the bank in which each such account is maintained, the names, addresses, and official positions and the nature of the payments customarily made from the account, and the nature, purpose, and amount of the monthly payments which it is desired to make from each account. The Japanese Government is also requested to furnish this Government with information as to how it is proposed to replenish such accounts, indicating the source of the funds to be used in replenishing such accounts, and the amount of funds which it is desired to transfer to each such account monthly. The Japanese Government is requested, moreover, to furnish assurances to
this

-3- #478, August 7, 1941, 6 p.m., to Tokyo.

this Government that any payments which may be licensed from such accounts will be made solely for the official expenditures of the Japanese representation in the United States. Banks maintaining these accounts will be required to make appropriate reports to the Treasury Department.

B. Information and assurances similar to those requested in Paragraph A above should be furnished by the Japanese Government with respect to each account maintained by the Japanese Consulates and Consulates General in the United States, as well as by all other official establishments maintained by the Japanese Government in the United States.

C. The Japanese Government is requested to furnish this Government with a list of the personnel of the official Japanese representation in Washington, as well as a list of the personnel of the Japanese Consulates, Consulates General, and other official establishments in the United States, indicating in each case the name of the personal account or accounts maintained by each such person and the name and address of the bank in which each such account is maintained. At present, under General License No. 11,

\$500

-4- #478, August 7, 1941, 6 p.m., to Tokyo.

\$500 per month may be paid out without any further license for living and traveling expenses in the United States of the person in whose name the account is maintained and his family. Accordingly, it is not anticipated that licenses will be issued in those cases in which the accounts can operate within the provisions of General License No. 11. Should additional amounts be required, consideration will be given to the issuance of licenses allowing withdrawal of such additional amounts. The Japanese Government is requested at the time of furnishing the list, to furnish assurances that such accounts contain only personal funds, that such funds will be used only for the personal expenses of the account holder and his family within the United States, and that this Government will promptly be advised in the event that the account holder leaves the United States or ceases to be connected with the Mission. UNQUOTE.

At the same time that you leave the foregoing aide-memoire the Department desires that you make an oral statement, leaving a copy thereof with the Foreign Office, reading substantially as follows:

QUOTE

-5- #478, August 7, 1941, 6 p.m., to Tokyo.

QUOTE This Government wishes it understood that by SUBQUOTE reciprocal treatment END SUBQUOTE there is meant reciprocal treatment in all areas under the control of the Japanese Government so as to permit this Government to withdraw funds for the maintenance of its diplomatic, consular and other official establishments in Japan, Manchuria and all areas occupied by Japanese forces, and to permit the official personnel of such establishments to withdraw funds for living and traveling expenses in Japan, Manchuria and other areas under Japanese control. UNQUOTE

HULL.
(DA)

FE:JMJ:MHP
AA:DH

FE

PA/H

A-A

(Copy of memorandum received from Mr. Knocks of the Federal Reserve Bank at New York by Mr. Cochran in the Treasury at 10 a.m., August 7, 1941, copying message received by Financial Attache Havas from the Hungarian Legation.)

Pursuant to the German Hungarian economic negotiations terminated a few days ago we have decided to unify the exchange premium on all foreign exchange with the exception of the Lcu whereon we have no premium at all.

The unified premium is identical with the existing premium of the Reichsmark.

Regarding the Swiss Franc and the Swedish Krona the above-stated decision will be carried through in the nearest future.

As far as the Italian Lira is concerned negotiations are in progress with the Italian exchange authorities as according to the existing understanding between Hungary and Italy the premium on the Lira can only be modified in common agreement.

The unification of the premia does not apply to the USA Dollar and the Pound Sterling.

The quotation of these foreign exchanges and currencies has been suspended considering the fact that in present circumstances we have no trading possibilities with the British Empire and the United States and in consequence of measures applied towards our balances in those countries we have no possibility of making or receiving payments in either of them save for sporadic small licenses obtained in the United States.

This implies that the National Bank will neither buy nor sell Pound Sterling or Dollars.

As regards our debt service the last quotation will be applied.

Cable received in Washington, August 2, 1941.

COPY:mew 8/7/41

COPIE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Managua, Nicaragua

DATE: August 7, 1941

NO.: 129

STRICTLY CONFIDENTIAL.

The following questions were asked me yesterday by the Nicaraguan Minister for Foreign Affairs with respect to what the policy of his Government should be toward firms on The Proclaimed List of Certain Blocked Nationals:

(1) What should be the policy of the Agencia Terminal toward old clients with respect to merchandise in port, in transit, or on order? Such merchandise originates in the United States, Japan and other countries and the Agencia Terminal is owned by the National Bank of Nicaragua.

(2) The Bank has cotton worth \$90,000 ready to ship from Corinto for which merchandise from Japan has not yet been received. When such merchandise from Japan is in transit or under contract as a part of the compensation agreement between Japan and Nicaragua, should Nicaragua accept such merchandise when it is consigned to firms in Nicaragua whose names appear on the List?

(3) Are funds covered by an irrevocable letter of credit from a Japanese firm drawn to the credit of the National Bank of Nicaragua and held in New York by the

National

-2-

National City Bank regarded as Nicaraguan and no longer as Japanese in character, or is such letter subject to the United States decree freezing Japanese funds?

(4) The National Bank of Nicaragua owns the Compania Mercantile de Ultramar. Should the latter firm decline to buy coffee from black listed firms or individuals?

(5) Should the National Bank of Nicaragua's banking operations be discontinued in so far as black listed firms are concerned?

It was emphasized by the Minister that the Nicaraguan Government in its endeavors to completely cooperate with the United States is anxious to go to extremes. The Department's reply through this Legation will be considered definitive by the Nicaraguan Government, though the Nicaraguan Minister in Washington will be available for the purpose of discussing these questions with the Department.

BOAL

For Miss Gurnea

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 7, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£13,000
Purchased from commercial concerns	£53,000

Federal Reserve Bank of New York sold £20,000 registered sterling to American Express Company.

Open market sterling was quoted at 4.03-3/4, unchanged, and there were no reported transactions.

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

Canadian dollar	10-7/8% discount
Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Uruguayan peso (free)	.4380
Colombian peso	.5800
Mexican peso	.2070
Cuban peso	1-1/16% discount
Venezuelan peso	.2675 (off .0050 on thin market)

In Shanghai, the yuan rate was off 1/16¢ at 5-1/32¢. This is the lowest since May 14, 1940, when the rate was 4-15/16¢. Sterling declined 3/4¢ to 4.00-1/2¢.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The London fixing prices for spot and forward silver were unchanged at 23-7/16d. The U. S. equivalent of this price is 42.55¢.

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

We made two purchases of silver amounting to 150,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented domestic inventory for spot delivery and 50,000 ounces consisted of new production for future delivery.

BRITISH EMBASSY,
WASHINGTON.

PERSONAL AND SECRET.

August 7th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 5th, 1941.

German ship "Frankfurt" 5528 tons, intercepted 600 miles southwest Azores by ocean boarding vessel, was scuttled. 26 prisoners taken remaining twenty of crew missing. Early on 5th S.L. convoy attacked west of Ireland, 5 ships torpedoed. U-boat was sighted and bombed by escort vessels.

2. Suez was bombed night of 2nd/3rd by thirteen Wellingtons, who started fires. Port Said and Suez attacked night of 3rd/4th by small force of enemy bombers. No serious damage but canal is closed.

3. Abyssinia.

August 2nd, we repulsed Italian attack in Wolcheft area and counterattacked, killing 25 Italians and taking 13 prisoners. Our casualties slight.

4. Russia.

Some German progress south east Morkhov and also north and south Kieff. Indications of temporary deadlock at Smolensk. German casualties to end of July estimated one million.

RESTRICTED

G-2/2657-220; No. 461 M.I.D., W.D. 12:00 M., August 7, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: The Russian communique of August 7 reports fighting in a new area: "In the direction of Kakisalmi", a town in former Finnish territory on the northwest shore of Lake Ladoga.

Very little information has been received from the rest of the front. The encircled Russian group near Uman, in the lower Ukraine, continues to maintain a strong defensive.

Air: The Soviet reported action against German ground units and advance air bases.

II. Western Theater.

Air: Minor activity.

III. Mediterranean Theater.

Air: British planes continued night attacks on Sicily.

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