

DIARY

Book 455

October 28 and 29, 1941

- A -

	Book	Page
Appointments and Resignations		
Honeyman, Nan (Mrs.) for Collector of Customs, Portland, Oregon: Frances Perkins recommends to FDR and Mrs. FDR - 10/28/41.....	455	22,26,28
a) Gaston memorandum on possibility of appointment - 11/24/41: Book <u>464</u> , page 168		
b) Perkins-HMJr conversation: Book <u>464</u> , page 170		
c) Appointment as Collector of Customs, Portland, Oregon, recommended to FDR - 11/27/41: Book <u>465</u> , page 142		
1) Flynn opposes: Book <u>466</u> , pages 231 and 235		
d) Mrs. Honeyman asks delay - 12/1/41: Book <u>467</u> , page 31		
1) HMJr so reports to FDR - 12/2/41: Book <u>467</u> , page 285		
Argentina		
See War Conditions: Gold		

- C -

China		
See War Conditions		
Coast Guard		
Provisions in case of war discussed by HMJr, Gaston, Thompson, and Waeche - 10/28/41....		12

- D -

Defense, National		
Appropriations presently available for defense procurement and related purposes which President is authorized to transfer administratively to any existing agency of Government or to any new agency which may be created - Foley memorandum - 10/29/41.....		156,158

- G -

Gold		
See War Conditions		

- H -

Honeyman, Nan (Mrs.)		
See Appointments and Resignations		

- J -

Japan		
See War Conditions: Gold		

- M -

	Book	Page
Macy and Company, R. H. Ruml (Beardsley) gives outline for out-of-town shopping to HMJr for Crown Princess Martha of Norway - 10/28/41.....	455	69,70,72
Martha, Crown Princess of Norway See Macy and Company, R. H.		
Mint, Bureau of Nickel and copper substitutes: Experiments to be conducted at Philadelphia Mint - HMJr okays - 10/29/41.....		251
Morgenthau, Henry, Jr. Rossen, Pauline (Telephone Operator for Bell Telephone Company, Newburgh, New York): Monitoring telephone conversations to Morgenthau home - report of Federal Bureau of Investigation - 10/28/41.....		11
a) Barnard report - 11/17/41: Book 462, page 241		
b) HMJr's description of: Book 462, page 263		
c) New telephone arrangements outlined in Thompson memorandum - 11/19/41: Book 463, page 265		

- P -

Philippine Islands  
See War Conditions

- R -

Rossen, Pauline (Telephone Operator for Bell Telephone Company, Newburgh, New York)  
See Morgenthau, Henry, Jr.  
Ruml, Beardsley  
See Macy and Company, R. H.

- S -

Soong, T. V.  
See War Conditions: China

- U -

U. S. S. R.  
See War Conditions  
United Kingdom  
See War Conditions: Lend-Lease; Military Planning

	Book	Page
War Conditions		
China:		
Soong request for conference - resume' of to Miss Tully - 10/29/41.....	455	244
Exchange market resume' - 10/28-29/41.....		124,261
Foreign Funds Control:		
Strategic and Critical Materials: Report on "searching out supplies" by Foreign Funds Control - Foley-Pahle memorandum - 10/28/41.....		36,50,57
Gold:		
Imports from Japan to Argentina reported in cable from American Embassy, Buenos Aires - 10/28/41.....		121
Lend-Lease:		
Establishment of Lend-Lease Administration in Office for Emergency Management - 10/28/41.....		68
British Dollar Position - White resume' of situation at present time - 10/28/41..... (See also Book 457, page 332 - 11/5/41)		89
Winant setting up Financial Section of Embassy - White memorandum - 11/5/41: Book 457, page 339		
Military Planning:		
Reports from London transmitted by Halifax - 10/28/41.....		126,273
War Department bulletin:		
Anti-aircraft in German Armored Division - 10/29/41.....		276
Philippine Islands:		
Exports from Port of Manila to China, Hong Kong, Burma, Russia, and Japan:		
Three-week period ending October 9, 1941 - 10/28/41.....		103
Two-week period ending October 23, 1941 - 10/31/41: Book 456, page 281		
Strategic Materials:		
See War Conditions: Foreign Funds Control		
U. S. S. R.:		
Conference held in Moscow: FDR approves all items of military equipment and munitions and urges all speed - 10/29/41.....		267

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, October 28, 1941.  
10/27/41

Press Service  
No. 28-23

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated October 29, 1941, and to mature January 28, 1942, which were offered on October 24, were opened at the Federal Reserve Banks on October 27.

The details of this issue are as follows:

Total applied for - \$269,407,000  
Total accepted - 150,010,000

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

High - 100.  
Low - 99.973 Equivalent rate approximately 0.107 percent  
Average  
Price - 99.983 " " " 0.067 "

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

-oOo-

October 28, 1941  
8:56 a.m.

Operator: Mr. Secretary.  
HMJr: Yes.  
Operator: Mr. Hookins.  
Harry  
Hookins: Henry.....  
HMJr: Good morning.  
H: This is Harry.  
HMJr: Henry.  
H: Henry, I wonder if I could see you this  
morning about this Russian business.  
HMJr: Sure. You know I'm coming over to see the  
President at nine-thirty.  
H: Oh, good. I'm going to be there, too.  
HMJr: You got a note on it, didn't you?  
H: Yeah.  
HMJr: Well, I could.....  
H: Why couldn't we do it right after that?  
HMJr: We can.  
H: Or if we get a chance, what would you think  
of asking May to step out and see if the  
President won't talk with us about it?  
HMJr: Wonderful.  
H: What?  
HMJr: Wonderful.  
H: I.....  
HMJr: Harry.....

- 2 -

H: Yeah.

HMJr: .....what I'm doing this morning - I'm glad I have a chance to talk with you, but I know I've got your support. I've been doing a little underground work.....

H: Yeah.

HMJr: What?

H: Yeah.

HMJr: .....and I want to keep it to the President and you.....

H: Yeah.

HMJr: .....trying to get the President a little excited, see?

H: Yeah. You mean about production?

HMJr: Yeah.

H: Yeah, that's all right.

HMJr: Only on production.

H: That's all right. I'm delighted you're doing it.

HMJr: You see, because in this whole question of how we're going to go from the present fifteen per cent only of our effort on war production, to a hundred per cent.

H: Uh huh.

HMJr: See?

H: Yeah.

HMJr: I'm not interested in how it's divided, but I am interested in how it's manufactured.

H: Yeah. All right. I assumed something like

- 3 -

this was in the wind. I'm delighted.

HMJr: You are delighted?

H: Oh, God, anybody that can add anything to this fire.....

HMJr: Well, it's - and I want you to.....

H: Because one of the difficulties, Henry, it's like putting your fist in a pillow.

HMJr: Yeah.

H: All of us keep putting it in - you punch it in somewhere, and it comes out again.

HMJr: Well.....

H: Because of the various kinds of stalling that goes on.

HMJr: I know. Well, I had a heart-to-heart talk with the President. He seemed interested, and he told me.....

H: Yeah. He told me you did.

HMJr: .....to come back and he said that - come back again and again.

H: Well, that's fine. That's grand. I'm delighted; I'm tickled to death.

HMJr: And I don't know that - I just don't know of anybody that's approaching him with this from a disinterested angle.

H: That's right.

HMJr: What?

H: That's right, Henry. I think this will be very helpful. I hope you don't pull any punches.

HMJr: Me?

H: Yeah.

HMJr: Watch me.

H: All right, old boy.

HMJr: And I'll see you at nine-thirty and then we can - what angle on the Russians do you want to do, so I can.....

H: Well, the terms upon which we could give them Lend-Lease.

HMJr: Oh. Harriman mentioned it to me when he was over here for lunch.

H: I see.

HMJr: Did the - the President spoke to you about my being there.

H: Yeah, sure.

HMJr: And he seemed.....

H: Oh, yes. He's very much interested in it.

HMJr: Good.

H: All right, old boy.

HMJr: Good-bye.

H: Good-bye.

October 28, 1941  
2:58 p.m.

6

Norman  
Thompson: Yes, sir.

HMJr: If I can get us out of all this OEM investigation, I'd like to do it. It's just a damn nuisance, and I'd rather have it out of the Treasury.

T: Yeah. There's no question about that.

HMJr: I don't agree with Gaston.

T: Yeah. Do you think we ought to try to get it out?

HMJr: I'd try to get out of it.

T: Of course, the order's over there. It's just a question of whether the President will sign it or not.

HMJr: Well, you might tell the Chief Clerk over there - what's his name.....

T: Forster?

HMJr: Forster, that I'd be glad if the President would relieve me of it.

T: I'll do that.

HMJr: Tell Forster I'd be glad.

T: I tried to get McReynolds to see where it stood, but he's out of town and won't be back until Thursday.

HMJr: Well, tell Forster.

T: Okay, sir.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

7

DATE October 28, 1941

TO Secretary Morgenthau  
FROM Mr. Thompson

The proposal of J. Edgar Hoover that a room be set aside in the Treasury Building for the use of his investigators in interviewing Treasury employees in subversive cases is satisfactory. Mr. Hoover already has sent me word that he would like to have one of his men start next Monday, November 3, and I will so arrange, the interviews to be after hours.

With respect to Mr. Hoover's suggestion that we continue to handle investigations of defense agency employees, I concur in the statements in the attached memorandum from Mr. Gaston.

*TM*

OCT 20 1949

My dear Mr. Attorney General:

I have your letter of October 18th, in which you inform me that, with the approval of the President, you have directed the Federal Bureau of Investigation to institute investigations of every employee of the Government concerning whom complaints had been received that they were members of subversive organizations, whenever the Federal Bureau of Investigation receives information or complaints showing reasonable grounds for taking action, such investigations to be undertaken without notice to the head of the employing department or agency.

You indicate that at the conclusion of the investigation a factual report without recommendation will be transmitted to the head of the department or agency for administrative action, and request that in each such instance, a statement be submitted to you as to action taken in the matter, whether by way of exoneration, dismissal, or other administrative discipline.

Following an informal arrangement with Mr. J. Edgar Hoover, a room will be set aside in the Treasury Building where, after office hours, an investigator of the Federal Bureau of Investigation may interview Treasury employees in cases of the nature referred to. I understand that Mr. Hoover wishes to have these interviews begin on Monday, November 3. This will be satisfactory to the Treasury.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

By *[Signature]*  
Assistant Secretary

The Honorable

The Attorney General of the United States.

WHT:aja

A144B

October 18, 1941

The Honorable

The Secretary of the Treasury

My dear Mr. Secretary:

The Department of Justice Appropriation Act (June 28, 1941, Public Law No. 185, 77th Congress) contains a clause allocating a portion of the funds appropriated to the Federal Bureau of Investigation to be "available exclusively to investigate the employees of every department, agency, and independent establishment of the Federal Government who are members of subversive organizations or advocate the overthrow of the Federal Government, and report its findings to Congress."

This clause was inserted in the bill by way of an amendment adopted on the floor of the House of Representatives while the bill was under consideration.

The responsibility which it imposes upon the Federal Bureau of Investigation we are not warranted in sharing or passing along to others.

A study of the discussion of this provision on the floor of the House of Representatives shows that it was not intended that every employee of the Government should be investigated, but that investigation should be confined to those employees concerning whom complaints had been received that they were members of subversive organizations.

With the approval of the President, I have directed the Federal Bureau of Investigation to institute investigations of this type, without notice to the head of the employing department or agency, whenever the Federal Bureau of Investigation receives information or complaints showing reasonable grounds for taking action.

As a part of any such investigation, the employee concerned is given by the Federal Bureau of Investigation an opportunity to make a statement regarding any information received. Before making any statement, he is fully advised of his constitutional and legal

- 2 -

rights. In order not to cause any embarrassment to the employee, nor to interfere with his official duties, he is not interviewed at his place of employment. He is invited to come to the office of the Bureau after his office hours. His associates will be handled in the same way, but will be interrogated only if necessary.

At the conclusion of the investigation, a factual report without recommendation will be transmitted to the head of the department or agency. This course will be followed irrespective of whether the report exonerates the employee or indicates that there is ground for administrative action against him. Decision with respect to such action rests, of course, with the head of the employing agency or department.

In order that our records may be complete, the employing agency is requested to submit a statement as to any action taken by it in the matter, whether by way of exoneration, dismissal, or other administrative discipline, transmitting, where they are of record, the reasons for the action taken.

This is important since the law requires that the Federal Bureau of Investigation "report its findings to Congress." The statement as to the action taken by the employing agency will be made a part of that report.

I am confident that we shall have your full cooperation in carrying out the mandate of the Congress in the manner described. If during the course of our investigations any suggestions occur to you as to the possible improvements in this procedure, I shall be delighted to have them.

Sincerely yours,

Attorney General.

J. EDGAR HOOVER  
DIRECTOR

**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

October 28, 1941

*King speaks to  
Mrs. Hoover about  
this 10/21/41.  
11*

PERSONAL AND CONFIDENTIAL  
BY SPECIAL MESSENGER

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

As of possible interest to you, the following information has been received from a confidential source with reference to the activities of Pauline Rossen, telephone operator for the Bell Telephone Company, Newburgh, New York:

Pauline Rossen, as a result of her position, has been observed monitoring the telephone conversations going to your home through the Newburgh, New York, exchange.

Pauline Rossen is described as being a rabid Nazi sympathizer and has stated that Hitler will conquer the United States within another year. On one occasion when she was accused of being a Nazi, she retorted, "Well, what if I am?"

A detailed investigation is being made into the background and activities of Pauline Rossen with reference to her alleged pro-Nazi sympathies, as well as her other activities that might injure the internal security of this country. Upon the receipt of pertinent information in this regard, it will immediately be brought to your attention.

Sincerely yours,

*J. Edgar Hoover*

October 28, 1941  
4 p.m.

RE COAST GUARD

Present: Mr. Gaston  
Admiral Waesche  
Mr. Thompson

H.M.Jr: The reason I asked to see you gentlemen is this: I said something to Mr. Gaston about what provision, if any, had been made in case of war, in regard to Coast Guard.

He came back and told me about Order number one, which, as far as I know, nobody ever even told me about or showed me, or anything. If I am wrong --

Gaston: I don't believe they did.

Waesche: No, sir, I guess they didn't. If they didn't it was - the blame rests on my shoulders.

The proposition is this, that just informally, in a way, the Coast Guard and the Navy got together as to how we would dovetail in to the Navy if and when the President issued an Executive Order, or war was declared. In view of the fact that nothing therein contained in all those arrangements would go into effect at all or have any bearing until after the Coast Guard was completely under the Navy, it just appeared to me that it was something that you would not be particularly interested in, as you would have nothing whatsoever to do with it.

In other words, the arrangements were made but had no bearing on the Coast Guard at all until after the Order was issued for us to go under the Navy, and then it was a matter as to how we would fit in to the Navy organization.

Gaston: It is a war plan.

H.M. Jr: Yes, but that - I can understand that, but that wasn't the understanding that I worked on and that I understood the President approved. I mean, this whole fight that has been going on between Knox and me.

Gaston: Do you want me to review that from the first here, just what happened on that?

H.M. Jr: Yes.

Gaston: The - I have a memorandum here of your conversation with the President in which, after you had submitted to him our plan for turning over the seagoing fleet, the President said, "That is what I want." Then as you told it to me, the President said he didn't think all of the Coast Guard ought to go to the Navy, even in time of war, that we ought to save out some of the strictly civil functions, including icebreaking.

When the Secretary repeated this observation in the nine thirty meeting, Foley interposed that it couldn't be done, that the transfer of the entire Coast Guard was mandatory, that is, in time of war. I said I thought it ought to work both ways, and you said you couldn't see why the thing wouldn't work both ways. Foley said he thought it would require legislation and the Secretary asked him to look into it.

- 3 -

Well now, they did look into it, and they did prepare legislation providing that the President might detail, either in time of peace or war, a part of - in other words, that it could be divided. I sent that over to Coast Guard for their comment, and if you will recall, Admiral Waesche expressed very strong objections to it, and I wrote you a memo May 19 about his objections.

W. J. Jr:

Yes.

Gaston:

They were in substance, one, in time of action or hostilities, all of the activities of the Coast Guard are a necessary part of the national defense and can operate most effectively under direct Navy control. Two, he believes that to inject this proposal into this situation at this time without consulting the Navy Department in advance would create friction and discord which would make our situation much more difficult. Three, the proposed amendment would be injurious to Coast Guard morale, since Coast Guard officers and men take pride in the record of the service in various wars and regard themselves as an essential part of the fighting services.

There is more of it, but those are the essential parts.

Then I - you had me in to talk about that on May 23. Admiral Waesche says he was present, although I had forgotten that. I made a memorandum to Mr. Cairns at that time, returning the draft of the legislation to him and saying "In view of the very strong objections by Admiral Waesche I recommended to Secretary Morgenthau yesterday, May 23, that we drop the matter, and he agreed."

H.M.Jr: What was that?

Gaston: That was on May 23.

H.M.Jr: Repeat that, will you please?

Gaston: "Mr. Cairns: In view of very strong objections by Waesche, I recommended to the Secretary yesterday, May 23, that we drop the matter, and he agreed."

H.M.Jr: That is Cairns?

Gaston: I wrote a memorandum to Cairns saying that I had discussed the matter with you, that I recommended the matter to you that we drop the effort to amend the law and that you agreed. The Admiral says he was present at that conversation. I have forgotten that circumstance.

Waesche: Yes, I was here when the Secretary turned to you and said, "Well, are you willing to drop it?" and you said, "Yes."

Gaston: That refers to the obligatory transfer of the Coast Guard to the Navy in time of war and that is what this plan one deals with in time of war. The obligatory transfer of the entire Coast Guard to the Navy. As the law now stands, the General Counsel's Office has held that there is no option, that the whole thing goes to the Navy and so I probably was at fault in not showing you this plan, but it is rather a technical detailed matter, and I thought that it was pretty much an internal Navy matter since we would, under the General Counsel's opinion, have nothing to say about it.

H.M.Jr: Let me just ask you one question. I take it

from all of this that in case of war you (Waesche) want what, as far as the Coast Guard is concerned?

Waesche: I feel that in time of war the Coast Guard should go under the Navy, Mr. Secretary. We are by law a part of the land and naval forces of the United States and that legislation was passed entirely on the theory that in time of war the whole Coast Guard passed to the Navy. That is a matter of considerable pride in the Coast Guard, and I feel it would hurt the service considerably if in time of war we--

H.M.Jr: If that is the way they feel, I wouldn't lift a finger to change it. I mean, I wouldn't make any - I was under the impression, I don't know where I got it, that you wanted to stay in the Treasury, and that the President - I certainly got the impression that the President - because he asked me, what will happen to Waesche and all that.

Waesche: Mr. Secretary, my--

H.M.Jr: I don't know where I got it.

Waesche: My opinions in the matter are very well defined and very clear cut and always have been. I feel that the Coast Guard in actual time of war does belong under the Navy, and I feel even more strongly that when the country is not at war, the Coast Guard most decidedly does not belong under the Navy, and I feel that that ground is sound and could be defended before any fair minded group of men. It is a matter that I have given thought and study to over a long period of years.

In the history of the Coast Guard there have been

seventeen occasions where it was determined definitely that the Navy should take full control of the Coast Guard all the time within time of peace and in time of war. Throughout my thirty-five years service I have consistently and in some cases bitterly fought the transfer of the Coast Guard to the Navy in time of peace. I am probably one of the few officers who, throughout their whole service career, have felt very strongly and very decidedly on that point, and I feel just as strong if not more strongly on that point today, but I do feel that there are many reasons why the Coast Guard should be under the Navy in time of actual warfare.

H.M.Jr: Well, that clears up that. As far as I am concerned, it is a closed issue.

Thompson: The Merchant Ship Control would go to Customs if you went under the Navy, wouldn't it?

Gaston: No, it wouldn't. There is a statute in Congress under which all of that Captain of Port and Merchant Ship Control work - the powers of the Secretary of the Treasury would be passed to the Secretary of the Navy.

Thompson: I see.

Gaston: You can't administer it without the organization to administer it.

H.M.Jr: O.K.

Gaston: And I made that recommendation to you solely on the same ground that you put it, on the ground of Coast Guard morale. Frankly, I was quite surprised to find the very

excited reaction in the Coast Guard when this suggestion was made for legislation. It convinced me that it would be very destructive to morale.

H.M.Jr: I mean, the whole time I have been here I have kept the fight up to keep Coast Guard out of the Navy, but I didn't realize that in time of war they wanted to go under the Navy.

Waesche: Yes, sir. Of course, you understand that Coast Guard in time of peace is very determined, particularly in my own mind, that we want to stay in the Treasury, and, as a matter of fact, the history of my record in the Coast Guard will show that very strongly, and I feel more strongly now on that line than I did before.

H.M.Jr: O.K. Thank you.

Gaston: Here is a letter that I sent over for Coast Guard - for the Admiral to prepare a routine answer on. On second thought, I thought you might want to take a look at it. (Letter from Secretary Knox dated October 25.)

H.M.Jr: Miss Chauncey showed it to me.

Gaston: It is exceedingly high-handed sort of business.

H.M.Jr: Well, I don't see why, if it is agreeable to the Coast Guard.

Gaston: Well, they first start in by saying they want a boat. They have made all arrangements to train the Haitian Coast Guard - to have the Coast Guard train it. They first say, because they lack a boat. Then later on in the letter it appears that what

they lack is not a boat but a boat and a crew of officers and men to train the Haitian crew. They even go so far as to tell us where to send this boat and what Coast Guard officer to have it report. Then notice the last paragraph - the last label under the signature. If you think so, we will write a routine answer saying, "O.K., we will do it."

Here are a couple of things the Admiral just handed me. One is in regard to New Hackensack air port, a memorandum from Sinton. And there is a memorandum on repairs to the plane.



HEADQUARTERS

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

TREASURY DEPARTMENT  
UNITED STATES COAST GUARD  
WASHINGTON

20

28 October, 1941.

MEMORANDUM FOR - Commandant.

Subject: Repair parts for the R50-1 Airplane, V-188.

1. Repair parts for subject airplane will be shipped from the Lockheed Aircraft Corporation, Burbank, on Friday, 31 October, 1941, and will arrive at the Naval Aircraft Factory, Philadelphia, on 12 November, 1941.

  
HARVEY F. JOHNSON,  
Engineer-in-Chief.

U. S. COAST GUARD

21

HEADING

DNS Z QUAQ 272222 QUAH CR52

FROM  
ACTION  
INFORM

COMLADI ST

COMDT

TEXT

FROM INSCG AIR BURBANK X REMAINDER OF REPLACEMENT PARTS FOR ROGER  
FIFTY DASH ONE AIRPLANCE 4 DASH 188 WILL BE SHIPPED FROM LOCKHEED  
AIRCRAFT CORP BURBANK FRIDAY AFTERNOON 31 OCT 1941 X SOUTHERN  
PACIFIC BURBANK HAS STATED THAT PARTS LEAVING BURBANK ON THAT DATE  
WILL ARRIVE NAF PHILADELPHIA PENNA ON 12 NOV 1941

3

OPERATION 0025 OCT 28 INX 1941 HN M MO

OFFICIAL INITIALS

5 L

## ASSISTANT SECRETARY OF THE TREASURY

October 28, 1941.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Since I wrote the attached memorandum to the President as to Mrs. Nan Honeyman, Miss Chauncey has handed me the letter to you from Frances Perkins, in which she reports that the President said: "Tell Henry Morgenthau that I say I want her appointed."

I am attaching a suggested reply to Miss Perkins.

Attachments. 

October 28, 1941.

My dear Mr. President:

This is to acknowledge your memorandum of October 24, with which you enclosed a letter from Frances Perkins suggesting the appointment of Mrs. Nan Honeyman as Collector of Customs at Portland, Oregon, upon the expiration of the term of Judge Fred Fisk of Salem, which expires on April 30, 1942.

Mrs. Honeyman, as you know, is a woman of fine ability and accomplishment and I have no doubt she would make a capable Collector in case you should decide it would be wise to make a change.

The present Collector, Judge Fisk, took office on May 1, 1938, following the death of his Democratic predecessor. He has done a conscientious, although not outstanding, job and reports to me are that he is a man of good standing in his community.

I am returning your note and attachments.

Sincerely,

(Signed) W. H. H. W. H. H.

Secretary of the Treasury.

The President,

The White House.

MEG

File to Mr. Thompson

THE WHITE HOUSE  
WASHINGTON

24

October 24, 1941.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

What do you think?

F. D. R.

THE WHITE HOUSE  
WASHINGTON

October 22, 1941

For the President

P. D. G.

Do you agree?

F. R.

October 18, 1941

Dear Eleanor:

My talk with Nan Honeyman and others in the City of Portland led me to agree with her with regard to appointments in the State of Oregon.

The Collector of Customs for the City of Portland is Judge Fred Fisk of Salem. His term expires in April 1942. According to Mrs. Honeyman, he has been a dead loss so far as party matters are concerned, and in no sense merits reappointment, nor should the appointment, in her opinion, go to a liberal Republican acceptable to Senator McNary.

In surveying Federal posts in Oregon Mrs. Honeyman thinks that of Collector of Customs is one she could fill very well and remain in Oregon, as she prefers; nor does she think there would be any opposition to her appointment. In fact she believes Congressman Pierce, the only Democratic representative from Oregon, would be glad to support her, through his wife might not be so enthusiastic about doing so.

The only person Mrs. Honeyman could think of who might be a competitor for this post is the present State Democratic Committee Chairman. She has not had, however, the slightest intimation that he might be a candidate.

While April is quite a way off, Mrs. Honeyman believes it is not too early for the President to be approached in regard to her availability.

Nan feels that she should have a definite Federal post that has real prestige and that she can have influence in the Democratic organization if she has. I gather from talking with others that she was just barely defeated and that really by a situation which was unexpected and developed particular strength for the Republicans and weakness for the Democrats. And there seems to be no question about her being the center of the liberal group in political affairs.

I am going to speak to the President when I get a good chance, but I thought you might be having it in your mind also.

Affectionately,

Mrs. Roosevelt  
The White House

A handwritten signature in cursive script, appearing to read "Eleanor Roosevelt", with a long, sweeping horizontal flourish underneath.

October 28, 1941.

Dear Frances:

I have your note of your conversation with the President concerning the desire of Mrs. Nan Honeyman to be appointed Collector of Customs at Portland, Oregon, on the expiration of the term of the present Collector.

I shall be glad to discuss this with the President at the first opportunity.

Sincerely,

(Signed) Henry

Secretary of the Treasury.

The Honorable Frances Perkins,  
Secretary of Labor.

HEG

By Messenger 4:10

N.M.C.

Department of Labor  
Office of Secretary  
Washington

October 24, 1941

CONFIDENTIAL

Memorandum to the Secretary of Treasury  
From the Secretary of Labor.

I am writing you this memorandum because I shall be at the International Labor Office meetings in New York all next week.

I had a talk with the President after Cabinet meeting today with regard to Nan Honeyman of Oregon. He said to me, "Why shouldn't Nan Honeyman be made Collector of Customs?" I said, "That is the one thing she wants." He said, "Good. Tell Henry Morgenthau that I say I want her appointed." I am therefore carrying out his direction by this note.

Mrs. Honeyman spoke to me about this matter when I was in Portland recently.

(Signed) Frances Perkins

10-28-41

30

TO:

The Secretaries

Senator Byrd announces  
a meeting of the Committee  
created by the '41 Revenue  
Act to investigate non-  
essential Government  
expenditures at

11 A.M. Tomorrow, Wednesday <sup>10-28-41</sup>  
in Room 314  
Senate Office Building

From: MR. FITZGERALD

WALTER F. GEORGE, GA., CHAIRMAN  
DAVID I. WALSH, MASS.  
MORDECAI W. BARDLEY, KY.  
OSAM COMBALLY, TEX.  
DEAN W. BALEY, S. C.  
NATTY CHAMBER CLARK, MD.  
BY FLOOD STRID, VA.  
L. F. G. KERRY, R. I.  
JOSEPH P. SUFFET, PA.  
WALTER M. BROWN, MICH.  
LYDE L. HERRING, IOWA  
DAVID C. JOHNSON, CALIF.  
WILLIAM L. BUCKLE, MD.  
WILLIAM H. SMATHERS, N. J.  
ROBERT M. LA FOLLETTE, JR., WIS.  
ARTHUR CAPPER, KANS.  
ARTHUR H. VANDORFER, MICH.  
JAMES J. DAVIS, PA.  
HENRY CARYL LOGAN, JR., MASS.  
JOHN A. DANAHY, CONN.  
ROBERT A. TAFT, OHIO

FELTON M. JOHNSTON, CLERK

## United States Senate

COMMITTEE ON FINANCE

October 28, 1941

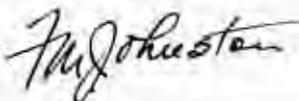
31

Hon. Henry Morgenthau, Jr.,  
Secretary of The Treasury,  
Treasury Department,  
Washington, D. C.

Dear Mr. Secretary:

Confirming my telephonic conversation with your office today, I have been requested to notify you that the Committee to Investigate Nonessential Federal Expenditures will meet at 11 o'clock tomorrow morning, Wednesday, October 29, in the Finance Committee Room, 314 Senate Office Building.

Sincerely yours,



Clerk  
Senate Finance Committee

*Secretary  
attended*

ALBERT STOESSEL  
Steinway Hall  
West Fifty-Seventh Street  
New York City

32

October 28, 1941

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

Dear Mr. Secretary:

Thank you for your letter.  
I quite understand the situation and wish you  
to know that I shall be very glad to advise  
you in reference to the radio program, should  
you wish it.

Cordially yours,



Albert Stoessel

AS:e

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Twenty-three Business Days of August, September, and October, 1941  
 (August 1-27, September 1-27, October 1-27)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	October	September	August	October over September	September over August	October over September	September over August
Series E - Post Offices	\$ 36,429	\$ 34,949	\$ 36,702	\$ 1,480	-\$ 1,753	4.2%	- 4.8%
Series E - Banks	<u>69,616</u>	<u>61,814</u>	<u>69,096</u>	<u>7,802</u>	- <u>7,282</u>	<u>12.6</u>	- <u>10.5</u>
Series E - Total	106,046	96,763	105,798	9,283	- 9,035	9.6	- 8.5
Series F - Banks	19,650	16,350	18,117	3,300	- 1,767	20.2	- 9.8
Series G - Banks	<u>104,902</u>	<u>98,461</u>	<u>115,362</u>	<u>6,441</u>	- <u>16,901</u>	<u>6.5</u>	- <u>14.7</u>
Total	<u>\$230,598</u>	<u>\$211,573</u>	<u>\$239,277</u>	<u>\$19,025</u>	- <u>\$27,704</u>	<u>9.0%</u>	- <u>11.6%</u>

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

October 28, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

Daily Sales - October 1941  
On Basis of Issue Price  
(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941									
1	\$ 1,450	\$ 3,029	\$ 1,286	\$ 8,271	\$ 12,587	\$ 4,479	\$ 1,286	\$ 8,271	\$ 14,036
2	1,870	2,786	867	4,324	7,977	4,656	867	4,324	9,847
3	2,150	3,299	1,065	6,323	10,687	5,449	1,065	6,323	12,837
4	1,270	1,696	612	6,400	8,707	2,966	612	6,400	9,978
6	3,449	4,778	1,444	9,286	15,508	8,226	1,444	9,286	18,956
7	1,207	2,595	572	2,913	6,080	3,802	572	2,913	7,287
8	1,363	3,674	821	3,611	8,106	5,037	821	3,611	9,469
9	1,652	4,270	903	3,654	8,827	5,923	903	3,654	10,479
10	1,495	3,672	989	5,272	9,933	5,167	989	5,272	11,428
11	1,291	2,400	632	4,098	7,129	3,690	632	4,098	8,420
13	2,515	3,624	1,164	4,989	9,778	6,139	1,164	4,989	12,293
14	437	1,022	261	511	1,794	1,459	261	511	2,231
15	879	2,175	759	3,482	6,417	3,055	759	3,482	7,296
16	1,376	3,054	724	3,908	7,685	4,429	724	3,908	9,060
17	1,422	3,609	860	4,969	9,438	5,031	860	4,969	10,861
18	1,180	2,424	846	3,013	6,283	3,604	846	3,013	7,463
20	2,827	3,395	895	3,800	8,091	6,222	895	3,800	10,918
21	887	2,029	436	2,959	5,425	2,917	436	2,959	6,312
22	1,284	3,316	835	5,880	10,032	4,600	835	5,880	11,316
23	1,496	3,201	882	5,322	9,406	4,697	882	5,322	10,901
24	1,364	3,320	718	2,963	7,001	4,684	718	2,963	8,365
25	1,341	2,393	959	4,798	8,150	3,735	959	4,798	9,491
27	2,224	3,854	1,120	4,156	9,131	6,078	1,120	4,156	11,354
Total	\$ 36,429	\$ 69,616	\$ 19,650	\$104,902	\$194,169	\$106,046	\$ 19,650	\$104,902	\$230,596

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

October 28, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

35

DATE OCT 28 1941

TO Mr. Morgenthau

FROM Mr. Foley

On Thursday evening, October 23, W. Harvey Reeves, Donald Kehl, and Joseph H. Murphy of the Office of the General Counsel attended a meeting of the New York Patent Law Association at the Roosevelt Hotel, New York City. Other guests included Charles Kramer, Chairman of the House Committee on Patents, and Conder C. Henry, Assistant Commissioner of Patents.

Mr. Murphy discussed briefly the background of the freezing control. Mr. Reeves set forth the provisions relating to reports on Form TFR-300. Thereafter, questions presented in advance and those raised from the floor were answered.

Approximately 350 members attended this meeting. Their reaction to this manner of presenting freezing control appeared favorable. The New York Patent Law Association has requested permission from the Treasury Department to publish certain questions and answers discussed at this meeting.

*S. W. FL*

MEMORANDUM

OCT 28 1941

To: Secretary Morgenthau  
From: Messrs. Foley and Pehle

Recently several stories have appeared in the press to the effect that the Economic Defense Board has been searching out supplies of strategic and critical materials held in the United States for foreign account and reporting them to the appropriate defense agencies. You may be interested in knowing that for a year and a half the Foreign Funds Control has been quietly performing this same function. There is attached a report summarizing the work of the Foreign Funds Control in locating and reporting strategic materials.

*J. Pehle*  
*S. W. Foley*

MEMORANDUMForeign Funds Control Activity in Directing  
Strategic Materials into Defense Uses

1. Soon after the freezing order was put into effect, the Foreign Funds Control found itself in a position to obtain and pass on to other interested Governmental agencies valuable information concerning the location of large quantities of strategic materials. Accordingly, a procedure was initiated early in the summer of 1940 whereby information relating to strategic materials was forwarded to Philip Young's office, in order that he might inform the appropriate defense agencies with respect to the location and availability of such materials. Applications involving such materials were not acted upon until the Foreign Funds Control was advised by Philip Young's office as to the recommendations of the defense agencies.

2. More recently a special unit of the Foreign Funds Control has communicated directly with OPM, the Army, the Navy, Lend-Lease, Procurement Division, and other interested agencies with respect to strategic materials and has cooperated in their efforts to direct such materials into appropriate defense uses.

3. Several times during the past year and a half, the Foreign Funds Control has required the principal banks to report all merchandise held by them for blocked accounts. The information thus obtained was furnished to the appropriate agencies and numerous instances have come to our attention in which such agencies immediately acted on the basis of such information to requisition important amounts of such materials.

4. All applications for licenses to export merchandise have been carefully examined with regard to the strategic nature of the merchandise in question and relevant information has been brought to the attention of the Office of Export Control, OPM, and other interested agencies. In certain instances OPM has requested the Foreign Funds Control to withhold action upon applications of this type until the materials could be requisitioned, outstanding export licenses revoked, or other steps taken to prevent the materials from leaving the country.

5. There are attached for your information: (a) a summary of representative cases in which the Foreign Funds Control was able to direct strategic materials into defense uses; (b) photostats of schedules listing supplies of copper and machine tools; (c) photostats of reports filed by two New York banks in response to special requests of the Foreign Funds Control.

- 3 -

These are representative of the information obtained and circulated by the Foreign Funds Control. We have constantly urged that efforts be made to utilize these materials as promptly as possible.

40

Examples of Foreign Funds Control Action in  
Directing Strategic Materials into Defense Uses.

1. 2,500 tons of prefabricated steel shipbuilding parts held for Danish accounts.

In late 1940 the Danish owner attempted to sell these shipbuilding parts to a Greek. Foreign Funds Control brought the case to the attention of the Navy and withheld action on the application until the Navy obtained the steel shipbuilding parts for use in critical repair work.

2. 7,000,000 pounds of shipbuilding materials held for Netherlands account.

Agents of the owners arranged to sell this material to a broker who in turn arranged to sell it to a shipbuilding firm in Portugal. Although it was alleged that this transaction had the blessings of the British, it was learned that the allegation was not correct. It is now agreed between the British and the United States Navy that Foreign Funds Control will withhold a license until the Navy has had an opportunity to requisition the material for its use.

3. Airplane spruce held for French account.

Foreign Funds Control learned that the French Line had been holding at a New Orleans dock since June, 1940, 30,000 feet of spruce wood suitable for airplane manufacture. When this information was brought to the attention of OPM, American airplane companies competed to obtain the materials. Foreign Funds Control licensed the sale of the material to the airplane companies on the basis of OPM's priority ratings.

4. Finnish war materials.

Foreign Funds Control procured cargo manifests of ships which were loaded with war materials which were to have been sent to Finland and turned over this information to the defense agencies.

Defense agencies and holders of priority ratings were thus given first choice of these materials, the sale of which was licensed by Foreign Funds Control. In a similar manner the cargoes of Finnish vessels moving from South American ports were marketed after such vessels took refuge in American ports.

5. Indo-China zinc.

A load of 500 tons of zinc originating in Indo-China arrived in New York for ultimate consumption in non-defense uses, although an intermediary in the transaction was at that time serving on the zinc advisory board of OPM. By bringing these facts to the attention of OPM, Foreign Funds Control was able to insure the delivery of the zinc to a firm needing this material for national defense purposes.

6. Diversion of calcium cyanide from Portugal to the United States.

Foreign Funds Control learned that a Canadian firm was attempting to finance a shipment to Portugal of granular calcium cyanide needed in this country in the manufacture of explosives and plastics. When this information was given to OPM, that agency appealed to the Canadian priority officer who in turn requested the chemical controller at Ottawa not to allow this material to be shipped to Europe. As a result not only was this shipment to Portugal stopped but also negotiations were begun to have the entire surplus Canadian supply of this material made available to firms in the United States holding defense contracts.

7. 1,378,000 pounds of copper held for Hungarian account.

Foreign Funds Control discovered that this copper had been lying idle for several months. The Navy, upon learning about this copper from Foreign Funds Control, immediately requisitioned it.

8. Diversion of machine tools to the Army.

In numerous instances Foreign Funds Control has helped make machine tools available to the Army. A license to sell machine tools purchased for the Government of French Indo-China was denied

- 3 -

by Foreign Funds Control in order that the Army might requisition the material for the benefit of the holder of an Army contract. Machine tools held for French account were placed directly into the defense effort on the basis of information given the Army by Foreign Funds Control. In another instance information relating to machine tools valued at \$100,000 stored in this country by the French Government was made available to the Russian Government through Defense Aid Reports, and the Russian Government immediately took steps to purchase them.

9. 6,000,000 pounds of aluminum held for French account.

The existence of this material was brought to the attention of defense agencies by Foreign Funds Control and the material was immediately purchased for defense uses.

10. Tin and lead held for Finnish account.

Foreign Funds Control learned that 45 tons of tin and 1,950 tons of lead were in the custody of the Finnish American Trading Corporation. When this information was relayed to the Navy Department, the Navy immediately took steps to requisition it.

11. Copper and Ford trucks held for Rumanian account.

Foreign Funds Control brought to the attention of the Navy the existence of \$49,000 worth of copper which was on board the Rumanian S. S. "Mangalia". This copper was immediately requisitioned by the Navy. Ford trucks valued at \$870,000 also owned by the Rumanians were sold to the Russian Government under Foreign Funds Control license.

12. Machine tools for Pratt and Whitney.

Certain machine tools had been reported as being held in the warehouse of a freight forwarder in New York for French account. The fact that these tools were available was brought to the knowledge of Pratt and Whitney Aircraft through Mr. Philip Young's office and a representative of the company came immediately to Washington to arrange to purchase them, the machinery being highly desirable in eliminating a bottleneck in the production

- 4 -

line of the Pratt and Whitney factory. After consultation with the requisitioning officers, the representative of the company came to Foreign Funds Control to say that requisitioning would take a period of some weeks and that acquisition of the tools through that means might be subject to additional further delays, and to ask if there was anything this office could do to be of assistance. Immediately telephone calls were made to the Army Ordnance Office in New York, which office confirmed the fact that the sale of these tools to Pratt and Whitney was desirable in the Government's interest; the freight forwarder holding the machines was reached by telephone and a price agreed on at which the machines could be sold to Pratt and Whitney, whose representative talked with him; thereupon, inquiry was made as to whether the forwarder desired a license to sell the machines to Pratt and Whitney and, upon his affirmative response, he was told that such a license would be in his hands within the next half an hour and for him to prepare the machines for immediate shipment. The Federal Reserve Bank of New York arranged to have appropriate application filed and relative license issued and we were informed that within two days the machines had been shipped to the factory, set up and placed in operation.

COMMODITY	APPLICATION NO.	APPLICANT	DESCRIPTION	PRESENT LOCATION	OWNER	DOCUMENTS HELD BY	ORIGIN
Copper	NY 103673	Chase National	(1350 Ingots (see memo 3/3/41	Harborside Warehouse, 6, Jersey City, N. J.	Esti Pank, Tallinn, Estonia	Applicant	?
Copper	NY 71860	Brown Bros. Harriman	?	Missouri-Illinois Warehouse Co., East St. Louis, Ill.	Nicolai Andresen	Applicant	?
Copper	NY 110368	Brown Bros. Harriman	see memo 2/21/41 ?	Madison St. Term. Ware- house Corp., St. Louis, Mo. Missouri-Ill. Ware. Co. E. St. Louis, Ill.	Northern Trading Co.	Applicant	?
Copper	NY 78801	Chase National	3649 Ingots	Harborside Ware. Co. Jersey City, N. J.	Esti Pank Tallinn, Estonia	Applicant	Domestic
Copper	NY 78801	(Chase National (see memo 3/10/41	26475 Ingots	N.Y. Foreign Trade Zone Oper., Inc. Staten Is., N. Y.	Esti Pank, Tallinn, Estonia	Applicant	Domestic
Copper	TFR - 100 NY 1738	American Smelting & Refining Co.	1,000,000 lbs. electrolytic	see memo 2/24/41	Jaques Guggenheim	Applicant	?
Copper	TFR - 100 NY 459	American Smelting & Refining Co.	56,000 lbs. e	?	Poragrand Metall- verk a/s Poragrand, Norway	Applicant	?
Copper	NY 95636	N. Y. Trust Co.	1415 Ingots 3712 Cathodes 12473 double Ingots electrolytic	Missouri-Ill. Ware- house Co. E. St. Louis, Ill.	Hartog & Co. a/s Oslo	Applicant	Domestic
Copper	NY 16641	National City	3595 Tons	?	Groupement D'Impor- tation et De Repar- tition Des Metaux	?	Domestic

COMMODITY	APPLICA- TION NO.	APPLICANT	DESCRIPTION	PRESENT LOCATION	OWNER	DOCUMENTS HELD BY	ORIGIN
Copper	NY 16188	National City	7,680,000 lbs.	?	Groupement D'Impor- tation et De Repar- tition Des Metaux	?	Domestic
Copper	TFR - 100 #73 French	American Metals Co. Ltd.	2,500,000 lbs. "in bond"	?	Groupement D'Impor- tation et De Repar- tition Des Metaux	American Metals Co. or Chase National	Domestic
Copper	TFR - 100 #107 French	American Metals Co. Ltd.	1,568,000 lbs.	Refinery, Cateret, N.J.	Mr. Leon Mager, Paris	Applicant	Domestic
Copper	TFR - 100 #143 Belgium	American Metals Co. Ltd.	690,000 lbs.	Refinery, Cateret, N.J.	African Metals Corp., N. Y.	?	Belgian- Congo.

**NOTE:** The New York Federal Reserve Bank has been requested to obtain and forward the missing information wherever possible.

COMMODITY	APPLICATION NUMBER	APPLICANT	DESCRIPTION	PRESENT LOCATION	OWNER	DOCUMENTS HELD BY	ORIGIN
Copper	116400	National City	128 bars	?	Bergens Privatbank, Oslo	Applicant	Domestic
Steel	20929	National City	205 plates	?	Wallendahl & Son, Oslo	Applicant	Domestic
Steel	23033	National City	Misc. valued at \$ 1,825.80	Newark Tidewater Terminal Inc. Newark, N.J.	Stavenger og Rogalands Bank, Stavenger	Applicant	Domestic
Steel	109171	French American Banking Corp.	87185 lbs. 104120 lbs.	Cars RDG 21850 C.N.J. 85288	?	Applicant	Domestic
Steel	119078	National City	800 coils strip	Hoboken Dock Co. Hoboken, N.J.	Den Norske Creditbank	Applicant Goods held at disposal of S.O. Halversen	Domestic
Resin	111658	National City	50 drums	Boston	Aarhus Privatbank, Copenhagen	Applicant	?
Resin	120345	Parsons & Whitmore, Inc.	300 casks	?	?	Applicant	?
Turpentine	111658	National City	25 drums	Boston	Aarhus Privatbank, Copenhagen	Applicant	?

## INVENTORY OF MACHINES

47  
Page 1.

AVAILABLE AS OF JUNE 15, 1941

Ref. No.	Type of machine	Price	Place of storage
116	8 x 60 Lo Swing Lathe (Not rebuilt)	\$ 900	Highland Park, Detroit
175	20x10 Wickes Production Lathe for turning crankshaft bearings (Rebuilt)	3000	"
214	26 x 10 LeBlond Crankshaft Lathe (with pot chuck) (Rebuilt)	3000	"
292	16" x 5' Reed Production Lathe - has longitudinal feed but no lead screw (Rebuilt) Ser. 12953-6		"
293	16" x 6' Reed Engine lathe - has longi- tudinal feed but no lead screw (Not rebuilt) Ser. 172193	1050	"
294	14" x 4' Reed Engine Lathe - No lead screw and no longitudinal feed. Not rebuilt) Ser. 004801	780	"
295	16" x 6' Reed Engine Lathe - no lead screw or longitudinal feed (Rebuilt)	1600	"
392	26" x 10' LeBlond Duplex Crankshaft Lathe with electrical equipment (Completely rebuilt)	4000	"
<u>GRINDERS</u>			
46	16"x48" Landis Crankpin Grinder, motorized and rebuilt to take HS crankshaft Ser. 11122	5000	"
186	16" x 68" Landis Crankpin Grinder with pot chucks (Rebuilt) Ser. 12330	4900	"
193	12" x 52" Landis Self Contained type Cylindrical Grinder complete with motorization (Rebuilt) Ser. 13559	3800	"
309	16" x 48" Landis Grinder (Rebuilt) Ser. 945-13	3900	"
321	Universal Semi-automatic Spline Grinder (Rebuilt) motorized.	2200	"
437	12" x 52" Landis Self Contained Type Cylindrical (plain) Grinder completely rebuilt and with motorization Ser.11995	3900	"

June 15, 1941 - Page 2.

f. No.	Type of machine	Price	Place of storage
<u>MILLING MACHINES</u>			
194	Moline Boring Mill - Not rebuilt but in good condition (from Lincoln cylinder block line)	3900	"
56	6 Moline Heads purchased <u>New</u> to be used on the above machine	3900	New York * * * * *
302	Superior Hand Mill No. 1 - not rebuilt Ser. 32	150	Highland Park, Detroit.
305	Rebuilt type B Cooley Edlund Mill	1100	"
<u>DRILLS</u>			
224	Two-Way Drilling Machine made by the Cleveland Jig Company with two Vickers Hydraulic Pumps with controls to rough drill and bore HS crankshaft. Complete with electrical equipment.	22500	"
<u>NEW</u>			
264	No. 314 Baker drill (Not rebuilt) 4760	800	"
265	No. 25 Foote Burt 8-Spindle Drill arranged for motor drive but without motor. (completely rebuilt)	2500	"
266	No. 14 22-Spindle NATCO Drill (not rebuilt) Ser. 1609	1200	"
267	No. 10 Defiance 24-Spindle Drill with special multiple head (not rebuilt) Ser. 626-32	2200	"
320	No. 314 Baker Drill (not rebuilt) Ser. 4917	850	"
322	Burt Rail Type Drilling Machine individual spindles (not rebuilt)	1000	"
342	64 - spindle NATCO Drill (Not rebuilt) Ser. 1632	1300	"
A-233	Buhr Horizontal Machine (3-Spindle one way crankshaft pin drilling machine including electrical equipment and other extra equipment (This machine not listed in inventory by audit of Dec. 31, 1940)	14000	"

Ref. No.	Type of machine	Price	Place of storage
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HONING MACHINES

333 } 334 }	(Two) Special K&T Tables purchased to be used on No. 4B Milwaukee Machines	2200	New York
362	Special Tooling for rough boring HS cylinder sleeve to be used on Potter & Johnson 6-DREL Machines	4400	"
444	(Nine) McCroskey 5½ Turrets - purchased for LeBlond Lathes A-409 to 417 incl.	1000	"
454	(Nine) McCroskey Steady Rests (3 ca. for 14" -16" and 18" lathes for France	2000	(8 in Detroit (1 in New York
	Electrical Motors & Starters	1250	New York
	Machine Fixture - Special	650	"
1035	Heat treat Furnace System including: 1 Salt bath 30"x120"x60" for use on 440 volts 60 cycles - Manufactured by Heavy Duty Electric Company. 2-2 ton chain hoists manufactured by Wharton L. Peters 1 ½ ton electric hoist - manufactured by Shepard Niles & Co. 1 tramrail & carriage 1 Quenching Tank 1 lot of baskets and racks 1 Quench tank pump (manufactured by Ingersoll Rand)	\$2000.00	At present installed in the (as is and tallied in the where is) St. Louis plant of the Curtiss Wright Corporation.

This above Item was bought new but has been used by the Curtiss Wright Corporation at their St. Louis plant.

	<u>Beneficiary</u>	<u>Amount Pd</u>	<u>Commodity</u>	<u>Title</u>	<u>Yes</u>
<u>BANQUE DE BRUXELLES S. A., ANTWERP</u>					
71366	Escober, Osterrieth & Cia. Ltda., Medellin, Colombia	\$1,806.25 1,275.00 (part of \$8,079.45)	425 Hides 300 Hides	Bladings Bladings	No No ✓
<u>BANQUE DE BRUXELLES S. A., BRUSSELS</u>					
70950	Bethlehem Steel Export Corp., New York City	7,929.20	94,505 lbs. Steel Bars	*Certificate of Manufacture	No ✓
72631	K. R. Wilson, New York City	1,025.00	3 cases Gasoline Eng. Governors	Warehouse Rec.	Yes \$1,200. ✓
72255	U. S. Steel Export Company, New York City	4,857.90	193,700 lbs. Steel Bars	*Certificate of Manufacture	No ✓
<u>BANQUE DE COMMERCE S. A., ANTWERP</u>					
70847	W. R. Grace & Company, San Francisco	689.31	54 bags Coffee	Trust Receipt	Yes \$750.- ✓
73546	L. Guman Hijos, Guayaquil, Ecuador	4,427.50	200 bags Cocoa Beans	Bladings	Yes \$4,900. ✓
<u>BANQUE DE COMMERCE S. A., BRUSSELS</u>					
69696	Paramount Export Corp., New York	1,361.14	5 cases Compression Rings	Bladings	Yes \$1,500. ✓
<u>COMPAGNIE FINANCIERE ET INDUSTRIELLE "COFININDUS", BRUSSELS</u>					
72619	Wm. H. Muller & Co. Inc., New York City	7,269.69	190 bbls. Ferro Silicon	Trust Receipt	Yes \$8,000. ✓
72748	Wm. H. Muller & Co. Inc., New York City	11,275.17	99 bbls. Ferro Chrome	Trust Receipt	Yes \$12,400. ✓

<u>L/O #</u>	<u>Beneficiary</u>	<u>Amount Pd</u>	<u>Commodity</u>	<u>Title Doc's</u>	<u>Ins.</u>
<u>BRODR TRIER, COPENHAGEN, DENMARK</u>					
65208	Straller & Wood	\$1,415.21	100 bags Coffee	Bladings	No
<u>EAST ASIATIC CO. LTD., COPENHAGEN, DENMARK</u>					
7300	Philippine Refining Corp.	1,400.00	100 tons Copra Cake	Bladings	No
<u>PRIVATBANKEN I KJØBENHAVN, COPENHAGEN, DENMARK</u>					
68558	Lso. A. Marturet, Caracas, Venezuela	571.92	54 bags Coffee	Trust Receipt	No
<u>KRETI PANK, TALLINN, ESTHONIA</u>					
67858	General Cocoa Co. Inc.	9,583.00	3,649 ingots Copper	Warehouse Receipts	Yes
		33,931.59	14,659 " "		
		15,800.81	6,850 " "		
		13,207.19	4,966 " "		
67881	General Cocoa Co. Inc.	3,248.00	98 coils Copper Rods	Warehouse Receipts	Yes \$3,248.
69881	General Cocoa Co. Inc.	6,079.97	58 cases Brass Blanks	Warehouse Receipts	Yes
67928	General Cocoa Co. Inc.	3,480.96	1,350 Copper Ingots	Warehouse Receipts	Yes \$3,480.96
<u>POLLUMESTE KESKPANK, TALLINN, ESTHONIA</u>					
73719	General Cocoa Co. Inc.	6,302.98	250 bales Sisal	Warehouse Receipts	Yes-\$6,303.

<u>Acct</u>	<u>Beneficiary</u>	<u>Amount Pd</u>	<u>Commodity</u>	<u>Title Doc't</u>	
<u>BANQUE NATIONALE POUR LE COMMERCE ET L'INDUSTRIE, PARIS</u>					
65672/ 2003	Baldwin Locomotive Works	\$37,600.00	2 carloads Machinery	Straight RR Blading	Yes ✓ \$41,360.
71233/ 2185	Republic Steel Corporation	6,465.64	19 lifts & 2 pcs. of Loose Steel Bars	Bladings	No
73390/ 2161	Waterbury Farrel Foundry and Machine Company	2,793.00	2 cases Machinery	Warehouse Receipts	Yes \$3,075.
<u>THE CHASE BANK, PARIS</u>					
69864	J. M. Huber Inc., N. Y.	6,327.90	2,000 bags Carbon Black	None * *	No ✓
69865	Binney & Smith, N. Y.	6,327.90	2,000 bags Carbon Black	None * *	No ✓
72991	Golfrey L. Cabot, Boston	4,154.46	200 cases Carbon Black	None * *	No ✓
72992	J. M. Huber Inc., N. Y.	4,154.46	200 cases Carbon Black	None * *	No ✓
<u>CREDIT COMMERCIAL DE FRANCE, PARIS</u>					
64808	Armo International Corp., Middletown, Ohio.	35,062.50	1 Steel Tube with 5 c/s parts for manufacture of Synthetic Ammonia	Railroad Blading	Yes ✓ \$38,600.
64809	do	35,062.50	do	do	do
69653/ 16921	Ajax Manufacturing Co.	35,000.00	4 boxes Forging Roll Machine	Negotiable RR Blading	Yes ✓ \$38,500.
74823/ 17282	Rayonnier Inc.	967.17	53 bales Cellulose Ray- white Pulp 38 Norme	Ocean Bladings	Yes ✓ \$1,070.



<u>U.S. Beneficiary</u>	<u>Amount Pd</u>	<u>Commodity</u>	<u>Title Docs</u>	
<u>DE TWENTSCH BANK N. V., AMSTERDAM</u>				
73495 Carlos de Diego, Panama City	\$3,950.49	530 bils. Cattle Hides	Bladings	No ✓
<u>INGARSO BANK N. V., ROTTERDAM</u>				
70017 Bethlehem Steel Export Corp.	38,371.58 2,258.93 2,295.42	Steel Plates	RR Blading	No-covered abroad
70265 Armco International Corp.	2,395.11	699 sheets Iron or Steel	RR Bladings	No ✓
69375 do	2,590.54	1,035 sheets Iron or Steel	RR Bladings	No ✓
69375 do	7,648.31	48 cartons Sheet Iron or Steel	RR Bladings	No ✓
<u>NEDERLANDSCHE HANDEL MAATSCHAPPIJ N. V., ROTTERDAM</u>				
70293 John D. Williams Export Corp.	12,883.72	Sheet Steel	Certificate of Manufacture *	No ✓
70917 Bethlehem Steel Export Corp.	173,487.21	Ship Steel	Certificate of Manufacture *	No ✓
71560 do	2,117.14	do	do *	No ✓
71809 do	4,914.46	Ships Plates & Bars	do *	No ✓
72190 do	5,180.81	Steel Bars	do *	No ✓
<u>ROTTERDANSCH E BANENVERENIGING N. V., ROTTERDAM</u>				
68342 Youngstown Sheet & Tube Co.	6,144.00	500 cases Tinplates	do *	No ✓

L/C #

Beneficiary

Amount Pd

Commodity

Date Recd

No.

NATIONALE BEARKASSE A. S., BUDAPEST

69110	Mineralia Metal & Ore Corp.	\$9,150.00	220,462 lbs. Pig Lead	Delivery Order	No	
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NEGRADSKA KADENSA A. D., BELGRADE

74960	U. S. Steel Export Corp., New York	12,383.70	1,120 boxes Coke Timpate	Delivery Orders	No	✓
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BERGENS PRIVATBANK, OSLO

68363	Wagner Electric Corp.	972.15	44 boxes Motors 8 boxes Fans	Trust Receipt	No	✓
68687	Johnstown Knitting Mill Co.	2,497.41	19 cases Underwear	Bladings	No	
70196	do	662.54	5 cases Underwear	Bladings	No	

CHRISTIANIA BANK OG KREDITKASSE, OSLO

64276	U. S. Steel Export Co.	609.19	195 bds & 300 pcs. of Pipe	Warehouse Rec.	No	✓
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DEI NORBKE CREDITBANK, OSLO

65001	U. S. Steel Export Co.	3,484.39	304 bds. & 98 pcs. of Pipe	Warehouse Rec.	Yes \$3,900.	✓
69541	American Steel Export Co.	118.90	6 cartons Goggle Cases	Warehouse Rec.	Yes \$130.	✓

<u>L/C.#.</u>	<u>Beneficiary</u>	<u>Amount Pd</u>	<u>Commodity</u>	<u>Title oc's</u>	<u>Ins.</u>
<u>BANQUE NATIONALE DE ROUMANIE, BULHAREST</u>					
72553	Aviation Equipment & Export Corp.	\$1,418.00	22 bbls. Ferro Silicon	Warehouse Receipt	No ✓
72666	Reilly Tar & Chemical Corp.	4,785.00	47 drums Phenol	Blainings	No ✓
73901	Mergenthaler Linotype Co.	626.25	1 case Parts	Blainings	No ✓
76320) 76321)	Cosmo Metal Alloys Corp. Or Order	2,993.00	19 cases Tinfoil	Warehouse Receipt	Yes ✓
76699	Anglo-American Metals & Ferro Alloy Corp.	9,345.09	89 bbls. Ferro Chromium	Warehouse Receipt	Yes ✓
68874	Copper Export Association	11,264.21	424 bars Copper	Blainings	No ✓
75446	American Metal Co. Ltd.	49,998.75	1,334 pcs. DRW Electrolytic Copper Wirebars	None * * *	No ✓

- \* Goods in possession of beneficiary; we do not consider under our direct control.
- \*\* Goods detained here and recently discharged; documents originally mailed to correspondent but apparently not received.
- \*\*\* Goods detained, still onboard steamer; documents mailed to correspondent who may arrange abroad for release.

THE NATIONAL CITY BANK OF NEW YORK

NORMAN

<u>ACCOUNT</u>	<u>MERCHANDISE</u>	<u>LOCATION OF MERCHANDISE</u>	<u>MERCHANDISE COVERED BY</u>
Den Norske Creditbank, Oslo, Norway	13 Pkgs. Steel Sheets	New York Foreign Trade Zone Operators Inc., Staten Island	Warehouse Receipt (15 Pkgs.) Warehouse No (1 Pkg.) Delivery Order R.R. B/Lading Undertaking of U.S. Steel Export Co. To pay us proceeds of sale
	19 Pkgs. Steel Sheets	18 Pkgs. at New York Foreign Trade Zone Operators Inc., Staten Is. 1 Pkg. at Pennsylvania Railroad, covered Pier, Greenville, N.J.	
	23 Crates Electrical Sheets	Pennsylvania Railroad, covered Pier, Greenville, N.J.	
	29 Crates	New York Foreign Trade Zone Operators Inc., Staten Island	
	415 Bundles Steel Sheet Bars	New York Foreign Trade Zone Operators Inc., Staten Island	
	57 Crates Steel Sheets	Hoboken Dock Co., Hoboken, N.J.	
	99 Rolls Cotton Duck	Newark Tidewater Terminal, Inc., Newark, N.J.	
	2 c/s Cotton Webbing	Newark Tidewater Terminal, Inc., Newark, N.J.	
	41 Pkgs. Black Sheet Steel	D. L. & W. R.R. Jersey City, N.J.	
	50 Bags Coffee	In storage at Cristobal	
Andresens Bank A/S, Oslo, Norway	2 c/s Sheet Brass Ribbon and Circles	Alloys and Products Inc., Bronx, N.Y.	Alloys and Products Inc. Receipt (Emmf.) S.S. Co. B/Lading
	27 Rolls Cotton Duck	Newark Tidewater Terminal Inc., Newark, N.J.	Warehouse Receipt Undertaking of D.C. Andrews & Co. N.Y.C. with proceeds to come to us Warehouse Acknowledgment Warehouse Receipt Undertaking of D.C. Andrews & Co. N.Y.C. with proceeds to come to us
	525 Bundles & 42 Pieces Steel Bars & Strips	Newark Tidewater Terminal Inc., Newark, N.J.	
	3 c/s Auto parts	Newark Tidewater Terminal Inc., Newark, N.J.	
	13 Coils Wire Rods	Boston & Albany R.R. East Boston, Mass.	
	147 Bales Cotton Duck	Campbell Stores, Hoboken, N.J.	
	3 c/s Auto parts	Newark Tidewater Terminal Inc., Newark, N.J.	
	5 Bundles wire change switches	Newark Tidewater Terminal Inc., Newark, N.J.	
	6 c/s cotton piece goods	Newark Tidewater Terminal Inc., Newark, N.J.	
	137 Bundles black Steel Sheets	N.Y. Foreign Trade Zone Operators Inc., Staten Island, N.Y.	
70 Pkgs. Steel Sheets	{ 37 Crates } New York Foreign Trade Zone Operators Inc., S.I. { 33 Crates } Pennsylvania Railroad, Covered Pier, Greenville, N.J.		
Bergens Privatbank, Oslo, Norway	14 Rolls Cotton Duck	Campbell Stores, Hoboken, N.J.	Warehouse Receipt Warehouse Receipt
	128 Copper Bars	Newark Tidewater Terminal Inc., Newark, N.J.	

THE NATIONAL CITY BANK OF NEW YORK

NORWAY

<u>ACCOUNT</u>	<u>MERCHANDISE</u>	<u>LOCATION OF MERCHANDISE</u>	<u>MERCHANDISE COVERED BY</u>
Christiania Bank Og Kreditassens Oslo, Norway	312 Boxes Tin Plate	New York Foreign Trade Zone Operators Inc., Staten Island	Warehouse Receipts
	23 Ship Plate (Pieces)	S. Alexander & Co., N.Y.C.	S.S. Co. Delivery Order
	7 Pos. Ship Plate	S. Alexander & Co., N.Y.C.	S.S. Co. Delivery Order
	1 Po. Ship Plate	Campbell Stores, Hoboken, N.J.	S.S. Co. Delivery Order
	1775 Bundles & 576 Pos. Pipe	Newark Tidewater Terminal Inc., Newark, N.J.	Proceeds to us per Captain Halvorsen's letter
Oslo Industri Og Handelsbank Oslo, Norway	32 o/s Nickel Silver	N.Y. Foreign Trade Zone Operators Inc., Staten Island	Warehouse Receipt
	234 Bags Sugar	National Dock & Storage Warehouse Co., Boston, Mass.	Warehouse Receipt
	18 Ykgs. Black Steel Sheets	Greenville (N.J.) Terminal of Penn. R.R. Co.	N/M Bills of Lading
	9 Pcs. Steel Boiler Materials	Sparrows Point, Md.	Cert. of Manufacture
	385 Bundles & 41 Pos. Steel Bars	Pennsylvania R.R., N.Y.C.	Receipt
	24 Steel Sheets	Fred W. Lange Trucking Co., N.Y.C.	Receipt
	81 Pos. Universal and Sheared Plates	Pennsylvania R.R., New York City	Receipt
793 Steel Sheets & 240 Pos. Ship Steel	Sparrows Point, Md.	Cert. of Manufacture	
Oslø Industri Og Handelsbank Oslo, Norway	50 Rolls Cotton Duck	Newark Tidewater Terminal Inc., Newark, N.J.	Warehouse Receipt
Skisnafjordens Ene Kreditbank A/S Skien, Norway	200 Bags Peas	Newark Tidewater Terminal Inc., Newark, N.J.	Undertaking of J.E. Kurch to return proceeds of sale
Bondernes Bank A/S, Stavanger, Norway	200 Boxes Tin Plate	B.&O. R.R. Jersey City, N.J.	Receipt of B.&O. R.R.
Kristiania Folksbank, Oslo, Norway	1 Box Furs	Fur Merchants Cold Stge. Co. Inc., N.Y.C.	Warehouse Receipt

3

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THE NATIONAL CITY BANK OF NEW YORK

DENMARK

<u>ACCOUNT</u>	<u>MERCHANDISE</u>	<u>LOCATION OF MERCHANDISE</u>	<u>MERCHANDISE COVERED BY</u>
Den Danske Landsmandsbank Copenhagen, Denmark	400 Bags Coffee 50 Bags Coffee 100 Bags Coffee	Hoboken Dock Co., Hoboken, N.J. William R. Boyce & Son Inc., N.Y.C. In Transit to New York	Warehouse Receipt Warehouse Receipt Undertaking of A. Johnson & Co. Inc. N.Y.C. to deliver B/Ladings covering shipment from Cristobal to N.Y. for storage
	100 Bags Coffee 100 Bags Coffee	New York Foreign Trade Zone Operators Inc., Staten Island Campbell Stores, Hoboken, N.J.	Warehouse Receipt Warehouse Receipt
A/B Kjobenhavens Handelsbank Copenhagen, Denmark	100 Bags Coffee 100 Bags Coffee 100 Bags Coffee 100 Bags Coffee	Jay Street Terminal, Empire Stores, Brooklyn, N.Y. Hoboken Dock Co., Hoboken, N.J. New York Dock Co., Brooklyn, N. Y. Jay Street Terminal, Empire Stores, Brooklyn, N.Y.	S.S. Co. B/Lading Warehouse Receipt S.S. Co. B/Lading S.S. Co. B/Lading
A/B Aarhus Privatbank Copenhagen, Denmark	50 Drums Rosin & 25 Drums Turpentine	National Dock & Storage Warehouse Co., N. Boston, Mass.	Undertaking of Thorpe, Naval Stores. Proceeds to us.
Folkbanken fir Kobenhavn Copenhagen, Denmark	100 Bags Coffee	Campbell Stores, Hoboken, N.J.	Warehouse Receipt
Moller & Hothe A/S, Companis Commercial Danesa Copenhagen, Denmark	664 Bundles Brown Kraft Ppr. 656 Bundles #1 Fourdrinier Kraft Wrapping Paper	Shepard Warehouses Inc., N.Y.C. Shepard Warehouse Inc., N.Y.C.	Warehouse Receipt Warehouse Receipt

THE NATIONAL CITY BANK OF NEW YORK

GREECE

<u>ACCOUNT</u>	<u>MERCHANDISE</u>	<u>LOCATION OF MERCHANDISE</u>	<u>MERCHANDISE COVERED BY</u>
Commercial Bank of Greece Crete, Crete	100 Bales of Cotton	Norfolk Warehouse Corp., Norfolk, Va.	Warehouse Receipt
	153 Bales Tobacco	Baker & Williams, N.Y.C.	Warehouse Receipt
	22 Bales Tobacco	William E. Boyce & Son, N.Y.C.	Warehouse Receipt
	1641 Bales Tobacco	State Warehouse Co., N.Y.C.	Warehouse Receipt
	3 Bales Lamb skins	Fur Merchants Cold Storage Co., N.Y.C.	Warehouse Receipt
British-French Discount Bank Athens, Greece	15 Drums White Oil	Bush Terminal, Brooklyn, N.Y.	Warehouse Receipt
	151 Bundles Steel Sheets	On Pier awaiting shipment at ft. of Columbia St., Brooklyn	
British-French Discount Bank Piraeus, Greece	50 Tons Pig Iron	Pouch Terminal, Clifton, Staten Island	Warehouse Receipt
Ionian Bank Ltd., Piraeus, Greece	950 Bales Tobacco	Due to arrive on S.S. "Malacca"	Shipping documents
Commercial Bank of Near East Ltd. Alexandria, Egypt	10 cases Aluminum Foil	Rio de Janeiro, Brazil	Ocean B/Lading held by our Rio de Janeiro Br. for purpose of shipping goods to Alexandria, Egypt via New York,
	25 Bales Henna Leaves	Unknown. Docs. delivered to J.T. Flannery Co., Jersey City, N.J. against Trust Receipt	
<u>BELGIUM</u>			
Couperie Belge Americaine S.A. Newark, N. J.	10,000 Jack Rabbit skins	Documents delivered to Couperie Belge Americaine S.A. Newark, N. J. against their trust receipt. Present location of merchandise unknown.	Trust Receipt ditto " " " " "
	1,155 Bales Rabbit skins		
	4 Bales Raw Hare skins		
	89 Bales skins		
	64 Bales Raw Australian Rabbit skins		
	7 Bales Hare skins		
	28 Bales Raw skins		
	51 Bales Rabbit and Hare skins		
A. & M. Missionnaires Brussels, Belgium	356 Bales Tobacco	State Warehouse Co., N.Y.C.	Warehouse Receipt
Banque de la Societe Generale de Belgique, Alost, Belgium	30 Bales Cotton Jute Floorings	We understand delivery of these goods was taken by the Stephen Eng Mills against a bond satisfactory to the steamship company.	Shipping Documents

THE NATIONAL CITY BANK OF NEW YORK

NETHERLANDS

<u>ACCOUNTS</u>	<u>MERCHANDISE</u>	<u>LOCATION OF MERCHANDISE</u>	<u>MERCHANDISE COVERED BY</u>
Incaso Bank, N.V., Amsterdam, Neth.	3599 Bundles Welding Wire 3400 Bundles Welding Wire 3200 Bundles Welding Wire	Hoboken Dock Co., Hoboken, N.J. Baltimore & Ohio R.R. Co., Baltimore, Md. Baltimore & Ohio R.R. Co., Jersey City, N.J.	Warehouse Receipt Trust Receipt Trust Receipt
Amsterdamsche Bank N.V., Rotterdam, Netherlands	2200 Hides	The National Cold Storage Co. Inc., N.Y.C.	Warehouse Receipt
De Twentsche Bank N.V., Rotterdam, Netherlands	17 Boxes, 1 Barrel & 2 Half Barrels Grinding Wheels	Hoboken Dock Co., Hoboken, N.J.	Warehouse Receipt
De Twentsche Bank N.V., The Hague, Netherlands	528 Pcs. Steel Bars  707 Coils Wire Rods 457 Pcs. Hull Steel Plates	Documents delivered to Blue Freis Inc., New York City against their Trust Receipt. Location of merchandise unknown.  Reading Co., Philadelphia, Pa.	R.R. B/Lading held by Bluefreis Inc., N.Y.C. against Trust Receipt  R.R. B/Lading held by John C. Rogers Co., Phila., Pa. against trust receipt
Nederylandsch Ind. Handelsbank N.V., Batavia, N. Indies	82 c/s Mase	Pier #1, Bush Docks, Brooklyn, N.Y.	Trust Receipt

ESTONIA

Kestl Bank, Tallin, Estonia	661 Bags Quabachio Extract	New York Foreign Trade Zone Operators Inc., Staten Island	Warehouse Receipt
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HUNGARY

National Savings Bank, Budapest, Hung.	2 c/s Steel Plates	Baker & Williams, N.Y.C.	Warehouse Receipt
Hungarian Com. Bank of Pest, Budapest	1 c/s Hungarian Artistic Dolls & Table Covers 1 c/s Artistic Dolls and Wooden Figures, Hand- painted	Towers Warehouse, N.Y.C.  Towers Warehouse, N.Y.C.	Trust Receipt  Trust Receipt

-2-  
THE NATIONAL CITY BANK OF NEW YORK

FRANCE

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ACCOUNT	MERCHANDISE	LOCATION OF MERCHANDISE	MERCHANDISE COVERED BY
Societe Havraise de Consignations Le Havre, France	500 Bags Coffee	New York Dock Co., Brooklyn, N.Y.	Undertaking of J. Aron & Co. Inc. to give us pro- ceeds of sale Ocean B/Lading Warehouse Receipt Trust Receipt ditto
Ottoman Bank, London	50 Bags Coffee 1 Bale Skins 15 Bales Skins 15 Barrels of Casings 15 Bales of Lamb skins 59 Bales Wool 6,111 Pos. Lumber 50 Bales Cotton	New York Dock Co., Brooklyn, N.Y. Baker & Williams, N.Y.C. Documents delivered to Alex D. Messaryak, N.Y.C. against their trust receipt. Present location of merchandise unknown. ditto Norfolk Warehouse Co., Norfolk, Va. Documents delivered to Gore Temple & Co., Boston, Mass. against their trust receipt. Present location of merchandise unknown.	Warehouse Receipt Trust Receipt
Deloche & Cos-Lesaint & Co.(Shippers) Marseilles, France	34 c/s Perfumery	Pier 11, Staten Island awaiting delivery. Ultimate consignee unknown.	Arrival Notices Our only knowledge of this shipment is an arrival notice dated May 15, 1941. Shipping documents or instructions covering disposition not re- ceived by us.

October 28, 1941

My dear Mr. May:

I am sending you herewith a copy of a report I had made on the delays in procurement. (Enclosure) 100-10-10-10000

The thought I had in mind was would it not be possible to actually get a contract for tanks, or a contract for planes, or a contract for ammunition or anything else that you might think of, and trace it from the day the appropriation was passed by Congress through the various stages and the various Bureaus and the various Agencies and find out how many days it stayed in each Agency until the contract was finally awarded. In some instances, be sure and pick a munition company that needed financing, to show the time it took to go through Mr. Jesse Jones' shop.

It seems to me that this would be the most dramatic way to show up the delays and the conflicts.

I offer this as a suggestion.

Yours sincerely,

(Signed) E. Worgenthau, Jr.

Mr. Stacy May,  
Chief, Bureau of Research and Statistics,  
Office of Production Management,  
Room 2700 Social Security Building,  
Washington, D. C.

STRICTLY CONFIDENTIAL

September 4, 1941

MEMORANDUM TO THE SECRETARY:

As requested the following are the steps taken with respect to Lend-Lease purchases, together with the average time required for each step:

	<u>Av. Time Required</u>
(1) Requisitions are written and dated by the British or China Defense Supplies and submitted to Defense Aid Reports; thence copies are sent to Procurement Division and O.P.M. From date of requisition to receipt in Procurement average lapse of time is	2 days
(2) O.P.M. examines for availability of commodity, method of purchase, and whether supplying will interfere with our own defense program; then clears to Procurement	4½ days
(Note: This average time will probably be extended by 3 days when priority ratings are to be indicated by O.P.M.)	
(3) Form LLA-3 (Request for allocation of funds) is prepared by Procurement for submission to Defense Aid Reports. From date of clearance by O.P.M. to date of submission of Form LLA-3	4 days
(4) Letter is prepared (based on LLA-3) by Defense Aid Reports for signature of the President, approving allocation of funds and transfer of commodity to the foreign government. From date of submission by Procurement of Form LLA-3 to date of letter to be signed by the President	12 days
(5) After signature by the President, transfer-directive submitted to Procurement	8 days

MEMORANDUM TO THE SECRETARY

9-4-41

- 2 -

Av. Time Required

- (6) On receipt of transfer-directive Procurement proceeds to make purchase. From receipt of transfer-directive to date of contract 12 days

The figures above showing the average time required were arrived at by taking the records on 19 requisitions which are believed to be representative of the usual requisitions received in Procurement.

This procedure requires an average of 30 days from the date of the requisition before we are authorized to make a purchase, of which total 20 days is taken up with the routine having to do with the allocations for each requisition.

It is suggested that the present Revolving Fund of \$10,000,000 be increased to \$50,000,000 and authority granted to use this fund in order that immediate purchase may be made or that such other steps be taken to reduce the time now required for obtaining allotments.

Clifton Mack (signed)

Clifton E. Mack  
Director of Procurement

(COPY)

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September 10, 1941

MEMORANDUM TO THE SECRETARY:

At your instigation and upon your insistence I have gone very thoroughly into the matter of time required to make lend-lease purchases handled by the Procurement Division with a view to expediting all possible.

My memorandum of September 4, 1941, prepared in accordance with your request of the same date, states in substance that a spot check of requisitions showed that approximately 30 days are required before we are authorized to make purchase contracts.

I met with Mr. Stettinius and others Monday afternoon of this week, as arranged by you, to discuss expediting the procedure. As a result the following procedure is now in effect:

	<u>Average Time Required</u>
(1) From date of requisition of British or Chinese Supply Agencies, routed through the Division of Defense Aid Reports, to receipt in Procurement	2 days
(2) OPM examination for availability, priority rating and clearance to Procurement	7 days
(3) Time required for routine purchase	7 days

Representatives for the Division of Defense Aid Reports have stated that fund authorizations will be secured within four days, accordingly, with this reduction in time, we will be able to start our purchase negotiations as the fund clearance will be received before formal commitment is required. Hence, both procedures will be simultaneous under this proposed plan.

The revised procedure will reduce the average time required heretofore of 42 days to a total average time of 16 days.

(Signed) Clifton E. Mack  
Director of Procurement

October 28, 1941

Mr. Morris Wilson  
 British Purchasing Commission  
 Willard Hotel  
 Washington, D. C.

Dear Mr. Wilson:

I think you will be interested in the accompanying charts showing the speed with which requisitions on our Procurement Division are converted into effective orders on supplies. I shall be glad to receive any suggestions or comments from you.

When the charts have served your purpose, perhaps Sir Clive Baillieu would like to see them.

Yours very truly,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

CIB:ELB

*Enclosed set of charts as  
 sent to Baillieu - Hopkins  
 By Morgenthau 4-12*

*m.m.c*

## EXECUTIVE ORDER

**ESTABLISHING THE LEND-LEASE ADMINISTRATION  
IN THE OFFICE FOR EMERGENCY MANAGEMENT  
OF THE EXECUTIVE OFFICE OF THE PRESIDENT**

By virtue of the authority vested in me by the Constitution and statutes, by the Act of March 11, 1941, entitled "An Act to promote the defense of the United States" (hereafter referred to as the Act), and by the "Defense Aid Supplemental Appropriation Act, 1941," and acts amendatory or supplemental thereto, in order to define further the functions and duties of the Office for Emergency Management of the Executive Office of the President in respect to the national emergency as declared by the President on May 27, 1941, and in order to provide for the more effective administration of those Acts in the interests of national defense, it is hereby ordered as follows:

1. There shall be in the Office for Emergency Management of the Executive Office of the President an Office of Lend-Lease Administration, at the head of which shall be an Administrator, appointed by the President, who shall receive compensation at such rate as the President shall approve, and, in addition, shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of his duties.

2. Subject to such policies as the President may from time to time prescribe, the Administrator is hereby authorized and directed, pursuant to Section 4 of the Act, to exercise any power or authority conferred upon the President by that Act and by the Defense Aid Supplemental Appropriation Act, 1941, and any acts amendatory or supplemental thereto, with respect to any nation whose defense the President shall have found to be vital to the defense of the United States: provided, that the master agreement with each nation receiving lend-lease aid, setting forth the general terms and conditions under which such nation is receiving such aid, shall continue to be negotiated by the State Department, with the advice of the Economic Defense Board and the Lend-Lease Administration.

3. The Administrator shall make appropriate arrangements with the Economic Defense Board for the review and clearance of those lend-lease transactions which, in the judgment of the Board affect the accurate defense of the United States as defined in Executive Order No. 8388 of July 10, 1941.

4. Within the limitation of such funds as may be made available for that purpose, the Administrator may employ one or more Deputy or Assistant Administrators and other personnel, delegate to them any power or authority conferred by these orders, and may provision for such supplies, facilities, and services as may be necessary to carry out the provisions of this Order. In so far as practicable, the Lend-Lease Administration shall use such general business services and facilities as may be made available to it through the Office for Emergency Management or other agencies of the Government.

5. Executive Order no. 8711 of May 2, 1941, establishing the Division of Defense Aid Reports and defining its functions and duties, is hereby revoked.

FRANKLIN D. ROOSEVELT

October 28, 1941

My dear Mr. Ruml:

Thank you for your letter of October 23rd which contained the information I desired on methods of shopping at your store.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Beardsley Ruml,  
Treasurer, R. H. Macy & Co.,  
New York, N. Y.

*H. M. C.*

*Full Address*  
1360 BROADWAY, NEW YORK

EXECUTIVE OFFICES OF

*R. H. Macy & Co.*  
*Inc.*

PLEASE PRINT NAME AND FULL ADDRESS

New York, October 23, 1941.

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

My dear Mr. Secretary:

With respect to various ways of shopping at Macy's, payment for purchases may be made in any one of four ways.

First, cash, of course.

Second, the use of our Depositors' Account system. We have in Macy's a state bank known as Macy's Bank in which our customers deposit money against which their purchases may be charged. An account may be opened with any amount, and additional deposits may be made at any time. The depositor is assigned a card bearing a D. A. number and all that is necessary is that the customer refer to that number when charging a purchase, and maintain a balance sufficient to cover items when they are charged. Early in December it has been our practice to refund to our customers one per cent of the year's purchases. We also pay interest at the rate of one per cent per annum on any maintained monthly balance over ten dollars.

Third, purchases may be made on a C. O. D. basis, but where merchandise is shipped outside of our delivery area there is a collection charge made by the Post Office.

Fourth, we also have a deferred payment plan which we call Cash-Time. There is a service charge of six cents on every credit unit of ninety-four cents, but the basic price of merchandise is identically the same as the cash price.

*Cable Address*  
MACORINI, NEW YORK

EXECUTIVE OFFICES OF

*R. H. Macy & Co.*  
Inc.

*New York*, October 23, 1941.

PLEASE ADDRESS REPLY TO EXECUTIVE OFFICES

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

My Dear Mr. Secretary:

With respect to various ways of shopping at Macy's, payment for purchases may be made in any one of four ways.

First, cash, of course.

Second, the use of our Depositors' Account system. We have in Macy's a state bank known as Macy's Bank in which our customers deposit money against which their purchases may be charged. An account may be opened with any amount, and additional deposits may be made at any time. The depositor is assigned a card bearing a D. A. number and all that is necessary is that the customer refer to that number when charging a purchase, and maintain a balance sufficient to cover items when they are charged. Early in December it has been our practice to refund to our customers one per cent of the year's purchases. We also pay interest at the rate of one per cent per annum on any maintained monthly balance over ten dollars.

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Honorable Henry Morgenthau, Jr.—2  
October 23, 1941.

The Personal Shopping Department, on the second floor, is staffed by a group of expert sales people thoroughly familiar with our merchandise and fluent in many languages. This Department is in charge of Miss Rosamund Miller who will secure the services of one of her shoppers for any time that is convenient. Orders may be placed by mail directed to Miss Miller, care of R. H. Macy & Co. Miss Miller will assign a shopper to the task of supplying all necessary information, filling the order, and shipping it by all possible routes.

If there is any further information or assistance that I can render, please call on me.

With kind personal regards,

Very sincerely yours,

*Beardsley Ruml*

Beardsley Ruml

October 28, 1941

My dear Crown Princess Martha:

I am enclosing herewith a letter from Mr. Beardsley Ruml, who is Treasurer of R. H. Macy & Company.

He outlines in this letter the various methods by which some one from out of town may shop at their store.

I hope that his letter will be helpful to you and will give you the information that you desire.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Her Royal Highness  
The Crown Princess of Norway,  
Pook's Hill,  
Bethesda, Maryland.

*Envelope addressed to  
P.O. Box 5790*

*D.M.C.*

October 28, 1941

73

Dear Ros:

Thank you so much for your letter of October 24th, which was very helpful. If you get any additional ideas on this subject I wish you would send them along to me.

I am sorry that you are not feeling too well and I hope that in the not too distant future you will have back your full health.

Yours sincerely,

(Signed) Henry

Mr. Roswell Magill,  
35 Claremont Avenue,  
New York, N. Y.

*N.M.C.*

Columbia University  
in the City of New York

SCHOOL OF LAW

October 24, 1941

Dear Henry:

The most important conclusion reached by the group yesterday was that the Treasury should be working vigorously upon its fiscal program for 1942 and probably for 1943 as well. We were all inclined to agree with Mr. Barnard that unless very active and very far-reaching steps are taken immediately by legislative action with a view to controlling inflation, the situation almost certainly will get completely out of hand. We all felt that provisions for heavy additional taxes would have to be adopted almost at once if we are to avoid a serious and devastating rise in prices.

We spent the day discussing the general components of such a program. On the data submitted it appears that some ten billions of dollars of additional purchasing power must be drained off by taxation and by additional savings. The problem is how to drain it off most equitably and most effectively. I think there will be substantial agreement that increases in social security taxes should be made promptly, although perhaps not as great increases as the Social Security Board has recommended. In the second place, we felt that the maximum additional revenue which could be promptly obtained from Congress through tax legislation would be about three billions of dollars. You may want to ask for somewhat more than this but we felt that you should not ask for greatly more than you will get and that three billions is about the best that you can hope to get at this time on top of the heavy increases just made. These two recommendations leave a substantial additional amount of new purchasing power still available to cause a price rise. Before I left there was no definite agreement in the group as to what should be done about it; there was definite agreement that a quick study should be made by other governmental experts to determine whether our ten billion dollar figure is correct.

My own thought would be that additional heavy excises on sales of commodities competing with the defense program should be sought, although I have considerable doubts whether the enactment of such excises can be secured promptly enough and on a broad enough scale to do much good. Our remaining tool is therefore

Hon. Henry Morgenthau - 2 -

October 24, 1941

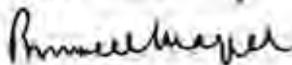
the device of forced saving. I do not agree with Mr. Barnard's exact program and I strongly disagree with his recommendation of a heavy forced saving from increases in compensation. My thought would be that in connection with the proposed tax increase, which will probably take the form of a 10% or 15% withholding tax on income paid, there should be provision for the issuance of defense savings bonds to persons in the lower income brackets. Perhaps the system should be so adjusted that in the lower brackets the additional forced contribution will take the form of taxes one-half and savings bonds one-half. It does not seem so essential to me that in the middle or upper brackets citizens be given defense bonds rather than be taxed for whatever amount can be secured.

May I return to the statement I made at the outset? I think the two most important factors are for the Treasury to work at great intensity upon a fiscal program, at least for the next calendar year; and that the wheels be put in motion for securing its adoption at the earliest possible date. Naturally this course of action involves an active support of the President and of course of the Congressional leaders.

I am sorry that I cannot give you more time than I did. As I wrote you, my doctors have not only vetoed any additional work but are demanding that I cut out some of my normal activities.

With warm regards,

Sincerely yours,



Hon. Henry Morgenthau  
Secretary of the Treasury  
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

76

DATE October 28, 1941

TO Secretary Morgenthau

FROM Mr. Barnard

Perhaps you would like to look over the memorandum attached which serves as a basis for the conference this morning.

Written by Barnard.

*CMB*

*11/6 - ...*

*11/6/41*

October 27, 1941

77

The following is somewhat in the nature of a resume of our conferences of last week and also will furnish agenda for the discussion Tuesday morning.

1. Professor Shoup undertook to secure the aid of others with reference to the problem of the extent of the need for restriction of income through taxes and/or compulsory saving, the multipliers to be assumed, etc., and the other questions involved in the discussion of the report by him, Friedman and Mack.

2. Mr. Paul would like an adequate discussion of the conditions, objectives, and alternative general approaches. It seems to me advisable that this be done. To focus discussion I line up briefly my own views as the item below (no. 10).

3. Before we finished our last conference there was confusion as to what subtraction from purchasing power was necessary from the anti-inflation standpoint. Prof. Shoup's report (item 1 above) will serve to bring this subject into focus again. But my understanding was that 6 billion, after social security tax additions, was indicated.

4. There seems to be rather general agreement that the proposed extension of old age and survivor insurance and of unemployment insurance should be regarded as acceptable parts of the program of the Treasury so far as its technical interests are concerned. There is some hesitation in adopting this view, and it rests upon general grounds. The amounts and direct effects for the next few years is indicated in the Appendix A to this statement.

-2-

This view rejects the proposals as to hospitalisation, medical care and general relief as involving taxes on employers without anti-inflationary control except for the initial months.

5. There was rather general support for a combined compulsory saving-tax plan, in effect a withholding tax on most sources of income. This is an amalgamation of Bernard's no. 1 suggestion with the proposal 2a of the Tax Department. It is stated in Appendix B attached, as set up tentatively by Mr. Elough, to which I have added some of the provisions of my plan.

I at present object to this plan as requiring too much tax and too little saving at the low income levels.

6. It was apparently the opinion of most present, especially the consultants (perhaps excepting Mr. Sheup) that this withholding tax was the maximum that could reasonably be imposed now. This does not mean that other taxes - selective excises, and additions to individual and corporate income tax schedules, and other items such as changes in estate and gift schedules should not be attacked later; but most of them (except excise) would be of fiscal rather than anti-inflationary importance, and they would quite probably involve extended legislative delays.

7. The Bernard proposal for compulsory saving on increases of spendable income has no support in any practical sense. In modified form I still press for it for reasons given later below.

8. The Bernard proposal for Business Stabilization Reserves has no support and some objection. I also continue to press for this in modified form (with an alternative) for reasons to follow.

-3-

9. I drop, at least for the present, my proposal for voluntary dismissal and part-time compensation plan, for the following reasons:

a. The tax loss might be too great and might involve serious criticism and misunderstanding.

b. The coverage would be spotty - the magnitude of the problem sought to be solved is much greater than can be effectively reached by the profitable concerns even if they all adopted the trust plan.

I note, however, that unfunded dismissal compensation plans are not rare; that they are highly desirable; and that they would break many concerns in a severe depression if they could not create a fund in advance which they can hardly do under the present income tax rates, unless given a tax advantage. I also note that the abandonment of this scheme eliminates an offsetting influence against extravagance in profitable concerns under the present tax law.

10. Comments on the General Problem.

a. The prevention of a serious degree of inflation is far more important, quite aside from its social disadvantages, than the amount of financing or the proportion to be obtained from taxes. Obviously, interest charges on a very high proportion of deficit after tax receipts even for a long period, would be little in comparison with the dollar cost to the government of even a 50% or 100% inflation; and the social cost of inflation would also probably be much greater. I am arguing very strongly not against tax increases, as may be feasible or desirable

generally, but against letting the interest and refinancing consideration weigh very much as against the maximum control of inflation even if this requires relative increase in debt. It would involve less debt by far in the end.

b. So far as control of inflation is either by taxes or compulsory savings, it seems agreed that it is necessary to restrict spending very far down in the income level. Taxes or compulsory or voluntary savings above the \$2500 level would be entirely inadequate. Nevertheless, I think it would be a grave error to underestimate the political, economic and social consequences of severe direct taxation below this level. It will seem to the "little fellow" that he is being pushed farther down, his actual difficulties will in fact of course be made greater, and he will think himself deprived of his chance to get somewhere after a long period of depression. It will seem contrary to all of the Administration philosophy, and no matter how high the purpose, severe taxation will be inevitably open to the attack. For these reasons I think it quite necessary that the pill be made as sweet as possible. Accordingly, I would make the withholding at the lower levels almost completely saving and not tax. I believe it could be "sold" on this basis. I do not believe it can be otherwise; and I believe it would be a great mistake to put up a proposal that cannot be put through. The increases of interest charges are as nothing compared with the advantages of getting the job done.

e. If too much restriction of purchasing power should be imposed, the business difficulties and unemployment would be increased. This ought not to be risked and there is bound to be some uncertainty as to how much withdrawal of purchasing power is required. I doubt if the present proposal (15% withholding tax, \$4,500,000,000) plus the social security increased taxes are sufficient by the time they could be adopted. This implies the acceptance of some inflation.

d. Therefore, the plan now adopted should lay heavy emphasis upon increasingly progressive control of inflation as prices, wages and salaries rise. From this point of view the present income taxes are progressive, but not sharply enough so at the lower levels. I am fearful of the effect of too high taxes at the levels below \$10,000 on initiative and ambition, especially during the defense period. This is a major reason for the plan of compulsory saving of a substantial proportion of increases of disposable income. The objections to this plan are two: (1) administrative difficulty and difficulty of allowing for individual differences of conditions; (2) preference for a sort of individual "excess profits" tax if it could be devised. I give a revised plan in Appendix C.

f. The effort to finance by taxes instead of loans, so far as the working masses and consumers are concerned, seems to me to take too little into account the post-defense problem. While defense is on, I am the last, it must not be forgotten that defense itself relates also to the post-defense welfare of the country - that is what it is all about. The compulsory savings

-6-

features provide in effect for a special post-defense, old-age, survivor and unemployment insurance of immense potential value in post-defense readjustment. If the period of defense lasts very long it might be doubted that it would be practical to make obligations good without devaluation or deliberate inflation; but, even so, general popular assent would be perhaps much more easily obtained; and the reserves would still be good to a great extent. This is the method of giving the common people a stake in the country - a property right to future production through the government, that should be a stabilizing influence.

As a stimulant it seems far more sure than a post-defense reduction of taxes which works slowly. Entrepreneurs will proceed under lower tax burdens if there is available a large popular financial power.

11. The objections to the plan of Business Stabilization reserves have been that it would provide a means of accumulating surpluses at an attractive rate of interest ( $2\frac{1}{2}\%$ ) and would result in some tax avoidance (\$300 million). To meet these objections, I suggest that the interest rate be made  $1\frac{1}{2}\%$ ; and that the alternative be offered either of buying the certificates or of approximately complete distribution in dividends of the net profits available after taxes. (Declaration within the taxable year payable in not less than six months. Plan restated in Appendix D).

The arguments for this plan are these:

- (a) It is the kind of treatment which imposes on

-7-

corporations compulsory saving at a low rate of interest or the subjection of stockholders to the withdrawal and income taxes on the whole amount of corporate net earnings. It seems to me important to do this as an equitable counterpart of the withdrawal tax proposed as it applies to the people in the low brackets. It avoids the impression that the present effort is confined to the little fellow;

(b) It would produce about  $1\frac{1}{2}$  billions of lean at low rate;

(c) It would aid in stabilization of temporarily very <sup>and</sup> profitable businesses/of employment;

(d) It would reduce idle corporate balances, which might become "explosive" under some conditions and reduce the danger of stock market and other security inflation.

It would not have any immediate important effect upon current inflationary tendencies.

## APPENDIX A

Amounts of Tax Increases and Net Withdrawals  
from Income so far Proposed (Oct. 27)

I. Social Security Taxes	Millions of Dollars	
	Tax	Increase
1. Old age & survivors extension	2,030	1,200
2. Extension of Unemployment Ins.	<u>1,600</u>	<u>700</u>
	3,630	1,900
Disbursements per yr. next 4 yrs.	<u>490</u>	<u>- 220</u>
Excess of collections	3,140	1,190

i.e. anti-inflationary effect is  
probably about 1/2 of \$1,190,000,000  
or say \$500,000,000.

Less of income tax revenue in proposal about \$36,000,000.

II. Proposed Withdrawal Tax - Saving Plan (15% of revenues  
net increase of tax-savings \$4,538,400,000  
practically all of anti-inflationary effect.

Total net reduction of spendable income in I and II  
combined, about \$5,000,000,000.

Details of withholding tax  
with compulsory savings feature

1. Tax Base: Surtax net income as at present defined, with allowance for that amount of medical expenses in excess of 5 percent of income but not to exceed \$2500; (to be allowed for income tax also)
2. Exemptions: Single person, \$500  
 \* Married person or head of family, \$1,000  
 \* Dependent, \$300  
 Raise age limit for dependent children from 18 to 21 years (to be allowed for income tax also)
3. Rate: 15 percent; tax to be allowed as credit against income for income tax computation.
4. Collection:
  - (a) Wages and salaries: Collect at source subject to weekly exemption equal to: 1/50th of personal exemption and credit for dependents increased by 10 percent (to allow tentatively for deductions.)
  - (b) Bond interest, dividends, royalties: Collect at source without exemption (except for special treatment to be worked out for persons with very small incomes largely from these sources.)
  - (c) Income from proprietorship and partnership business and professions: Quarterly return and payment on estimated quarter-year income, less allocated personal exemptions and credit for dependents if not claimed for wages and salaries.
  - (d) Annual return with supplementary payment (or refund) for all income combined, including income not subject to withholding or returned quarterly.
5. Portion deposited to account of taxpayer (compulsory saving)

1/2 of first	\$20	of	withholding	tax
1/3 of next	30	"	"	"
1/4 of next	40	"	"	"
1/5 of next	50	"	"	"
1/6 of next	60	"	"	"
6. Administrative expense: A withholding tax system with low exemptions would have a normal administrative expense of perhaps 1 to 2 percent to provide for numerous local offices (for example, an office in every city of over 2500 and every county not having such a city).
7. As to conditions of repayment of reserves, same as in Bernard proposal.

## APPENDIX C

Revised Plan of Compulsory Saving of Increases in Spendable Income. Applicable only where net taxable income exceeds \$2,000, beginning in 1943 to 1942 returns.

Definition of Spendable Income: Net taxable income plus amount of Savings Bonds redeemed less: (1) Amount of withdrawal savings-tax paid; (2) Amount of currently payable balance of tax on tax return; (3) Amount of medical and hospitalization expenses in excess of 5% of income but not exceeding \$2500. in taxable year; (4) Amount of Savings Bonds bought during taxable year; (5) Amount of repayments of debt contracted prior to Jan. 1, 1942.

Special alternative computation for year 1942: Either (1) 10% of net taxable income or (2) the difference between 1942 and 1941 income, the latter computed in accordance with the same law as is applicable to 1942 income.

## Schedule of Required Savings

No. of Dependents	% of Increase to be Paid to Reserve
none	70
1	60
2	50
3	40
4	30
5	20
above 5	none

Business Stabilization Reserves

Taxpayer may elect either to distribute substantially all profits or to make contributions to business stabilization reserves, the latter calculable on all distributable net income, i.e., income after deducting the amount of income and excess profits taxes from taxable net income. The amount to be contributed will be invested in Business Reserve Certificates of the Treasury, in the proportions of distributable income stated below, depending upon the rate of such income to the same capital base as is used in calculating excess profits, on the following schedule:

Per cent contribution on	distributable profits	where rate is	more than	not but over
25	"	"	"	6%
50	" additional	"	"	8%
75	" "	"	"	10%
100	" "	"	"	above 15%

Business Reserve Certificates are to be issued by the Treasury in the name of the contributor, not transferable, and are payable as follows:

- a. Whenever and to the extent necessary to prevent a deficit after payment of expenses, taxes and contract interest (but not dividends).
- b. To a receiver on involuntary liquidation.
- c. On voluntary liquidation; but the amount so distributed to be accounted as an earned dividend payment to stockholders.

Note: Probably desirable to develop some practicable scheme for making certificates cashable where insolvency is threatened

net by deficits but by temporary illiquidity.

d. Beginning at the end of two years after the termination of the emergency, one year's reserve each year, in the order of accumulation, as in Section 2 above.

No alternative purchase of bonds permitted.

Interest at 1%.

Taxpayer may be relieved of the provisions in any year by the Secretary of Treasury in showing that capital is required to finance necessary extensions or to avoid insolvency, and that the relief sought is necessary and sufficient.

Contributions provided for in Section 1 are to cease as of the first of the month following the date at which the emergency is declared to be ended. Those provided for in Section 2 will not be made for increases of income during the year in which the emergency is declared ended. Business Stabilization Reserve Certificates will not be required to be purchased after the emergency is declared ended.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

29

DATE October 28, 1941

TO Secretary Morgenthau  
FROM Mr. White  
Subject: British Dollar Position

There are appended three memoranda which together present a picture of the British dollar position now and through September 1942, and a statement of the origin and present status of your commitment to provide dollar relief for the British Treasury.

I. The origin of the Secretary's commitment to provide \$300 to \$400 million of relief.

The first memorandum explains that the Secretary's commitment originally was not a promise for any given amount of relief, but was, rather, a promise not to hold the British to cash payments for those plant and supply contracts that the Army or the R.F.C. would agree to take over. The \$300 to \$400 million figure was a mistaken estimate of the amount of relief that the Army was considering. Since the March 19 meeting, however, the British have stated the commitment to be for an amount of \$300 to \$400 million, and the Treasury has tacitly acquiesced in that interpretation.

II. Status of projects for dollar relief to the British Treasury.

The second memorandum outlines the projects that have been proposed for providing dollar relief to meet the Secretary's commitment, and shows the present status of these projects. The total dollar relief now certain or virtually certain to be received by the British from the transfer of plant and supply contracts is \$195 million. An additional \$31 million may be obtained from the transfer of some six more plant facilities, but practically all of the other projects, including the supply contract transfers, are about to be abandoned. The expected letter from Secretary Stimson should settle the supply contract transfers.

Dollar relief of a different type than that contemplated in the original commitment, however, has been provided in large amounts.

The extension of Lend-Lease to cover United Kingdom and Dominion purchases of many non-military supplies is estimated by the British to relieve them of \$400 million per year of payments that they had expected in March to have to meet from their own resources. Similarly, the British have been or probably will be, relieved of \$100 million per year of other payments for shipping services, taxes, ferrying airplanes, and Norwegian shipping charters, all of which they had expected in March to have to meet from their own resources.

But the British have not been willing to agree that the assumption of these items, for which they had expected to pay dollars, could appropriately be counted toward meeting the \$300 to \$400 commitment.

III. The British dollar position from January 1, 1941 to the present, and prospective dollar position on March 1, 1942 and September 1, 1942.

The third memorandum reviews the British dollar position from January 1, 1941 to September 1, 1941, and estimates the position through September 1, 1942. On the basis of British estimates of their balance of payments it is roughly estimated that the gold and dollar balances of the United Kingdom in September 1942 will be about \$580 million. In addition to this, however, the British will receive at least \$60 million more gold than they had anticipated through a recent arrangement with the Government of South Africa, under the terms of which the South-African Reserve Bank will use some of its excess gold reserves to repatriate South African securities.

By September 1942 there will remain \$185 million due on B.P.M. contracts, the ultimate payment of \$89 million of which (mostly French reimbursement) is doubtful.

On the same date the British will have the following assets, in addition to their \$640 million gold and dollar balance:

- (1) U.S. securities . . . . . \$165 million
- (2) U.S. securities and direct investments lodged with the R.F.C. as excess collateral (\$700 million lodged less \$425 million received on loan). What the loanable or saleable value of this excess collateral will prove to be is uncertain . . . ?
- (3) Trust funds which the British say are not available owing to our trust laws, but which our legal staff would have to examine individually before a definite decision on their availability could be made . . . . . 290 "
- (4) Private dollar balances which the British claim to be unavailable . . . . . 300 "
- (5) United Kingdom foreign investments outside of the United States . . . . . ?
- (6) Gold and foreign investments of British Empire countries other than United Kingdom and Canada . . . . . ?

Your commitment to provide dollar relief to the British Treasury was made for the reason that at that time the British balances were low and it appeared that the British prospects of gold and dollar receipts were insufficient to meet their obligations and at the same time accumulate a gold and dollar balance adequate for advance planning by the United Kingdom Government. The gold and dollar balance deemed by the British to be the minimum necessary for that purpose was \$600 million. Since the passage of the Lend-Lease Act the British have succeeded in finding sufficient funds to meet all their dollar obligations and to begin the accumulation of a gold and dollar balance that will total almost \$650 million by September 1942, and that will increase steadily thereafter.

Apparent Origin of Your Commitment to  
provide \$300 to \$400 million of relief  
for the British Treasury

The first intimation of a commitment made directly to the British to refund to them some of the advance payments they had made on plants and defense orders, and to relieve them of some of their commitments made before March 11 was given, so far as your records show, at the meeting in your office on March 19, 1941.<sup>1/</sup> The exact wording of this commitment is important because it indicates clearly that when you mentioned to the British the figure of \$300 to \$400 million for the first time, so far as the records show, you were relying on Mr. Bell's statement that \$400 million was the figure that the War Department stated in their letter to you as the amount of relief that the Army and the R.F.C. could provide to the British. You had not yet read the letter since it arrived the day before the meeting, and was addressed to Mr. Bell. Furthermore, your statement of the commitment at that meeting was not in terms of an amount of money, but in qualitative terms of what the Army and the R.F.C. could do.

The following excerpts from the stenotyped record of that meeting are the pertinent phrases: You referred to the testimony given by Mr. Smith to the Congressional Committee as being incorrect because, you say, Mr. Smith did not qualify the statement he made to the Committee that the British would pay for all outstanding contracts from the proceeds of the sale of their investments in the United States.

Secretary Morgenthau: "Less - - now this is where the testimony is incorrect -- less what the Army and the R.F.C. would take over of contracts which, according to their letter, now is how much Dan?"

<sup>1/</sup> The only other origins of the commitment that appear possible are: (1) that it was made to assure the British of the dollar exchange necessary to make purchases averaging about \$35 million per week for the ten-week interim between the Lend-Lease hearings and the passage of the Act, or (2) that it was made at your press conference of March 13 when you stated that 25 percent of outstanding British contracts might be taken over -- 25 percent of \$1.3 billion outstanding on January 1 makes \$350 million dollars, as one reporter noticed.

Mr. Bell: "Well, potentially \$400 million."

Secretary Morgenthau: "Let's say between \$300 to \$400 million."

Mr. Cochran: "I think that is a little high because that includes some contracts for which the British are not yet committed."

A careful examination of the letter referred to from Mr. McCloy to Mr. Bell shows that the amount of "relief" that they said they could take over was \$427 million; but \$342 million of that \$427 million was not relief in the sense in which the term was being used at the conference and later. The \$342 million consisted of goods and plants that were on the British list of needs, but for which they had made no commitments and no advance payments. In other words, Mr. Bell misunderstood the letter (which he had not had time to read carefully inasmuch as it had just been handed to him) and gave the figure of \$427 million when the figure he would have given, had he had time to examine the letter carefully, was \$87 million. This \$87 million of relief from then existing British commitments which the Army had promised in that letter to take care of with the assistance of the R.F.C., has already been taken care of.

Secretary Morgenthau: "Let's put it this way. Less what the Army and the R.F.C. could take over, the Army taking over contracts where you have a down payment on the order, and the R.F.C. taking over those contracts where you have investments in plants. Is that correct? Well anyway, that is my understanding with the President."

If the Army were to take over all the contracts on which the British had down payments, the sum of total commitments that the Army would take over would amount to over a billion dollars. It would include all contracts, inasmuch as they all involved some down payment. Therefore, the reasonable interpretation of the last remark quoted above is that you referred to those contracts which the Army felt it could take over, namely, the \$87 million referred to above.

From that moment on, the British always referred to your commitment that you would take them out of the \$300 to \$400 million, and you have acquiesced in that interpretation, although in fact it appears from the record that you originally never made such a commitment -- at least not to the British.

## MEMORANDUM II

95

## Status of Projects for Dollar Relief to the British Treasury

(All figures in millions of dollars)

	<u>Certain or almost Certain</u>	<u>Probable</u>	<u>Possible or Unlikely</u>
<b>Plant transfers:</b>			
Tennessee Powder (This transfer was completed some time ago and the \$21 has already been received by the British)	21		
4 Machine Gun Plants (Negotiations for these plants were completed some time ago and \$3 has already been received. No difficulty is expected in recovering the remainder)	24		
11 Other Plants costing \$79 (The army has recently certified these plants to the R.F.C. and the remaining difficulties are administrative only)	55		
6 Additional Plants costing \$31 (This list of plants suitable for transfer was submitted last month. No action has yet been taken upon them, although ultimate recovery of some portion of the \$31 is probable).		31	
<b>Supply Contract Transfers:</b>			
4 Machine Gun Contracts (The British have received \$5.4 on these contracts, and no difficulty is expected in recovering the remainder)	28		
<b>Contracts placed prior to March 11th:</b>			
<b>Ships</b>			
(The Maritime Commission has refused to take over these ships on the ground that they are coal burners for which, they say, there is no place in the American Merchant Marine)			87

	<u>Certain or almost Certain</u>	<u>Probable</u>	<u>Possible or Unlikely</u>
Airplane Engines (The original amount of transfers requested in this category was \$250. On the ground that no army funds were available, the program was reduced to \$40. The Army has now reported there are no funds available to take over the \$40)			40
Tanks and Tank Engines (The army has also reported that no funds are available for these contracts)			44
Contracts placed since March 11th for Naval items:  (It was said in September that no Lend-Lease funds are available for the take over of this contract. The contract is eligible for Lend-Lease take over, however, and funds may yet be found in the new appropriation)			1
Contracts placed since March 11th for ordnance items (including letters of intention not considered commitments)  (It is not yet decided whether Lend-Lease funds are to be available for this item)			30
Contracts and amendments since March 11th for aircraft items:  (The principal difficulty with this item is that the contracts are largely amendments, changes in design, etc., involving administrative difficulties)			9
Cancellation (in effect transfer) of Vultee contract (This item has been agreed upon and the British expected to receive the money daily)	11		
Cancellation (in effect transfer) of Remington Rifle contract (Agreement on this item is expected to be reached very shortly)	32		
Cancellation (in effect transfer) of Savage Rifle contract (This item is also expected to be approved shortly)	24		
	195	31	211

Total dollar relief certain, or almost certain, to be received by the British is \$195 million. To this may be added a further \$31 million from the transfer of additional plant facilities. But the total of these two items, \$226 million, is all that seems at this date to be probable, unless Secretary Stimson's reply to your letter should be favorable.

In addition to this relief, however, the British have been relieved of making many expenditures for which in March they had expected to have to spend their own dollar resources.

- (1) The extension of Lend-Lease to cover United Kingdom purchases for which Mr. Keynes said in May that the British would need dollars relieves the British of about \$8 million per month, or \$100 million per year . . . . . \$100 million
- (2) The extension of Lend-Lease to cover many non-military Dominion purchases has been estimated to have relieved the British of about \$12 million per month since June, and this relief is expected to increase to \$25 million per month after the end of this year. For 1942 this will amount to \$300 million . . . . 300 "
- (3) The extension of Lend-Lease to cover many shipping services, and dollars paid to the Norwegians for the use of the Norwegian merchant marine, and for the ferrying of airplanes, together with the tax relief expected to materialize from a tax convention now being negotiated, may total \$100 million per year . . . . . 100 "  
~~300 "~~

The British, however, have not been willing to agree that dollars saved through the extension of Lend-Lease for items upon which they had expected to spend dollars can appropriately be counted toward meeting the \$300 to \$400 million commitment.

## Memorandum III

## Resume' of the British Dollar Position

Position on January 1, 1941

On January 1 the British had gold and official dollar balances of \$346 million, as follows:

Gold . . . . .	\$292 million
Official dollar balances . . . . .	54 "
	<u>\$346 "</u>

January 1, 1941 to September 1, 1941

Balance of Payments of the British Empire,  
excluding Canada and Newfoundland,  
January 1 to September 1, 1941  
(All dollar figures are in millions)

- |   |              |
|---|--------------|
| 1. From Jan. 1 to Sept. 1 payments made on B.P.M. contracts amounted to . . . . .   | - \$907      |
| 2. During the same period the Sterling Area had a favorable balance of payments on all commercial transactions other than B.P.M. . . . .  | + 128        |
| 3. And the Sterling Area sold newly-mined and dis-<br>hoarded gold amounting to . . . . .<br>(This is exclusive of \$105 of Belgian gold, omitted<br>from sales and from all subsequent tabulations of<br>British gold holdings.) | + 237        |
| 4. Making a total dollar deficit on current accounts of   | <u>\$544</u> |
| 5. This deficit has been met by   |              |
| (a) Sale of gold from official stocks . . . . .   | \$141        |
| (b) Sale of Viscose Co. and loan upon<br>assets of Brown and Williamson . . . . .   | 79           |
| (c) Sale of marketable U.S. securities . . . . .  | 224          |
| (d) First installment on R.F.C. loan . . . . .  | <u>100</u>   |
|   | <u>\$544</u> |

As a result of the sale of gold from official stocks the British gold and dollar exchange assets declined from January 1 to September 1, totaling at the end of the period \$205 million, as follows:

Gold . . . . .	\$151 million
Official dollar balances . . . . .	54 "
	<u>\$205 "</u>

September 1, 1941 to March 1, 1942

Forecast of British Balance of Payments,  
September 1, 1941 to March 1, 1942  
(All dollar figures are in millions)

1. During the next 6 months, Sept. 1, 1941 to March 1, 1942, the British Empire, excluding Canada and Newfoundland, will require in order to meet its dollar obligations		
(a) On B.P.M. commitments . . . . .	\$500	
(b) On other transactions . . . . .	<u>535</u>	\$1,035
2. During the same period they expect to receive		
(a) On trade and service transactions . . . . .	\$595	
(b) On the sale of newly-mined gold . . . . .	<u>290</u>	<u>885</u>
3. The expected deficit for the next 6 months on current operations is, therefore . . . . .		\$ 150
4. In addition, the British may receive		
(a) On their R.F.C. loan . . . . .	\$325	
(b) On relief through the transfer of plant and supply contracts . . . . .	<u>150</u>	<u>475</u>
5. Making a dollar surplus on all operations of . . . . .		\$ 325
6. Which, added to the gold and dollar balances held on Sept. 1 of . . . . .	\$205	
	<u>325</u>	
Would make a total gold and dollar balance on March 1, 1942 of . . . . .	<u>\$530</u>	

Since the beginning of the war the South African Reserve Bank has doubled its gold holdings, adding about \$225 million. A recent agreement between the United Kingdom and the Government of South Africa arranged for the repatriation of \$120 million of South African securities in exchange for gold between now and the end of this year. To meet these payments the South African Reserve Bank will reduce its gold holdings to about \$385 million. While it is not known how much of the \$120 million will be a net addition to the gold receipts of the United Kingdom, it is certain that the \$60 million that can be transferred from the gold stocks of South Africa without reducing those stocks below \$385 million will be additional gold receipts of the United Kingdom. Gold holdings of the United Kingdom in September 1942 will therefore be at least \$640 million.

After March 1, 1942

The British have not provided any estimate of their balance of payments after March 1, 1942. They have, however, provided estimates of their payments on B.P.M. contracts. This item, which has been the largest drain on British gold and dollar funds, is expected to decline sharply after March 1, 1942 as the contracts run out, and consequently the British deficit on current account may be expected to become a surplus after that date.

During the six months March 1 to September 1, 1942, the British expect to need only \$300 million for B.P.M. payments. If, then, all other current items should remain the same as those estimated for the present period, the British will have a surplus on current accounts during those six months of \$50 million, and without any further liquidation of assets they will be able to accumulate a gold and dollar balance of \$640 million.

There will remain at that date, September 1, 1942, \$96 million due on B.P.M. contracts, and an additional \$89 million (mostly French reimbursement) the ultimate payment of which is doubtful. With so little to pay upon B.P.M. contracts after September 1, 1941, current accounts of the British may be expected to yield them a dollar surplus of over half a billion dollars per year, so long as Lend-Lease funds continue to provide as large a share of Sterling Area requirements as it is estimated they will provide in the coming six months.

In addition to \$640 million in gold or dollars and the prospect of accumulating a further \$500 million yearly, the British will have on March 1, 1942, the following dollar assets:

- (1) U.S. securities . . . . . \$165 million
- (2) U.S. securities and direct investments lodged with the R.F.C. as excess collateral (\$700 lodged less \$425 received on loan) . . . . . ?
- (3) Trust funds which the British say are not available owing to our trust laws, but which our legal staff would have to examine individually before a definite decision on their availability could be made . . . . . 250 \*
- (4) Private dollar balances which the British claim to be unavailable . . . . . 300 \*

## THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Telephone: Republic 7360

Box 680  
Benjamin Franklin Station  
Washington, D. C.

October 28, 1941

Dear Bell:

I am not sure whether you are contemplating either the amendment of your general licenses or the issue of new instructions either to banks or to your representatives in China as the result of the discussions with Cochran and Flemyer.

The reason for my writing is that we have just heard from London that it would help them very much to coordinate their instructions throughout the sterling area if they could see whatever your Government proposes to issue as long as possible before publication.

I shall be very grateful for anything you can tell me.

Yours sincerely,

(Signed) F. E. Bewley  
F. E. BewleyMr. D. M. Bell  
United States Treasury  
Washington, D. C.

USF:122-10/29/41

OCT 28 1944

My dear Mr. Secretary:

This is to acknowledge receipt of your letter of October 17 requesting the Treasury Department to make available its information on commodity exports to Japan.

In accordance with your request, this data is being furnished to Mr. H. Irving Hild of the Far Eastern Section, Military Intelligence Division, War Department General Staff.

Very truly yours,

(Signed) E. W. Morganthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of War,  
Washington, D. C.

By Messenger 4:18

*File to Thompson*

*H. M. C.*

100/101  
10/28/44

OCT 28 1941

My dear Mr. Vice President:

I am appending for your information a table of exports from the port of Manila, Philippine Islands, to China, Hong Kong, Burma, Russia and Japan for the recent period. The table indicates that no exports have gone directly to Japan from Manila during the three weeks ending October 9, 1941, but that a small amount of material has gone to occupied China, most of which, ~~if not all~~, was destined for occupied China and hence likely destined for Japanese use.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Vice President,

The United States Senate.

Attachment

*By messenger 9:30 10/29/41 (Beanna)*

*H. M. C.*

HDW:dln  
10/22/41.

October 21, 1941.

Mr. White

Mr. Friedman

Subject: Exports from the Port of Manila, Philippine Islands, to China, Hong Kong, Burma, Japan and Russia for the three weeks ending October 9, 1941.

The figures given below are for exports from only the Port of Manila, which in 1940 accounted for 47% of total Philippine exports. Information regarding exports from the other Philippine ports is being gathered, but has not yet been received.

1. Exports to China from the Port of Manila, Philippine Islands, during the three weeks ending October 9, 1941, amounted to about \$126,000. The nature of the commodities shipped, of which logs and sawn lumber were the outstanding in value, indicate that most of these exports, if not all, were destined for Occupied China. (See Appendix B.)
2. Exports to Hong Kong during the period under review amounted to approximately \$105,000. Among the principal items shipped were raw silk fibers, machinery and parts and dynamite. (See Appendix C.)
3. Exports to Burma were valued at only \$11,000, of which automobiles and parts accounted for \$9,000. (See Appendix D.)
4. No exports to Japan were recorded. In this case, however, the omission of the other ports besides Manila may be particularly significant. Trade with Japan may be largely direct with the island of Mindanao where most of the Japanese inhabitants in the Philippines live. Moreover, much of the exports to Occupied China may be destined ultimately for Japanese use.
5. Exports to Russia amounted to only \$60,000 but consisted entirely of Manila rope hemp, a strategic commodity. (See Appendix E.)

ISF:rs.  
10/21/41.

## APPENDIX A

Total Exports from the Port of Manila, Philippine Islands, to China, Hong Kong, Russia, Korea and Japan for the period September 29, 1941 - October 9, 1941.

(in thousands of dollars)

	China	Hong Kong	Korea	Russia	Japan
Sept. 29 - Sept. 23	6	34	1	--	--
Sept. 25 - Oct. 2	7	23	10	60	--
Oct. 3 - Oct. 9	112	40	--	--	--
Total	125	107	11	60	--

Other figure listed in memorandum as \$415,000, presumably a typographical error.

Treasury Department, Division of Monetary Research

October 21, 1941.

ISV:fe  
10/21/41.

## APPENDIX B

Exports from the Port of Manila, Philippine Islands  
to China for the period September 29 through October 9,  
(in thousands)

Total Exports	0 286
Principal Items	
Logs and saw lumber	89
Cigarette paper	29
Leaf and scrap tobacco	8
Cigars and cigarettes	4
Automobile and tractor parts	3
Vegetable fiber and manufactures	2
Fig bristles	2
Alum filars	2

Treasury Department, Division of Monetary Research      October 21, 1941

IEF:fs  
10/21/41

Exports from the Port of Manila, Philippine Islands, to Hong Kong for the period September 20 through October 9.

(in thousands)

Total Exports	\$ 205
Principal Items	
Alimentary substances	15
Raw silk	21
Machinery and parts	20
Raw lumber and manufactures	9
Chemicals and rayon textile	8
Fluorescent lamps and other electrical appliances	8
Rayon textile	7
Dynamite	7
Abacok and hemp fibers and rope	6
Coconut oil manufactures	4
Automobile and flashlight lamps	3

Note: Total exports to Hong Kong for week October 3 through October 9 was listed as \$412,473. This figure is incorrect and it was changed to \$40,473.

Treasury Department, Division of Monetary Research October 21, 1941.

INV:fc.  
10/21/41.

Exports from the Port of Manila, Philippine Islands,  
to Burma, for the period September 19 through October 9.

(in thousands)

Total Exports	\$ 11
Principal Items	
Automobiles and parts	9
Steel wire	1
Lubricating oil	1

---

Treasury Department, Division of Monetary Research      October 21, 1941.

ISF:fc.  
10/21/41.

Exports from the Port of Manila, Philippine Islands,  
to Russia for the period September 19 through October 9  
(in thousands)

Total Exports	860
Principal Items	
Manila rope hemp	60

---

Treasury Department, Division of Monetary Research      October 21, 1941.

INF:fs.  
10/21/41.

## TELEGRAM SENT

RS

GRAY

October 28, 1941

5 p.m.

AMERICAN CONSUL

HONG KONG, (CHINA) VIA N.R.

373

FOR FOX AND COCHRAN FROM THE SECRETARY OF  
THE TREASURY.

This message contains our assumptions and comments on your 420 and Cochran's 423. We are preparing licenses and other documents on this basis and want you to advise immediately if any of our assumptions incorrect. We will issue licenses as soon as we reasonably can do so.

Part A. Re your 420:

1. Your (1)(A) on amendment to General License No. 58: (a) We assume that your points (1), (2) and (3) on this subject indicate that you and the Board are in agreement with (1)(A) in our 304 and that there is no further need to await your recommendation on point (b) in Part 3 of our 350. We need your recommendations on

Bank Belg

-2-, #373, October 28, 1941; 5 p.m., to Hong Kong.

Bank Belge as requested in (c) of Part 2 of our 350. We plan at present to include this Bank. (b) Any Chinese banks included on Schedule A would be accorded equal privileges under General License No. 59. However, there is considerable doubt in our mind as to the necessity for paragraph (2) of General License No. 59. General License No. 58 will cover trade with the United States. Trade between China and the other areas either need not be financed through dollars or the extent to which it does so need to be financed would not seem to require a general license as distinguished from specific license treatment. We therefore plan to delete paragraph (2).

2. Your (1)(B) on General License No. 64: We are in agreement on first sentence. We would appreciate your developing the statement regarding evasion via Japan and Hong Kong as well as suggestions regarding the type of "caution" to be exercised by Foreign Funds Control.

3. Your (1)(C) on remittances:

(a) The significance in the variation in

language

-5-, #373, October 28, 1941; 5 p.m., to Hong Kong.

language between your (1)(C)(1) and that in (1)(C)(1) of our 304 is not clear particularly with respect to the phrase:

"as apart from those of trade arising under 'a(1)' and 'a(2)' and in a draft not subject to the limitations prescribed by general licenses Nos. 32 and 33".

(b) We assume that this quoted phrase means that you would like to see a stipulation in the remittance license that it did not authorize any transaction incident to import and export trade between the United States and China, thus compelling trade to flow only pursuant to the terms of General License No. 58. We do not see that a stipulation of this type is essential to insuring that dollars resulting from exports from China accrue to the "cooperating banks". Even if the remittance license were employed by a person in the United States to buy goods in China the dollars would accrue to the Central Bank and thus be available to the Board and the "cooperating banks".

(c) Accordingly it would appear that the need for excluding import and export trade from the remittance

-4-, #373, October 28, 1941; 5 p.m., to Hong Kong.

the remittance license must arise from other considerations. Thus, we assume you intend to prevent the export of Japanese goods to the United States through China by instructing the "cooperating banks" to refuse to buy dollars under General License No. 58 resulting from any such transaction. Similarly we assume that the same approach will be adopted with respect to recalcitrant Chinese exporters. These would appear to be legitimate functions for you to exercise. If you have different views please comment. Your comments would be particularly helpful in our considering the type of United States customs control which may be eventually adopted (see Part 2(b) of our 350). Pending the imposition of a complete United States customs control we intend to stipulate that the United States consular invoice on exports from China to the United States will have to certify that the dollars accruing from the export have been turned over to one of the "cooperating banks" and advise United States collectors of customs to hold up all shipments not bearing such certification.

-S-, #375, October 28, 1941; 5 p.m., to Hong Kong.

certification.

(d) We assume that the mechanics of your (1) (C)(2) will be as follows: If the Riggs Bank in Washington has an order for a remittance to China, as in the past it will transfer the amount to its New York correspondent which we will assume to be Bank of Manhattan. Bank of Manhattan will transfer dollars to the account of one of the cooperating banks (i.e. the Chartered Bank) such account being maintained with Bank of China, New York (as agent of Central Bank) and Bank of Manhattan will instruct the Chartered Bank to effect remittance. Central Bank will at stated intervals make fapi available to the Chartered Bank against the transfer of the dollars thus accumulated by the Chartered Bank in New York with the Bank of China. In the Philippines we assume that similar procedure will be followed except that appropriate provision will be made so that sub-brokers and brokers as well as banks can continue taking orders for remittances as in the past. We assume also that Board will accord cooperating banks equitable

-6-, #373, October 28, 1941; 5 p.m., to Hong Kong.

equitable treatment in matter of compensation for effecting such remittances. Thus it would appear that they should be permitted to acquire fapi for such transactions at the buying rate for fapi of the Board rather than at its selling rate. Your remarks in (2)(A) and (2)(B) indicate that you are in agreement. (c) That portion of your (1)(C)(2) which reads: "provided that remittances in the currency of any country which is not blocked may be effected through the usual banking channels" is not entirely clear to us. However, this point plus your discussion in point (2) seems to indicate that the procedure with respect to remittances from the United States will be followed in theory with respect to remittances from other areas. We have no objection to this.

4. Your (1)(D) on General License Nos. 32 and 33: We are in accord with your views. However, these general licenses will not be used for effecting relief funds, patriotic contributions, etc., since these remittances will be freely permitted under the new remittance license.

-7-, #373, October 28, 1941; 5 p.m., to Hong Kong.

license. The chief function of General License Nos. 32 and 33 will be to take care of the personal needs of non-Chinese in China who cannot qualify under the new remittance license. Thus a German national in China having a blocked account in the United States could not receive remittances under the new remittance license and would have to rely on the terms and conditions of General License No. 32 for living expenses.

5. Your (1)(E): As indicated in Part 3(H) of our 350 we concur with your views.
6. Your (2)(A), (2)(B) and (2)(C): We are in agreement with your proposal. Note remarks in our (3)(D) re our understanding of plan.
7. Your (3) re addition of Chinese banks: We agree.
8. Your (4) re designated agents: We agree.
9. Your (5) re Hong Kong: We appreciate your remarks on this subject and have been concerned about the same problem. The problems of trade between the United States and China via Hong Kong and remittances to China through Hong Kong should be dealt with as soon as possible.

28-, #373, October 28, 1941; 5 p.m., to Hong Kong.

possible. We should like your suggestions as to what procedure might be followed pending an agreement between the Chinese and British on these points. Can the British and you suggest at least a provisional procedure? In the meantime we do not plan to hold up issuance of new licenses on this account.

10. Your (6): We assume that this means that the Board will have at its disposal all U. S. dollar exchange acquired by the cooperating banks including the Central Bank. We view this as essential to the program.
11. Since the term "cooperating bank" may cast an unnecessary stigma on all Chinese and foreign banks not included on Schedule "A", we plan to use the term "appointed bank". It is suggested that we should not brand as "non-cooperating" all banks to which we are not giving the opportunity to participate in the benefits flowing to a "cooperating bank". The use of the word "cooperate" may be unfair and may cause unnecessary bad feeling. Satisfactory results may be achieved by using another term such as "appointed bank" throughout the licenses.

-9-, #373, October 28, 1941; 5 p.m., to Hong Kong.

118

the licenses. Under this suggestion the definition would read substantially as follows:

"The term 'appointed bank' shall mean any of those banks buying and selling foreign exchange with the permission of, and subject to conditions prescribed by, the Stabilization Board of China, the names of which appear on Schedule 'A' to General License No. 58."

Part B. The following are our comments on Cochran's 423:

1. Fung's No. (1): We are entirely willing to accept the recommendation that the new remittance license exclude remittances to Japanese nationals in China. However, we think that rather than confine the exclusion solely to the Japanese we would prefer to exclude all remittances to nationals of any blocked country other than China, since from our point of view it would be undesirable for Italians, etc., to obtain yuan. See (4) under Part A.
2. King's No. (2): The Chinese banks nominated are acceptable to us if acceptable to you.

We assume

-10-, #373, October 28, 1941; 5 p.m., to Hong Kong.

We assume that no recommendation of the Board as to the addition of Chinese banks to the list of "cooperating banks" would be made to us if such recommendation were contrary to the wishes of the Chinese Government.

3. King's No. (3): We have no objection to the list of agents designated by the Central Bank of China for the United States and the Philippines.
4. Kung's No. (4): We are in agreement. See (10) under Part (A) above.
5. Our views on the Hong Kong problem correspond with those expressed. As indicated in (9) under Part A above we should like a more comprehensive statement as to the effect of promulgating the program under consideration without an understanding between China and the British. At least a provisional arrangement would seem necessary.

Part C. As you of course realize this program does not deal with problems relating to the obtaining of export licenses under the U. S. export control act and with the question of obtaining appropriate priorities for exports to China

-11-, #373, October 28, 1941; 5 p.m., to Hong Kong. 120

to China. These problems are under discussion but it is not intended to delay action on this program pending a determination of such problems.

HULL  
(FL)

FF:GL:MCE

DEPARTMENT OF STATE

121

Washington

In reply refer to  
FF 894.51/753

October 28, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits paraphrases of telegrams No. 1159, dated October 18, 1941, and No. 1150, dated October 17, 1941, from the American Embassy, Buenos Aires, Argentina, concerning imports of gold into Argentina from Japan.

Enclosure:

1. From Embassy, Buenos Aires, No. 1159, October 18, 1941.
2. From Embassy, Buenos Aires, No. 1150, October 17, 1941.

eh:copy  
10-31-41

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires, Argentina.

DATE: October 18, 1941, 1 p.m.

NO. : 1159

Reference is made to the Embassy's telegram No. 1150, 7 p.m. dated October 17, 1941.

A reliable commercial source has reported that the gold appearing on the invoice of the cargo of the Toa Maru, which arrived in Buenos Aires on October 15, weighed 2676 kilograms gross. This means that \$3,000,000 is the approximate value of the gold. Whether or not the vessel brought more gold than was on the manifest is not known to us at the present time.

ARMOUR

eh:copy  
10-31-41

## PARAPHRASE OF TELEGRAM RECEIVED

123

FROM: American Embassy, Buenos Aires, Argentina.

DATE: October 17, 1941, 7 p.m.

NO. : 1150.

Reference is made to the Embassy's despatch No. 3205, under date of October 1, 1941.

The Toa Maru, which is a Japanese ship, arrived in Buenos Aires with a cargo of seventy-three cases of gold on the 15th of October. At the present time the weight of the cases is not known. It is reliably reported that the TOA MARU made known to the Central Bank in Buenos Aires that \$5,000,000 of gold was on board the ship to be used for purchases of products in Argentina. (The presumption is that hides are to be included in the purchase of Argentine products.) However, the Central Bank in Buenos Aires believes that \$10,000,000 may be the amount on board the ship. It is reported that the Yokohama Specie Bank shipped the gold from Tokyo.

ARMOUR

eh:copy  
10-31-41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

124

DATE October 28, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£66,000
Purchased from commercial concerns	£ 2,000

Open market sterling held steady at 4.03-1/2, and there were no reported transactions.

Continuing its improvement, the Canadian dollar closed at a discount of 10-3/4%. The post office was reported to be a buyer.

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

Argentine peso (free)	.2370
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4625
Venezuelan bolivar	.2625
Cuban peso	1/8% discount

We sold \$10,000,000 in gold to the Bank of Portugal, which was added to its earmarked account.

We purchased \$1,125,000 in gold from the earmarked account of the Bank of Mexico.

No new gold engagements were reported.

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

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

We made one purchase of new production silver amounting to 40,500 ounces under the Silver Purchase Act. This silver, which was bought for spot delivery, came from Java.

- 2 -

The report of October 22, received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$4,322,000, an increase of \$731,000 in the short position since October 15. Net changes were as follows:

<u>Country</u>	<u>Short Position October 15</u>	<u>Short Position October 22</u>	<u>Change in Short Position*</u>
England**	\$ 1,167,000 (Long)	\$ 651,000 (Long)	+ \$516,000
Europe	2,465,000	2,718,000	+ 253,000
Canada	32,000 (Long)	58,000 (Long)	- 26,000
Latin America	51,000	26,000	- 25,000
Japan	351,000	262,000	- 89,000
Other Asia	1,979,000	2,075,000	+ 96,000
All Others	56,000 (Long)	50,000 (Long)	+ 6,000
<b>Total</b>	<b>\$ 3,591,000</b>	<b>\$ 4,322,000</b>	<b>+ \$731,000</b>

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

\*\*Combined position in registered and open market sterling.

A

**CONFIDENTIAL**

126

BRITISH EMBASSY,  
WASHINGTON.

October 28th, 1941

TOP SECRET AND  
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Kanjan*

Responsible

Walter Dornier, Jr.,  
United States Treasury,  
Washington, D.C.

TELEGRAM FROM LONDON DATED OCTOBER 26th

---

H.M.S. Ariguani (catapult ship) while escorting convoy night of 25th/26th was torpedoed 330 miles west of Cape St. Vincent. One of His Majesty's ships is standing by. Three ships, small or medium tonnage, have been torpedoed and sunk in convoy as result of several attacks. A submarine has been sighted by aircraft, based on Canada, 120 miles east of Strait of Belle Isle.

Night of 24th/25th, bad visibility made observation difficult in all R.A.F. attacks on German targets. Naples was bombed, again results being unobserved and eight tons of H.E. were dropped on Tripoli.

Day of 25th, Blenheims attacked Misurata, Zuara and Gazala area. Night of 25th/26th, no operations from United Kingdom owing to bad weather.

RESTRICTED

G-2/2657-220; No. 530 M.I.D., W.D. 11:00 A.M., October 29, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Bad weather continues to impede military operations along the entire front.

Available information indicates no change on the Moscow front.

On the southern front the German High Command claims the capture of Kramatorsk (50 miles north of Stalino). Hard fighting continues just west of Rostov.

Air: Germany claims to have bombed the port of Kerch, the entrance to the Sea of Azov, with telling effect.

II. Western Theater.

Air: London yesterday celebrated its third month without an air raid warning. R.A.F. activity consisted of daylight forays over northern France, Belgium, and the Dutch coast. The German High Command claimed to have sunk two British freighters off Great Yarmouth.

III. Middle Eastern Theater.

Air: German planes bombed Tobruk.

More heavy raids by the R.A.F. against Italy and Axis positions in North Africa were admitted. Among the targets were named Benghazi, in Libya, Giro and Campana in southern Italy.

RESTRICTED

October 29, 1941  
10:00 a.m.

## GROUP MEETING

Present: Mr. Stuart  
Mr. Haas  
Mr. Buffington  
Mr. Kuhn  
Mr. Thompson  
Mr. Blough  
Mr. Gaston  
Mr. Bernard  
Mr. Schwarz  
Mr. Morris  
Mr. Bell  
Mr. Sullivan  
Mr. Foley  
Mr. Graves  
Mr. White  
Mrs. Klotz

H.C.Jr: Herbert?

Gaston: I haven't anything except that we have a very difficult problem which I have mentioned once before, on this question of architectural services on ice breakers. I think that if you have time later in the day, Mr. Foley and I would like to talk to you about it.

H.C.Jr: Architectural?

Gaston: Yes, naval architectural services on the design of ice breakers. The Navy is buying that sort of thing under the law which our general counsel doesn't think can be used for that purpose and we seem to have no law which will make a valid contract.

- W...Jr: Well, Herbert, I just haven't got time. You have got to take it and settle it one way or the other. I can't handle that kind of thing any more. You will just have to do it.
- Gaston: Right. That is all.
- W...Jr: You will have to do it. It will be all right with me.
- Gaston: Right.
- W...Jr: Ed?
- Colby: The case in Honolulu has been continued until Thursday, at which time the judge will entertain another motion to put it down to a later date to enable the witnesses to get there. I think at that time we are going to make a motion for a change of venue on the grounds of prejudice, on the grounds that the judge is an ex-Army officer, on the ground that in an automobile accident he had recently, he showed bias toward a native by striking him, and it is a motion of that character that will be made.
- W...Jr: Does that come to what they call the mainland then?
- Colby: No, I don't think it will come to the mainland. It will be tried on another island out there where they will get an all native jury, so it may be weighted the other way, in favor of the defendant.
- Gaston: It is a question between a court prejudiced one way and a court prejudiced the other.
- W...Jr: Then Stimson will call me up.
- Colby: And say we are prejudiced. (Laughter)
- W...Jr: All right. Stimson has been good on it, though.

- Foley: Yes, and I got a note from McCloy saying that Stimson called out there on Saturday afternoon after I had talked with McCloy about it.
- I have a progress report on Joe O'Connell's work in connection with eliminating speculation of food and I am ready on that matter you spoke to me about yesterday after you came back from the White House.
- H.M.Jr: Well, and then you have got that thing from the farm, too, about that woman, you know.
- Foley: Yes, I have that too.
- H.M.Jr: Well, ask Fitz to give you an appointment this afternoon, will you please.
- Foley: All right.
- H.M.Jr: Is that all?
- Foley: And I am getting that testimony you asked me for of Taub's.
- H.M.Jr: John, how are you getting along with your bootlegging in New York?
- Sullivan: I have a report on that. I would be very glad to give it to you any time you care for it. They put in a big crew that Saturday night and went through the whole thing.
- H.M.Jr: Well, did they find any?
- Sullivan: No.
- H.M.Jr: That is all I want, then. I sent a memo to Chick Schwarz. I was disturbed about that story on the front page of the Times giving out a supposed Treasury plan. I don't know whether you have had a chance to run it down or not.

Schwarz: I have been checking on it. None of the Times boys are in the office yet.

Sullivan: In this morning's paper?

H.M.Jr: Yes. Well, Social Security and about the Federal Reserve and rights. I mean, it was an amazing story.

Schwarz: They put it all together.

H.M.Jr: I can't imagine the New York Times running a story on that on the front page without trying to check it with somebody.

Schwarz: They haven't checked.

H.M.Jr: Well, anyway, you keep after it, will you?

Schwarz: I will keep right after it.

H.M.Jr: Now, I have asked Dave Morris to take on something to help me and I have given him what I call a dirty assignment, but it needn't be so dirty, depending upon the rest of you. It is up to the rest of you how dirty it is. I have various things and I will use as an illustration - Mrs. Klotz can get it for me - this cable comes in from Switzerland. I send it to two or three people and it sort of gets lost. It doesn't get answered.

Bell: No, it isn't lost. I have got it right here. I am going to discuss it this morning. It isn't lost.

H.M.Jr: Anyway, I am going to use that as an illustration. As he described it, he is going to be adjutant to me and when these things come, he will, in a very nice, gentle but persistent manner, keep after the people until I get an answer. There are too many things like that around. We will

Foley: You have got his interest aroused. Surprise.  
(Laughter)

H.M.Jr: Yes, surprise.

Bell: This matter has been up before --

H.M.Jr: He must have heard about this announcement.

Morris: It will be easy from now on.

Bell: This matter has been up before and the Foreign Funds Control Committee has decided on two occasions, I think, not to permit the export of this gold. Now, they haven't considered it in the light of this cable and that will be done this afternoon. I think the State Department ought to be in on it too, so by bringing it up this afternoon to the Committee, the State Department will be in on it and then they will make a recommendation to you from that Committee. That is my suggestion.

H.M.Jr: You don't mind if Adjutant Morris follows this through?

Bell: Not at all.

Foley: I think Morris should be at the meeting this afternoon. Four o'clock. (Laughter)

Sullivan: Now you see whose adjutant he is going to be.  
(Laughter)

H.M.Jr: All right, I will Lend-Lease him.

White: The dirty work is beginning. (Laughter)

Bell: But it involves a major question of policy.

H.M.Jr: It is all right.

Klotz: That is just it.

Foley: The British are interested in this, too, and they have indicated that they think the gold should not be exported.

H.M.Jr: I played tennis with the Swiss Minister this morning, and he didn't bring it up.

Bell: There is the dirty work, Harry.

H.M.Jr: Well, maybe it is. He let me beat him.

White: Maybe he just let you beat him. Oh, I see.  
(Laughter)

Sullivan: Customers' tennis.

H.M.Jr: I am not used to playing that kind of tennis, Harry. I get beat just naturally.

White: I see.

H.M.Jr: All right.

Morris: Nothing.

Barnard: I have been over to Lend-Lease this morning, and I want to report that they are already beginning to get that machinery organized, both for revolving funds and for the clearing of orders properly.

H.M.Jr: Good. And the locomotives, that is finished, is it?

Barnard: I have asked Sir Clive Baillieu to tell us if he knows anything about it, whether it is just a newspaper rumor or whether it is something that has actually come to him. I will let you know when I get his answer.

H.M.Jr: All right. I read the reports last night, but the one that you sent me on this work that you are doing - you sent me this very thick report, but I couldn't make out who wrote it, whose report it was.

Barnard: I wrote it.

H.M.Jr: You wrote it?

Barnard: Yes.

H.M.Jr: But you always spoke about yourself as Barnard.

Barnard: Yes, I know. That made it easier for them to get it. There was too much "I".

H.M.Jr: You wrote that report?

Barnard: Yes, sir. I will tell you this afternoon it isn't worth a damn (laughter).

H.M.Jr: I see. Well, it was so tough I thought Harry White had written it.

White: Thank you for the compliment. When I get mixed

up with Barnard we both feel good (laughter).

H.M.Jr:

Blough?

Blough:

Nothing.

H.M.Jr:

Harold, we like your display here. Whoever got that up, I wish you would compliment him.

Graves:

That is Harford Powel.

H.M.Jr:

Well, compliment him.

And last night's Treasury Hour was the best of this series. It was away and above the best of the series. I liked everything about it. I do want to hear the record, though. I told Vince last night, I thought the last verse they kind of went Hollywood on us, the last chorus. If I could have that record. Harold, will you make a note to get me the record?

Graves:

Yes.

H.M.Jr:

But that was a good Hour.

Anything else, Harold?

Graves:

Yes, sir. If you don't mind, I intend to be in Richmond tomorrow at the organization meeting of the Virginia state committee.

H.M.Jr:

All right. Anything else?

Graves:

Nothing more.

H.M.Jr:

Ferdinand?

Kuhn:

You wanted to see some "Fight For Freedom" posters, which I have.

H.M.Jr: Oh, yes.

Kuhn: There are just a few copies of it. It is the same poster.

H.M.Jr: It is good.

Kuhn: I wonder if you would like to hear some songs, Mr. Secretary? They are kind of piling up.

H.M.Jr: No. I don't think I am going to listen to any more.

Kuhn: You are not going to continue that?

H.M.Jr: No, I think I will stop.

Kuhn: That is all I have.

H.M.Jr: I mean, you have something like "Uncle Sam Gets Around", something like that.

Kuhn: You only get one good one out of ten or fifteen tries.

H.M.Jr: If there is something like that you want me to <sup>do</sup> here, all right, but I will discontinue that.

Anything else?

Kuhn: That is all.

H.M.Jr: Walter?

Stewart: Nothing.

H.M.Jr: You stay behind and tell me what you have got on your mind.

George?

Haas: You wanted something once a week on this (handing reports to the Secretary).

H.M.Jr: Oh, good.

Haas: You asked about this chart showing where they are now. Here is the one used in your speech. Here is where it was in the June figure, ninety-one. Now it is down to eighty-four. Eighty-eight is where it was. Look at this one, ninety-seven. Now it is ninety.

H.M.Jr: What is the red figure?

Haas: When you made your speech, that is the chart you used, where the red line is.

H.M.Jr: Is this a new chart?

Haas: Yes, we made a new one. I put these on just for your own information so you could see where it was. It was ninety-seven in the chart you used up there in Boston. Now it is ninety.

H.M.Jr: It has gone down.

Haas: The cost of living has gone up or this has gone down, you see.

H.M.Jr: And now you only get ninety-one per cent?

Haas: That is right, out of the basket.

H.M.Jr: And now you get --

Haas: Eighty-four instead of eighty-eight. Those are some of the other ones.

H.M.Jr: Right.

Klotz: That is terrific. It scares me.

H.M.Jr: Chick?

- Schwarz: The Harvard Graduate School of Public Administration is asking if it can have an elaboration of your recent statements on prices and inflation for their annual year-book, which they call "Public Policy". Dan is interested in it. It is part of the Littauer Foundation work. I have checked with Ferdie to see if we had any extra notes that were unused, but we don't have any that were approved. They asked if Kamarck in Harry's shop, who was one of their fellows, might try to work on it, and we have the three statements, Boston, Chicago, and before the Committee together. I think we might give them something.
- H.M.Jr: You had better let Ferdinand fix it up for you.
- Schwarz: All right. Agriculture Department is going to be represented in the book.
- H.M.Jr: Well, you had better let Kuhn edit it.
- Schwarz: Will it be O.K. if Kamarch wants to do some work first?
- H.M.Jr: Kamarck?
- Schwarz: In Harry's shop. He is a fellow of that Graduate School.
- Pell: They suggested that Kamarck might write the first draft, and then somebody --
- H.M.Jr: No, no, let Kuhn do it.
- Kuhn: Would this be for the Secretary's signature?
- Schwarz: Yes.
- Kuhn: If so, I don't think it is appropriate.

- 13 -

- Schwarz: They could have a footnote that it is a compilation of the speeches.
- H.M.Jr: Well, that is something else again. Let Kuhn handle it, anyway.
- Schwarz: That is all I have.
- H.M.Jr: Harry?
- White: Sir Frederick has raised a point which you may be able to settle quickly here, or you may want to raise for further discussion. He has asked whether Treasury would have any objection to the British having the proceeds of gold that is sold to them, even though that gold is shipped here to be sold, rather than to Great Britain, by virtue of shipping difficulties. In other words, if Russia sells gold here for the account of the British Treasury --
- H.M.Jr: We went all over that.
- White: We didn't mention that particular angle, but I remember that at the time you said it didn't matter to you whether they sent the gold here or to Great Britain, but I wanted to make sure, because he wants the answer in a cable.
- H.M.Jr: I went all over it with Bewley. Who was with me when I gave that answer to Bewley?
- White: I thought I was here, but I don't know.
- H.M.Jr: Well, I can tell you what we told him. We told Bewley this: if Russia wants to sell a million dollars' worth of gold and deliver it in the United States to England, all right, but then we want a million dollars.
- White: That second part is all right. Then it doesn't matter to you whether they deliver it here or in England when the gold is for sale to England, that is the point.

H.M.Jr:

That is right, I don't care, as long as Russia treats us just as well as she treats England.

White:

In other words, she might sell a hundred million dollars' worth of gold here, sell fifty to us, and the proceeds of another fifty, which would be sold to us, would go to England.

H.M.Jr:

Say it again.

White:

Supposing she sent a hundred million dollars' worth of gold here, but only fifty was to be sold to us. Presumably the other fifty was to be sold to England, but by virtue of shipping difficulties she had shipped that fifty here, sold it to the U.S. Treasury, but the dollar proceeds would be placed at the credit of the British Treasury.

H.M.Jr:

You are making it complicated. You were there that that night when I saw Bewley and I saw Campbell.

White:

That is right.

H.M.Jr:

And I told them this. What I am saying is simple and you are making it very complicated. The whole question was about gold coming here. I said if they want to buy something from the English which the English have paid cash for and they want to send the gold here, it is all right with me, as long as for every million dollars of gold they sell here to England we get the same amount.

White:

I am not trying to make it complicated, I am trying to give you a different slant of what that transaction would like. That part about selling us an equal amount with England is quite clear, both to them and to us, and we made that clear to them. The question that I want to make sure you are in agreement with is that the gold which they presumably sell to them --

H.M.Jr:

to whom?

White:

The British. It will not actually be sold to the British, but will be sold to the U.S. Treasury. The dollar proceeds will go to the British

H.M.Jr:

Well, how else could the English get the dollars?

White:

They say they couldn't, if they couldn't get the gold shipped direct, but if you understand that clearly, it is all right.

- H.M.Jr: You don't have to explain it to me. I understand it. I understood it in the first instance. I don't see why they are bringing it up again. Why does Phillips bring it up when I went all over it two or three weeks ago?
- White: Merely because he wanted to make certain that there would be no objections to the gold which presumably was to be sold to them to be shipped to the U. S. for sale.
- H.M.Jr: Did you write up the meeting at which Campbell and Bewley were there?
- White: Yes, that is part of the longer memo which went the rounds, yes. But that point was not stressed. It was just mentioned.
- H.M.Jr: How else could they do it, Harry, if they shipped the gold here? How else could they turn it into dollars?
- White: Well, I am just raising this so you can see how the transaction looks. It looks as though we buy the gold and turn over part of the proceeds to them for gold which would appear to go to them. I think that is the only way it could be done, but I just want to make sure that it has your approval before it is done.
- H.M.Jr: Well, as long as you have raised it so emphatically, before I give an answer we had better ask the Russians - I told the Russians the same thing, that as long as they have raised the thing again, let's ask the Russians - they have never answered that. So don't let's answer the English. Let's ask the Russians. We have put the proposal up to the Russians and they have not answered it.

White: So let's not answer the British until we have spoken to the Russians?

H.M.Jr: You can speak to the Russians. You were there. Tell the Russians what is the answer to that proposal of mine. What answer have they given the English. Will you do that?

White: I will do that.

H.M.Jr: O.K.

Buffington: I have nothing.

White: One further question. I take it that you did not yet receive a reply to your letter to Secretary Stimson. There are several things waiting on that with respect to the British.

H.M.Jr: Well, if you will write a letter for me, "My dear Mr. Stimson: I have written you on such and such a date. I am still waiting for an answer." Make it very courteous, just a follow up, and I will sign it.

Buffington: I have nothing.

Haas: May I come in again, Mr. Secretary?

H.M.Jr: Yes.

Haas: Have you heard from Draper with regard to that loan?

H.M.Jr: Yes.

Haas: O.K.

H.M.Jr: I have got it here.

Haas. I see.

H.M.Jr: You know how he answered it? He can't do it, and he will chip in with me and make a personal loan.

Haas: I thought they would break a record and make a loan.

H.M.Jr: No.

Dan, would you do something for me, please? I would like a breakdown from you on the Department of Agriculture, various appropriations, you see, the whole thing, from you to me if I decide I want to use it before the committee.

Bell: I am working on it. I am having a table made up for the full ten-year period.

H.M.Jr: They are having their first meeting this morning.

Bell: Oh, really?

For the full ten-year period. That is unfortunate we didn't have a little time to go over these tables.

H.M.Jr: It is just an organization meeting. Would you put pressure on them?

Bell: Yes. We made up a big table for the ten-year period, and then we broke down each department into categories. I will try and have that.

H.M.Jr: I can't have it this morning, but if I could have it fairly soon.

Bell: Oh, yes. I have a number of things I would

like to discuss with you this morning if I could.

H.M.Jr: Well, when I come back. Will you tell Fitzgerald?

Bell: Yes.

There are a number of things.

H.M.Jr: When I come back off the Hill, I will see you.

Bell: Then I have a couple of things I want to discuss here. I am seeing the Federal Reserve crowd this afternoon at two-thirty. I didn't know whether that was what you had in mind for luncheon.

H.M.Jr: I thought that Eccles was coming over for luncheon today.

Bell: I didn't get that. I remember you mentioned it, but I thought Eccles said, "We will discuss it first and not bother you until we get our staffs pretty well in agreement."

Sproul and Rouse are down this morning, and they are discussing the problems, and they are to meet in my office at two-thirty.

H.M.Jr: Well, we will find out. I was holding it.

Bell: I discussed with Smith of the Budget that article in the Times and the report that he sent to the Appropriations Committee. That reporter did not get the information from the Budget. He called the Budget and he was told that such a report was rendered to this Appropriation Committee and it was the Appropriation Committee's property, and they couldn't give it out.

That report has been requested for the last three years, I think, by Congressman Wigglesworth, who is a Republican member of the Committee. He never has used it heretofore except to criticize the form of the report and say that it is useless. This year they have tried to get him to specify just the type of information he wanted, and he wouldn't do it, except to say that he wanted every possible angle of publicity and publications that were issued, so they tried to make the report as complete as possible. Next year they are going to try to kill it in the Committee when he asks for that information. They are going to have somebody ask how much it costs and when they tell them thirty thousand dollars, there is going to be objection by the Committee. I think one place where the Treasury might have made a mistake - I noticed in the report that the other Departments commented on their statements and explained the details and there was no explanation of the Treasury's statements. We might have done that to forestall some of this.

As you know, the Navy has been working on a censorship bill and Mr. Knox has asked you for a report. Mr. Foley and Mr. Gaston have prepared a report for you to the Navy in which you suggest that the administration of it be reconsidered and it be discussed with the President, the Vice President, and the Economic Defense Board, possibly the Cabinet.

My understanding is that it has been discussed with the office of the Vice President. I don't know whether Perkins or somebody under him, but they have been told that they have no objection to the regulations, and they have no objections to the form of the set-up.

I think this is a good letter and might go along, but I do think we ought to be working on the regulations because if the thing moves, as the President seems to think it ought to--

H.M.Jr:

Who will do that?

Bell:

Mr. Foley's office, I think. Probably Bernstein, wouldn't he?

H.M.Jr:

I want to read this.

Foley:

It is the old question of military censorship, whether civilian censorship will be with the Attorney General.

H.M.Jr:

I would like to read it. What else, Dan?

Bell:

That is all I have.

Thompson:

I have two men outside to see you.

H.M.Jr:

I can't do it now because Mr. Stewart is here and I want to see him.

TREASURY DEPARTMENT

149

INTER-OFFICE COMMUNICATION

DATE October 29, 1941.

TO Secretary Morgenthau

FROM Mr. Schwarz *CS*

I have learned that the New York Times story on the front page this morning headed, "Treasury Urges Payroll Tax Rise," was written by John MacCormac, who has just returned from several weeks' vacation in Florida.

I have just reached MacCormac and have asked whether he got his story from Treasury officials. He attributes his lead sentence to White House sources, saying that he had recalled your press conference discussions on social security prior to his departure and had asked over there whether some action might soon be forthcoming. He says he did not have in mind any rounded-out program but was more concerned with general policy.

He has also talked since his return with Federal Reserve and Social Security people, he said, and got some ideas from other Treasury correspondents and from stories that were printed in his absence. I explained that if he had checked with Treasury people he would have found that what he was planning to write would give an impression of action that had not yet transpired. He said the Times'

coverage of the Treasury in his absence had not been very complete, with four or five different men getting individual assignments from day to day, that he was picking up the threads and would give us close and careful attention and that he would check his information with us.

I also talked with Messrs. Sullivan, Foley, Barnard and Blough and am satisfied that none of them has seen a New York Times man for more than a week.

October 29, 1941

H.M.Jr:

At the first meeting today of the Committee created by the Revenue Act of 1941 to investigate non-essential Federal expenditures, the principal discussion concerned what they could get out of the Director of the Budget. The Director of the Budget kept saying he was working on the President's budget for '43 and that it was embarrassing that he couldn't give them the material. And Senator Byrd, who was elected chairman, kept insisting that he should give it to the Committee. Senator LaFollette came to Mr. Smith's rescue.

The final decision of the Committee was that they should ask the Director of the Budget to give them a break-down on the material which he furnished them and that they would hire an expert who would go down to the Budget and get any further information necessary. They certainly had Harold Smith in a corner.

When that matter had been settled, Doughton said he wanted to hear what the Secretary of the Treasury had to say. He said he was sure the Secretary had some views. So I said, "Yes," that we in the Treasury were working on some things, and Mr. Bell was assisting me, and that in the not too distant future we would have some recommendations to make.

I feel that I have this right, because I understand that the Secretary of the Treasury can report directly to Congress.

Evidently my remarks, for some reason or other, made Mr. Harold Smith very angry,

- 2 -

and he said, well, the trouble was that the authority was divided between the Treasury and the Budget. There was this joint committee so they could come up and place everything before them. I suppose what he has in mind is the gossip that I have been hearing right along, and he wants to have the right to make recommendations on taxes, but any way he was in a very bad humor.

I am now telling Mr. Bell that I have told the Committee that he is assisting me, and I am looking for some material from him, particularly on Agriculture and on anything else. I told them within about a week or so I would have something.

I told the Director of the Budget I would show it to him before we went up, and I also told the chairman, Senator Byrd, and the assistant chairman, Doughton, that I would show it to the two of them before we come up.

77TH CONGRESS }  
1st Session }

COMMITTEE PRINT

REPORT ON NONDEFENSE EXPENDITURES  
IN THE 1942 BUDGET

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LETTER

FROM

THE DIRECTOR, BUREAU OF THE BUDGET

TRANSMITTING TO THE

CHAIRMAN OF THE COMMITTEE ON FINANCE  
UNITED STATES SENATE

PURSUANT TO

A RESOLUTION OF THE COMMITTEE, A REPORT RELATIVE  
TO REDUCTIONS IN EXPENDITURES FOR THE FISCAL  
YEAR ENDING JUNE 30, 1942, AND TO CHANGES  
IN CLASSIFICATION BETWEEN NONDEFENSE  
AND DEFENSE EXPENDITURES SINCE  
THE FISCAL YEAR 1940

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OCTOBER 15, 1941

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Printed for the use of the Committee on Finance



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WASHINGTON : 1941

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ii

LETTER OF TRANSMITTAL

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D. C., October 15, 1941.

HON. WALTER F. GEORGE,  
Chairman, Committee on Finance,  
United States Senate.

MY DEAR SENATOR GEORGE: There is transmitted herewith a report in response to the resolution adopted by the Committee on Finance of the Senate on August 28, 1941, relative to reductions in expenditures for the fiscal year ending June 30, 1942, and to changes in classification between nondefense and defense expenditures since the fiscal year 1940.

Sincerely,

HAROLD D. SMITH, Director.

iii

## CONTENTS

	Page
I. Introduction.....	1
II. The problem of revising nondefense expenditures.....	2
A. Base used for revisions.....	2
B. Magnitude of revisions.....	3
C. General aspects of revising estimates.....	4
1. Performing functions more economically.....	4
2. Adjusting programs to improved business conditions.....	4
3. Curtailing or abolishing functions.....	5
D. Legal implications of revisions.....	6
III. Allocation of committee's reductions.....	6
A. Civil departments and agencies.....	7
B. General Public Works Program.....	8
C. Aids to agriculture.....	9
D. Aids to youth.....	10
E. Work relief.....	10
F. Social security.....	11

## APPENDIXES

Appendix A. Resolution of Senate Finance Committee.....	13
Appendix B. Items classified as "National defense" in the Budget documents for 1940, 1941, and 1942 and as of October 1, 1941.....	13
Appendix C. Nondefense 1942 appropriations and expenditures, and hypothetical revisions to cut Budget estimates of expenditures by \$1,000,000, \$1,500,000,000, and \$2,000,000,000.....	15
Appendix D. 1942 nondefense expenditure estimates by type of commitment.....	16
Appendix E. Chart: Income and industrial production.....	17
Appendix F. Chart: Employment and unemployment.....	18
Appendix G. Chart: Prices, cost of living, and earnings.....	19
Appendix H. Reductions in individual programs compared with total reductions.....	20
Appendix K. Chart: Number of persons receiving work relief.....	21

v

## REPORT ON NONDEFENSE EXPENDITURES IN THE 1942 BUDGET

### I. INTRODUCTION

This report is in response to the resolution of the Senate Committee on Finance, requesting the Director of the Bureau of the Budget to supply a revision of the estimated 1942 expenditures on the assumption of an instruction to reduce nondefense estimates by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000, respectively, and, further, to indicate changes made in the classification of defense or nondefense expenditures since the submission of the 1940 Budget. The request of the committee is based upon provisions of the Budget and Accounting Act which direct the Bureau of the Budget to furnish aid and information to the committees of the Congress having to do with the finances of the Government.

The resolution of the committee specifies that the Director shall submit his report by October 15, 1941. With this time limitation it obviously has been impossible to prepare the equivalent of three Budgets for 1942. An annual Budget, as the committee knows, contains 1,000 pages of detail and is the product of 4 months of intensive hearings with every Department and agency of the Government. Since it has been impossible to employ the usual process of hearings and detailed examination of individual estimates, it must be assumed that the committee had in mind a hypothetical approach involving a broad review of Federal programs to achieve arbitrary reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000.

This report is based upon such a hypothesis. The allocations of the committee's reductions must not be considered as recommendations of the Director of the Budget for cuts in nondefense expenditures. It should be clearly kept in mind that it is the responsibility of the President alone to submit budgetary recommendations to the Congress.

In preparing the report many difficulties of definition and classification have been encountered. The committee's resolution implies that the term "nondefense expenditures" has precise meaning and that such expenditures can definitely be segregated in the Budget. In a period of total defense effort such a segregation has little significance. Even if the interpretation of defense were restricted to military activities, segregation of nondefense expenditures could not be made simply and precisely.

For example, the beach patrol of the Coast Guard is paid from the same pay roll as its neutrality patrol in the North Atlantic. The Tennessee Valley Authority, the Bureau of Reclamation, and the War Department are transforming peacetime water control projects to meet the power needs of defense. The Federal Trade Commission, the Interstate Commerce Commission, and the Tariff Commission are shifting their normal programs in order to meet the demands for infor-

mation essential to defense. The General Accounting Office has an enormous new load of auditing defense expenditures. The Bureau of Internal Revenue has the job of collecting new taxes. In every department of the Government there are similar instances of the interrelation of defense and nondefense activities.

Because of the magnitude of the defense portion of total current expenditures, there has been a natural tendency to lump all other expenditures under a general term "nondefense." In this approach, directness of relationship to defense effort is the primary determining factor in classification. Necessarily, this requires determinations which are arbitrary. Such determinations as have been made are set forth in a table in appendix B in specific answer to the committee's request. There is but one item—United States Maritime Commission ship construction fund—included as "nondefense" in the 1940 Budget and subsequently changed to a national-defense classification.

In summary, this report makes three arbitrary revisions of the 1942 Budget, without regard to the function of the Bureau of the Budget to estimate expenditures "necessary for the support of the Government." It is apparent that many of the indicated downward revisions would seriously impair the defense effort and other vital governmental activities.

The normal process of budget building has not been followed. The departments have not been consulted; no hearings have been held, and there have been no conferences with the President.

In response to the request of the committee, the Director wishes to reiterate that three arbitrary revisions of a budget prepared 10 months ago should not be interpreted as recommendations with respect to the remaining months of the fiscal year 1942 or in any sense as a forecast of the President's Budget for 1943.

## II. THE PROBLEM OF REVISING NONDEFENSE EXPENDITURES

The resolution of the Senate Finance Committee (see appendix A for full text) requests detailed revisions of 1942 estimated expenditures on the assumption that the Budget Director had been instructed to reduce original 1942 appropriations by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000. The specific request is as follows:

\* \* \* such detailed revisions of the estimates of expenditures for the fiscal year ending June 30, 1942, as he would make if he had been instructed to prepare three budget estimates for such fiscal year in which the total annual expenditures for nondefense purposes were less by one billion dollars (\$1,000,000,000), by one and one-half billion dollars (\$1,500,000,000), and by two billion dollars (\$2,000,000,000), respectively, than the total amounts appropriated for such nondefense purposes for such fiscal year. \* \* \*

### A. BASE USED FOR REVISION

The resolution of the Senate Finance Committee does not specify the base for the requested revision. The Director of the Budget has adopted as a base the estimates of expenditure in the original 1942 Budget. Estimates of expenditures rather than appropriations have been used because in many instances appropriations made for a fiscal year may be spent in future years.

### B. MAGNITUDE OF REVISIONS

The significance of the \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000 reductions which the Senate Finance Committee has asked the Budget Director to allocate can be easily underestimated if these amounts are related to total expenditures for defense and nondefense of \$25,000,000,000 for the fiscal year. On such a basis, a \$2,000,000,000 cut amounts to 8 percent of the total expenditures. The same cut applied only to nondefense expenditures would amount to 30 percent.

The following table illustrates the general effect of the reductions proposed by the committee. The first column of figures shows the percentages for over-all reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000, respectively, in total nondefense expenditures of \$3,600,000,000 for fiscal 1942. The second column gives the percentages if expenditures of \$3,196,000,000 that are "fixed" by contractual and legislative commitments are excluded. Such exclusions amount to almost 50 percent of all nondefense expenditures. Appendix D gives a break-down of nondefense expenditures according to the type of commitments.

It would not be reasonable to view all legal and legislative commitments as sacrosanct when a drastic revision of important governmental services is under consideration. Thus, balanced judgment would seriously question a policy of cutting sharply into such important items as expenditures for law enforcement, work relief, and the like, while leaving untouched agricultural benefits or grants-in-aid for Federal highways because they are based on prior commitments.

For these reasons the third column of the table gives the percentage reductions if the exclusions of fixed commitments are limited to an amount of \$2,094,000,000 for interest on the public debt, veterans' pensions, and the other commitments enumerated in the footnote.

Percentage reductions required to lower all in part of estimated 1942 nondefense expenditures by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000

Over-all reduction of—	Reduction based on all nondefense expenditures		Reduction based on non-defense expenditures after exclusion:	
	All fixed commitments	Certain fixed commitments <sup>1</sup>	Percent	Percent
\$1,000,000,000	17	31	23	32
\$1,500,000,000	25	44	31	41
\$2,000,000,000	30	53	38	49

<sup>1</sup>The fixed commitments excluded are interest on the public debt, veterans' pensions and insurance, transfers to trust agencies, refunds, the Federal contribution to the District of Columbia, and legislative and judicial establishments.

These percentages indicate the drastic nature of the over-all reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000 posed by the Senate Finance Committee. Because of their magnitude, the Budget Director in distributing the over-all reductions among Federal programs has assumed that certain changes will be made in legislative and other commitments.

## C. GENERAL ASPECTS OF REVISING ESTIMATES

In arriving at the hypothetical revisions of estimates which are presented in the following section of this report, certain general considerations are relevant. In general, there are three major approaches to Budget reduction:

1. By performing functions in a more economical manner through improvements in administrative management;
2. By reducing economic and social aid programs to adjust for improved business conditions;
3. By curtailing or eliminating functions.

*1. Performing functions more economically.*

The Bureau of the Budget and the various departments and agencies continuously study organization and procedures in order to evolve more efficient and economical administration. Constant effort is made to eliminate duplication and overlapping of functions.

Reductions in expenditures from further improvements in government machinery will at best contribute in minor degree to any major budgetary revision. Moreover, they may require considerable time to become effective. In many cases improved administrative management is reflected in the ability to carry an increased work load rather than in a reduction of expenditures.

*2. Adjusting programs to improved business conditions.*

(a) *Improvement in production, employment, and income.*—Employment and income have increased markedly during the past year. This increase has been even more rapid than was expected a year ago because it has been necessary to expand and accelerate the defense effort. Hence the expenditures for certain programs will be lower than was planned in the President's Budget for the current fiscal year. The revisions in this report are based on the assumption that the intensification of economic activities could have been foreseen last December when the original estimates were formulated, and would have been fully effective throughout the fiscal year.

Various charts which picture the improvement in economic activities are attached (appendixes E and F). Appendix E shows the increase in agricultural incomes. Enlarged sales and increased prices brought higher farm receipts. Because of this favorable development, reductions of total payments for farm aid are incorporated in the over-all reduction programs requested by the Senate Finance Committee.

General statistics showing improvement in income and production are, however, somewhat deceptive guides for the revision of estimates. The improvement of income and employment conditions is largely due to the tremendous increase in defense production. Various parts of the country, various groups of farmers, and various groups of labor are differently affected by the defense effort. Defense prosperity is spotty in its effects. There exist side by side scarcities for some types of labor, and unemployment for other types; scarcities of some farm products, and excesses of others; boom conditions in certain regions, and slack conditions in others. Therefore, an improvement in agricultural or employment conditions would not necessarily justify a corresponding reduction in farm or relief programs.

(b) *Continuous adjustment to changing conditions.*—If, in December of 1940, the improvement in business conditions could have been fully

foreseen, smaller appropriations for the economic and social programs would have been recommended. This improvement has been captured in the process of Budget administration.

Although the Budget document is only submitted once a year to the Congress, its execution is revised constantly. Budget execution is a continuous economy drive. The President's recommendation to the Congress in May of 1941 for the Work Projects Administration appropriation for the current fiscal year was \$109,000,000 below the estimate in the original Budget document. The lower figure contemplated that average Work Projects Administration employment would be 23 percent below the average on which the original Budget estimate was based.

The administration can, within certain limits, adjust current expenditures to changing needs. In apportioning available funds a certain portion of the appropriations may be placed in reserve if it is believed that a department or agency has appropriations in excess of actual needs. This reserve is withheld until the department or agency can demonstrate that the money is essential to its program.

For the fiscal year 1942 reserves of \$450,000,000 have been established. This unusually large amount appears possible in the light of improved business conditions. A larger reserve could not be established at this time without a revision of the functions and programs which are the result of congressional enactments.

Even if intense economic activity persists throughout the present fiscal year, the lowest of the three hypothetical figures requested by the committee implies curtailment of Government functions.

(c) *Price and wage increases.*—During the last year not only production, employment, and income, but also prices and wages have increased. While an improvement in economic activities permits the reduction of certain expenditures, price and wage advances may cause a rise in other items.

The considerable increases in prices and wages during the last year are indicated by the chart in appendix G. In the downward revision of estimates, the possible effect of price increases upon Government expenditures has been disregarded. First of all, price increases affect defense expenditures much more than nondefense expenditures. About 90 percent of defense costs are for weapons of all kinds, food, equipment, and construction, which are immediately affected by price rises. In contrast, only about 10 percent of nondefense expenditures are for direct purchase of material and equipment which are immediately affected by price increases. Some other items, such as rents and service contracts, will eventually be affected by price increases, but the direct effects in this field are not yet of great significance.

The effects of future price developments must be borne in mind. If higher costs of living cause an increase in wages and salaries, a substantial rise in nondefense expenditures will take place. Thus, it is likely that a part of the economies which are now possible are only temporary and may subsequently be offset by increasing costs due to higher prices.

*3. Curtailing or abolishing functions.*

All three proposals for reductions involve curtailment or abolition of some functions of government. In judging relative urgency of func-

tions it is inevitable that the following factors be taken into consideration:

(a) *Defense implications.*—Many expenditures of defense importance are included in the so-called nondefense classification. All Government functions have more or less direct relationship to defense in an era of total war and total defense. In many cases this relationship is so close that curtailment of the activity of a regular department would necessitate reestablishing the same functions, possibly at a higher cost, as an activity in some new defense agency. Numerous examples could be cited.

On the other hand, it must be recognized that every possible curtailment of nondefense use of labor and material that is needed for defense must be effected. Postponement of nondefense construction may be a definite contribution to national defense. This is a factor of prime importance in any budget readjustment.

(b) *Post-defense aspects.*—Preparedness for the post-defense period is an integral part of the whole program for the defense of democracy. During the last decade experiments were made and governmental policies and instruments were developed for an effective fight against depressions. It is essential to preserve and improve these instruments so that they may be available for immediate use in the post-defense period.

It must also be assumed that the normal functioning of the Government and the execution and enforcement of laws must be maintained. It would, for example, be utter waste to wreck the machinery for law enforcement now only to rebuild it later. The damage done to the well-developed operating machinery would be entirely out of proportion to the immediate saving. Abolition of an agency would be preferable to a drastic reduction which would leave an inefficient and demoralized organization.

#### D. LEGAL IMPLICATIONS OF REVISIONS

The President emphasized in the Budget message of January 1941 that almost half of nondefense expenditures are for so-called "fixed commitments." These fixed commitments include contractual and legislative commitments, such as the payment of interest, pensions, transfers to trust accounts, and legislative commitments which cannot be changed without amendment or repeal of statutes. In many cases, especially with respect to highway grants to State governments, commitments are made a year or more in advance and curtailments could not become effective immediately without breach of prior commitments. Although an effort has been made to minimize the legislative changes implied in the revisions of this report, the major revisions could not be made without many such changes.

#### III. ALLOCATION OF COMMITTEE'S REDUCTIONS

In allocating the hypothetical reductions requested by the Senate Finance Committee, the Director of the Budget was guided by the principles set forth in the preceding section, although different weight can be given to the various criteria. It must be emphasized, however, that the reductions discussed in this report are in no sense a product of the normal budgetary process of request, review, and recommendation.

The normal budget process could not be followed within the framework of the Senate Finance Committee request. Reductions presented in this study have not been discussed with the agencies affected nor do they reflect the policy of the administration. They serve only as illustrations of a possible distribution of the over-all reductions, required by the committee, among the different Government agencies and programs.

To facilitate an understanding of the revisions by major types of activities, a summary table of percentage reductions is presented below. The amounts of expenditures on which the percentages are based are shown in appendix C. Another table, appendix H, indicates the ratio of the three over-all reductions which has been allocated to each agency and program.

The following text discusses most of the major groups of government activities shown in the accompanying table.

*Reasons of estimated expenditures required by reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000 specified by Senate Finance Committee.*

Activity (approximate classification)	Estimated expenditures in 1942 Budget	Percentage reductions to achieve total cut of:		
		\$1,000,000,000	\$1,500,000,000	\$2,000,000,000
		Percent	Percent	Percent
Executive, judicial, and legislative	\$11,000,000	0	0	0
Civil liberties rights and programs	\$23,000,000	9.4	13.4	18.0
General Public Works Program	\$35,000,000	10.3	16.1	19.9
Government pensions and benefits	\$14,000,000	2.1	2.9	2.8
Alcohol control	\$101,000,000	25.9	38.1	45.1
Anti-air pollution	\$63,000,000	15.0	21.5	28.0
Food security	\$62,000,000	0	1.1	11.0
Wartime relief	\$104,000,000	31.0	45.1	53.9
Highways	\$2,000,000	0	0	0
Research on public health	\$225,000,000	0	0	0
Transfers to trust accounts	\$75,000,000	4.4	6.6	8.8
Unimproved lands, reclamation	\$103,000,000	23.0	33.0	38.0
Total (excluding debt retirement)	\$6,581,000,000	15.2	22.4	26.4

\* These revisions reflect allocations of the total reductions posed by the Senate Finance Committee, and are not to be considered as recommendations of the Director of the Budget.

#### V. CIVIL DEPARTMENTS AND AGENCIES

To achieve over-all reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000, cuts of 9, 12, and 16 percent, respectively, of original estimates of 1942 expenditures have been allocated to the general category of civil departments and agencies. Related expenditures for these services do not become less urgent because of improved business conditions. Moreover, it must be remembered that many of the functions have direct and immediate importance for defense although they are included in the so-called nondefense operations of the Government. Practically all Government agencies have been reoriented their so-called nondefense activities to do their part in the defense program. In many cases, this adjustment has occurred without special defense appropriations or defense reimbursements.

The Census Bureau, for instance, supplies information essential to many defense agencies. This work imposes a heavy additional burden which it has been possible for that Bureau to assume only by reduction of other activities. The work of the Bureau of Internal Revenue is

another example of a nondefense agency which has a greatly increased work load.

Reductions which have been applied to the expenditures of many of the independent offices and commissions would require postponing or restricting established regulatory activities—as in the case of the Federal Communications Commission, Federal Trade Commission, Securities and Exchange Commission, and the Interstate Commerce Commission. Other reductions would necessitate greatly decreasing the number of services supplied both to the Government and to the public at large by such agencies as the Bureau of Standards and the Coast and Geodetic Survey. The postponement of maintenance work on rivers and harbors would increase expenditures in future years.

The Post Office Department showed an estimated deficit of \$51,000,000 in the Budget document submitted last January. Because post-office business has exceeded expectations, the deficit will be smaller than anticipated. If the postal deficit were to be erased, it would be necessary to raise postal rates or reduce services to the public. With the increasing demand resulting from present business conditions, the latter course is difficult. Nevertheless, the \$2,000,000,000 over-all cut might well require the elimination of the postal deficit.

#### H. GENERAL PUBLIC WORKS PROGRAM

The General Public Works Program would be cut 10, 16, and 20 percent, respectively, under the three reductions proposed by the Senate Finance Committee.

In the original 1942 Budget, public works expenditures were cut 10 percent below the estimated expenditures for the fiscal year 1941. From the point of view of nondefense work the cut was even greater because of a shift to large power and other projects essential to the defense effort.

Subsequent to presentation of the Budget, it became necessary to request additional appropriations for important public works projects such as new power projects under the Tennessee Valley Authority and the Department of the Interior. These projects are classed as "nondefense" expenditures, although they obviously spring directly out of the defense program.

Reclamation, river and harbor, and public building projects, not directly related to defense but already under way, were continued when stoppage would have meant waste. Their rate of construction is now being spread over a longer period of time than originally planned. No new public works other than those vital for defense are planned for the current fiscal year.

A big item in the public works program is the grants to States for Federal highways. These expenditures, to a large extent, reimburse States for the cost of work authorized and entered upon in the previous year. A reduction in the 1942 estimates for this function would be in conflict with legislative commitments.

Given all these circumstances, a further reduction in public works is practically impossible without curtailing works essential for defense or breaking legislative commitments. Application of the percentages of reduction mentioned in the opening paragraph of this section would require elimination of items such as the appropriations for

public land highways, many activities of the Tennessee Valley Authority, and the preparation of projects which may be essential in a post-defense period.

#### C. AIDS TO AGRICULTURE

Of the \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000 cuts, the tabulation shows that the agricultural-aid programs would have to contribute 29, 44, and 46 percent, respectively, of their original Budget estimates.

The original 1942 estimates were slightly below those for the preceding year. The war in its initial period affected various sectors of American agriculture in very diverse ways. Certain groups of farmers faced increasing difficulties because of the loss of foreign markets while other groups benefited from improved domestic conditions. In December of 1940, when the original program for 1942 was formulated, a small reduction in outlays for farm aid appeared reasonable. Congress, however, went beyond the President's recommendations.

In recent months the agricultural situation has shown a marked improvement as compared with conditions at the end of 1940. Influenced by further increases in domestic purchasing power and to an even greater extent by large-scale food purchases for Great Britain, farm incomes have risen rapidly (see appendix E).

General improvement in farm conditions, extending to almost all types of farmers, will permit a substantial reduction of Government aid at some future time. The words "future time" are used because there is a considerable interval between the time when farm conditions improve and the date when reduction in farm-aid payments is possible. Parity payments are intended to make up for the disparity between the farm prices of the preceding year and the parity prices of the same period. In other words, the amount of payments made in fiscal 1942 depends largely on farm conditions which existed in the calendar year 1940.

Likewise, payments for conservation and use of agricultural land resources cannot be suddenly curtailed without repudiating moral obligations. The Department of Agriculture announces its program in the fall so that the farmer can decide whether or not he intends to participate in the program for the ensuing crop year. Thus, in the late fall of 1940 payment rates for participating in the 1941 crop program were announced. These payments, in turn, will be made out of funds provided by 1942 appropriations.

In order to achieve curtailments of the magnitude indicated above, parity payments have been reduced by \$50,000,000.

Payments for soil conservation have also been decreased by \$100,000,000 in the first, and \$250,000,000 in the second and third of the hypothetical cuts. The second and third reductions might have far-reaching economic consequences. It must be remembered that the Agricultural Adjustment program now aims at planned increases in production of many commodities as well as curtailments in those crops which contribute heavily to our major surpluses. It is possible that a sharp reduction of this program would cost consumers more in the form of higher prices than it would relieve tax burdens. This consideration does not preclude, of course, the possibility that a lesser

reduction in outlays may be feasible without impairing the fundamental objectives of the program.

In order to attain the total reductions it was also necessary in each case to eliminate the annual appropriation for the disposal of surplus commodities—\$100,000,000 in the original Budget estimate and \$125,000,000 in the actual appropriation. In all three revisions a separate \$100,000,000 permanent appropriation was left untouched. This is an amount equal to the 30 percent of customs revenue which is permanently allocated to the Disposal of Surplus Commodities and mainly used for financing the stamp plan and similar projects.

Elimination of the annual appropriation means, therefore, a curtailment of the funds available for the stamp plan, free school lunches, etc., by one-half of the original estimates for 1942. In making such a revision it should be emphasized that these programs have proved to be highly beneficial in improving the diet of low-income groups among our citizens.

The revisions for agriculture show only a slight increase under the \$2,000,000,000 cut, as compared with the \$1,500,000,000 cut. A further reduction would compel either repudiation of the commitments made for parity payments or a change in the law permanently allocating an amount equal to 30 percent of customs revenue to agricultural aid. Otherwise the only other alternative would be disruption of the machinery developed for agricultural adjustment.

#### D. AIDS TO YOUTH

To achieve the three over-all cuts reductions of 51, 68, and 95 percent have been indicated for the youth program.

A substantial contraction of the Civilian Conservation Corps and National Youth Administration programs is already under way. Employment opportunities for youth have increased to such an extent that the number of enrollees is decreasing (see appendix K). This development has been taken into account in the reserve established for 1942.

There still remains a body of American youth for whom these programs provide worth-while training and healthful activities. In the larger perspective of national defense this work is not without significance.

Certainly there can be little doubt that some sort of youth program will be necessary in the post-defense period. It would be costly to wreck existing organization which may be urgently needed later.

#### E. WORK RELIEF

The original Budget estimate for work relief in 1942 was 29 percent below the expenditures of the preceding year. Subsequently the President recommended a further cut of about 10 percent in view of increased employment (see appendixes F and K).

To achieve the over-all cuts posed by the Senate committee, work-relief expenditures were reduced by 32, 49, and 74 percent of the original estimates. In considering such further curtailment of work relief, it must be remembered that the defense program has not affected certain types of workers and certain regions of the country. There are groups of people who are employable but who have great difficulty in

finding employment even in a tight labor market because their technical or other abilities do not fit the qualifications for the available employment. Many such people are now producing useful work on public programs.

The defense program is expected to absorb additional millions of persons, but it is probable that, temporarily at least, increasing defense employment will be wholly or partly offset by rising dismissals in the consumer-goods industries which are forced to lower production because of the lack of material, machinery, transportation facilities, or skilled labor. While most of these people will be eligible for unemployment compensation, needy persons who exhaust their rights before new work is found will be eligible for Work Projects Administration employment.

It also must be understood that 32 percent of present Work Projects Administration workers and 38 percent of Work Projects Administration expenditures are for defense projects. Whether Work Projects Administration is or is not the most appropriate agency for such defense work, the fact remains that elimination of such Work Projects Administration defense projects would necessitate the work being done by some other agency.

A major reduction in work relief may increase the number of general relief cases which must be taken care of by State and local governments. The question whether or not such a development is desirable is related to the whole problem of Federal-State-local fiscal relations.

Under the \$2,000,000,000 reduction program, about three-fourths of work-relief expenditures has been eliminated.

#### F. SOCIAL SECURITY

Reductions allocated to social-security programs are relatively minor—\$3,000,000, \$6,000,000, and \$51,000,000, respectively, for the three cuts of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000.

The 1942 Budget provides for a 4-percent increase in social-security expenditures over the preceding year. The increase is caused primarily by additions to Federal grants necessary to match State payments to a rising number of aged persons and to match State payments for increased assistance to dependent children.

The social-security public-assistance programs are not related to defense, but are part of the declared long-range policy of the Congress to aid the helpless indigent. The payments do not directly reduce either labor or materials available for defense.

Like any income payment, assistance payments may contribute to the inflationary pressure through making more funds available which the recipients can spend. But by providing a minimum income to people on the bottom of the income pyramid, such payments create purchasing power which is used primarily for goods and services that are neither scarce nor compete with defense.

In allocating the committee's reductions this report has precluded revisions of certain fixed commitments such as debt service, minimized reductions involving legislative changes, and avoided reductions which would disrupt law enforcement and other essential operations of the Government.

Under this approach, those social and economic programs which are not fixed by legal commitments must bear the brunt of any major reductions.

A substantially different result is obtainable only if the approach is changed. If, for instance, to make a \$2,000,000,000 reduction, veterans' pensions were cut, debt service reduced, and Federal grants-in-aid curtailed, then it would be possible to preserve a substantial part of the social and economic programs. Still other approaches to allocation of reductions are possible.

This report presents one schedule of revisions based on the resolution of the committee.

## APPENDIXES

### APPENDIX A

#### RESOLUTION OF SENATE FINANCE COMMITTEE

*Resolved, by the Committee on Finance of the Senate, acting under the authority vested in it by section 20 of the Budget and Accounting Act of 1921, That the Director of the Bureau of the Budget be requested to transmit to the chairman of said committee, as promptly as possible, but not later than the 15th day of October 1941, such detailed revisions of the estimates of expenditures for the fiscal year ending June 30, 1942, as he would make if he had been instructed to prepare three Budget estimates for such fiscal year in which the total annual expenditures for nondefense purposes were less by one billion dollars (\$1,000,000,000), by one and one-half billion dollars (\$1,500,000,000), and by two billion dollars (\$2,000,000,000), respectively, than the total amounts appropriated for such nondefense purposes for such fiscal year, and to transmit to the chairman of said committee, together with such revisions of estimates, complete data showing all items which were classified or considered as being nondefense expenditures in the Budget estimates for the fiscal year ending June 30, 1940, and which, in the Budget estimates of expenditures for the fiscal year ending June 30, 1941, or for the current fiscal year, have been included, directly or indirectly, as defense expenditures, and are now classified or considered as being defense expenditures.*

*Resolved further, That the chairman of said committee be directed to transmit to the chairman of the Committee on Appropriations of the Senate and to the chairman of the Committee to Investigate Nonessential Federal Expenditures established by the Revenue Act of 1941 copies of the revisions of estimates and other data transmitted by the Director of the Bureau of the Budget pursuant to this resolution.*

*Resolved further, That the chairman of the Committee on Finance of the Senate be directed to transmit a copy of this resolution, immediately upon its adoption, to the Director of the Bureau of the Budget.*

Adopted by the Committee on Finance of the Senate, August 28, 1941.

(Signed) WALTER F. GEORGE,  
Chairman.

### APPENDIX B

*Items classified as "national defense" in the Budget documents for 1940, 1941, and 1942, and as of Oct. 1, 1941*

Items	How classified			
	In 1940 Budget document	In 1941 Budget document	In 1942 Budget document	On Oct. 1, 1941 (current)
War Department—military activities	Defense	Defense	Defense	Defense
Navy Department	do	do	do	Do
Other agencies:				
Executive Office of the President:				
Bureau of the Budget—national-defense activities	(1)	(1)	do	Do
National Resources Planning Board—national-defense activities	(1)	(1)	do	Do
Office of Government Reports—national-defense activities	(1)	(1)	do	Nondefense
Office for Emergency Management	(1)	(1)	do	Defense
Emergency funds for the President	(1)	(1)	do	Do
Defense aid (lend-lease)	(1)	(1)	(1)	Do

<sup>1</sup> Indicates that item was provided for after submission of Budget document.

Items classified as "national defense" in the Budget documents for 1940, 1941, and 1942, and as of Oct. 1, 1941—Continued

Items	How classified			
	In 1940 Budget document	In 1941 Budget document	In 1942 Budget document	On Oct. 1, 1941 (current)
Other agencies—Continued.				
Civil Service Commission—national-defense activities.	(1)	(1)	Defense	Defense
Federal Communications Commission—national-defense activities.	(1)	(1)	do	Do
Federal Power Commission—national-defense activities.	(1)	(1)	do	Do
Interstate Commerce Commission—national-defense activities.	(1)	(1)	(1)	Do
Selective Service System.	(1)	(1)	Defense	Do
U. S. Maritime Commission:				
Emergency ship construction.	(1)	(1)	(1)	Do
Ship construction fund.	Nondefense	Nondefense	Nondefense	Do
Tennessee Valley Authority—additional power installations.	(1)	(1)	Defense	Nondefense
Federal Security Agency:				
National Youth Administration—defense training.	(1)	(1)	do	Defense
Office of Education—education and training.	(1)	(1)	do	Do
Public Health Service—emergency health and sanitation activities.	(1)	(1)	(1)	Do
Social Security Board—selecting, testing, and placement of defense workers.	(1)	(1)	Defense	Do
Federal Works Agency:				
Defense public works (community facilities).	(1)	(1)	(1)	Do
National-defense housing.	(1)	(1)	Defense	Do
Commerce:				
National Inventor's Council.	(1)	(1)	do	Do
Civil Aeronautics:				
Development of landing areas.	(1)	(1)	do	Do
Civilian pilot training.	(1)	Nondefense	do	Do
Interior:				
Government in the Territories—construction of Palmer-Richardson Road, Alaska.	(1)	(1)	(1)	Do
Bureau of Mines—helium plants and other national-defense activities.	(1)	(1)	(1)	Do
Reclamation—protection of project works.	(1)	(1)	(1)	Do
Justice:				
Federal Bureau of Investigation—national-defense activities.	(1)	Defense	Defense	Do
Special national-defense unit.	(1)	(1)	(1)	Do
Labor:				
Office of the Secretary—apprentice training, health and safety work, and Commissioner of Conciliation.	(1)	(1)	(1)	Do
Bureau of Labor Statistics—post-defense economic reconstruction problems and occupational outlook studies.	(1)	(1)	(1)	Do
State—National-defense activities.	(1)	(1)	Defense	Do
Treasury:				
Coast Guard—national-defense activities.	(1)	Defense	do	Nondefense
Procurement Division—strategic and critical materials.	(1)	Nondefense	do	Defense
War (nonmilitary), Panama Canal:				
Additional facilities.	(1)	Defense	do	Do
Protective works.	(1)	do	do	Nondefense

(1) Indicates that item was provided for after submission of Budget document.

## APPENDIX C

Nondefense 1942 appropriations and expenditures, and hypothetical revisions to cut Budget estimates of expenditures by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000

[In millions of dollars]

Activity	Estimate of appropriations in 1942 Budget	Estimated expenditures in 1942 Budget	Actual appropriations to Oct. 5, 1941 <sup>1</sup>	Revised estimate of expenditures, 1942 (Oct. 5, 1941)	Hypothetical expenditures under Budget estimates of expenditures (column 2) of—		
					\$1,000,000,000	\$1,500,000,000	\$2,000,000,000
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Legislative, judicial, and executive.	43	41	41	39	41	41	41
2. Civil departments and agencies.	807	833	860	823	755	730	700
3. General Public Works Program.	450	583	623	620	478	447	427
4. Veterans' pensions and benefits.	575	564	575	566	552	531	510
5. Aid to agriculture.	613	1,061	1,101	1,155	756	693	678
6. Aid to youth.	372	363	330	290	178	118	10
7. Social security.	473	463	467	468	460	457	412
8. Work relief.	905	1,094	886	840	707	624	270
9. Refunds.	82	80	82	87	80	80	80
10. Interest on the public debt.	1,225	1,225	1,275	1,275	1,225	1,225	1,225
11. Transfers to trust accounts.	274	275	274	268	263	250	245
12. Supplemental items—remainder.	100	100	50	50	75	50	25
Total, excluding debt retirement.	6,311	6,581	6,593	6,581	5,581	5,081	4,581

<sup>1</sup> Includes supplemental estimates pending before Congress, Oct. 5, 1941, and an estimate of further supplements to be transmitted.

## APPENDIX D

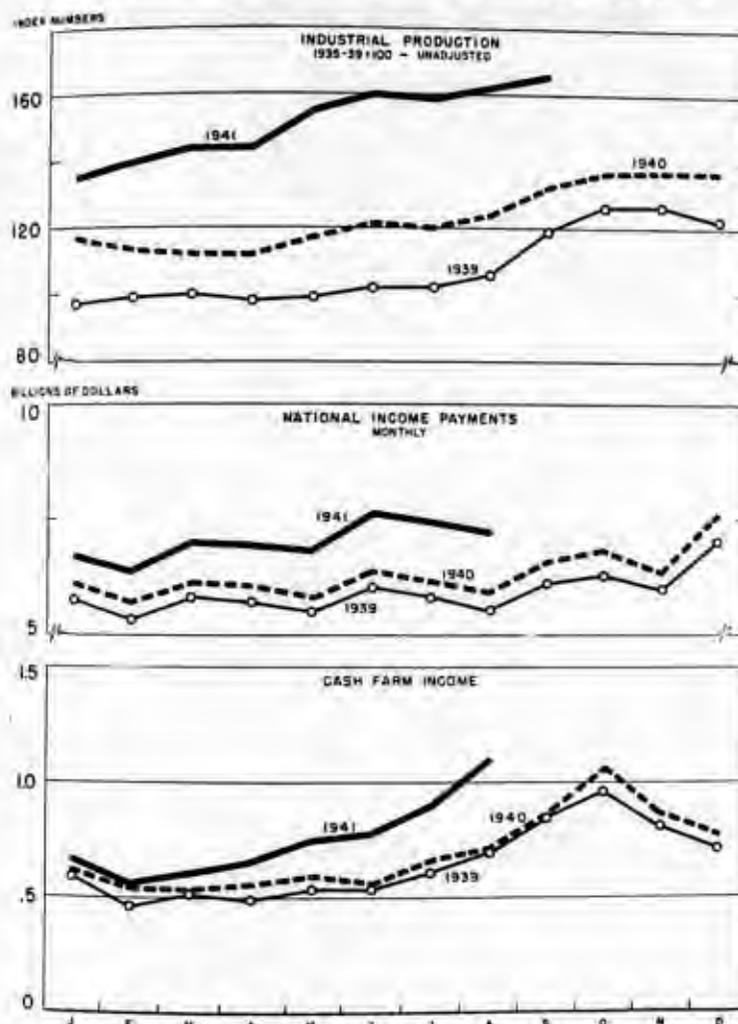
1942 nondefense expenditure estimates by type of commitment—estimate as of Jan. 3, 1941

(In millions of dollars)

Legal and quasi legal commitments:	
Interest on the public debt.....	1,225
Refunds of receipts.....	89
Veterans' pensions and insurance.....	461
Transfers to trust accounts.....	275
Social-security grants in aid.....	436
<b>Total legal and quasi legal commitments.....</b>	<b>2,486</b>
Legislative commitments:	
Legislative and judicial.....	38
Civil departments and agencies.....	123
Grants in aid for public roads.....	100
30 percent of tariff receipts to remove agricultural surpluses.....	100
Parity payments.....	205
Sugar Act administration.....	48
Reduction in interest rates.....	36
<b>Total legislative commitments.....</b>	<b>710</b>
<b>Total fixed commitments.....</b>	<b>3,196</b>
Other expenditures:	
Executive office.....	3
Civil departments and agencies.....	726
General Public Works Program.....	363
Veterans' benefits (hospitalization, administration, etc.).....	104
Aids to agriculture.....	672
Aids to youth.....	363
Social security (administration).....	26
Work relief.....	1,028
Supplemental items—regular.....	100
<b>Total other expenditures.....</b>	<b>3,385</b>
<b>Total nondefense expenditures.....</b>	<b>6,581</b>

## APPENDIX E

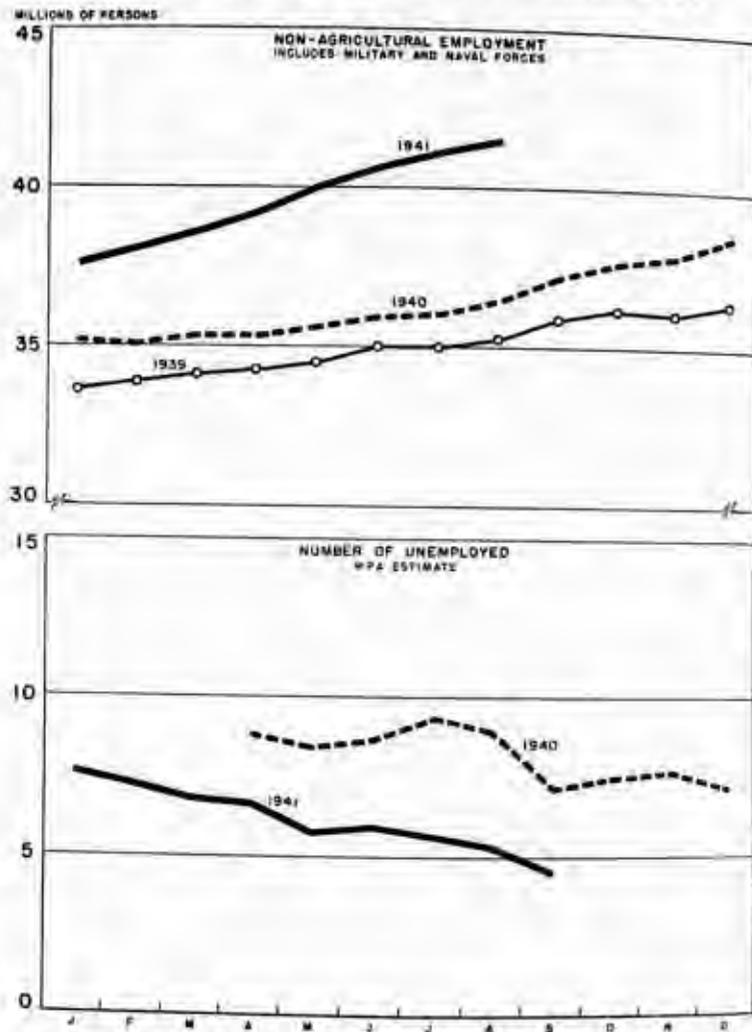
## INCOME AND INDUSTRIAL PRODUCTION



SOURCE: U. S. B., DEPT. OF COMMERCE, DEPT. OF AGRICULTURE

## APPENDIX F

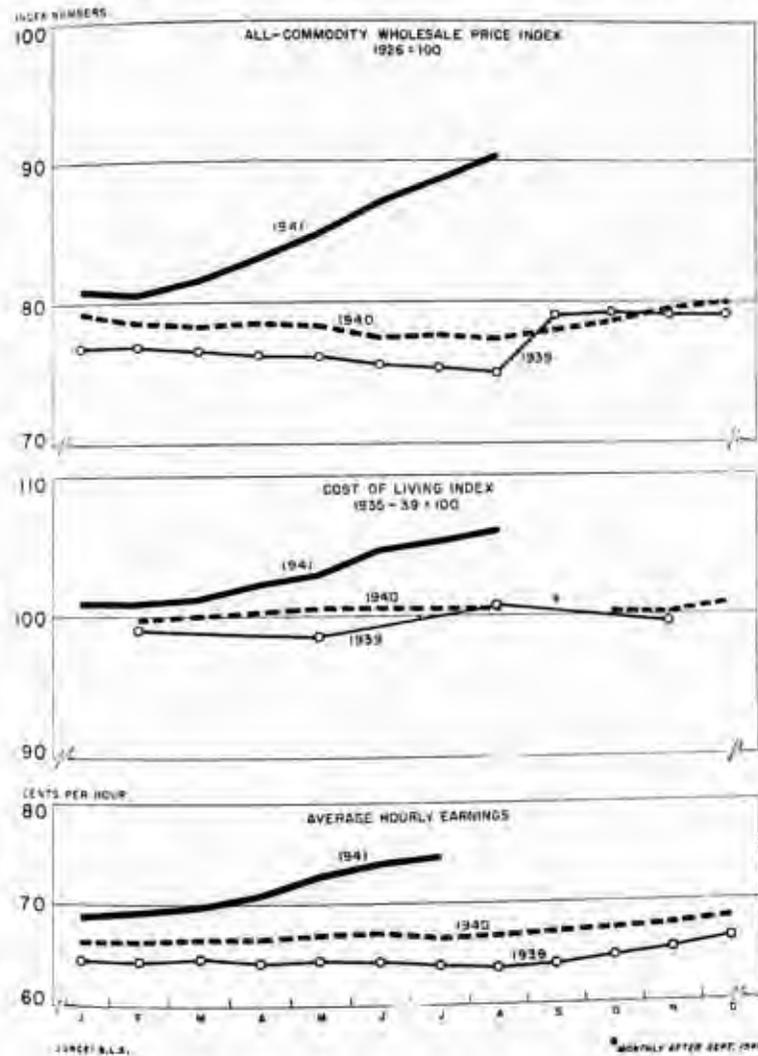
## EMPLOYMENT AND UNEMPLOYMENT



SOURCE: B.L.S., W.P.A.

## APPENDIX G

## PRICES, COST OF LIVING, AND EARNINGS



SOURCE: B.L.S.

MONTHLY AFTER SEPT. 1940

## APPENDIX H

Reductions in individual programs compared with total reductions<sup>1</sup>  
(In millions of dollars)

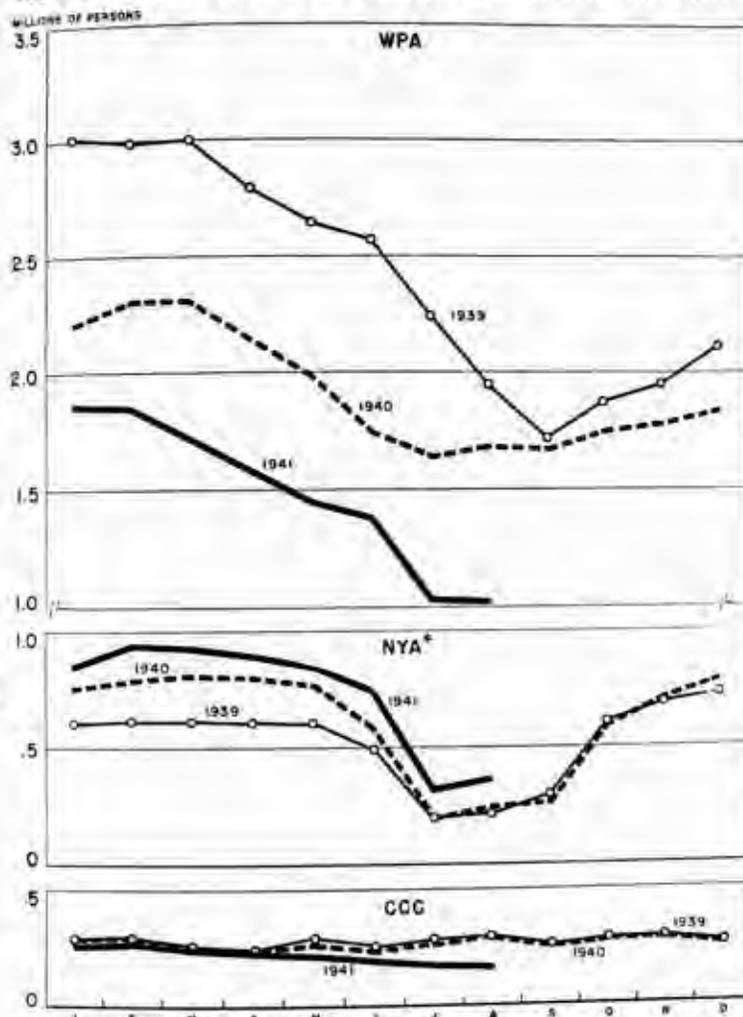
Activity	Reductions to achieve total cut of—					
	\$1,000,000,000		\$1,500,000,000		\$2,000,000,000	
	Amount	Percent	Amount	Percent	Amount	Percent
Legislative, judicial, and executive.....	(?)	0	(?)	0	(?)	0
Civil departments and agencies.....	78	7.8	103	6.9	133	6.6
General Public Works Program.....	55	5.5	80	5.3	106	5.3
Veterans' pensions and benefits.....	12	1.2	13	.9	14	.7
Aids to agriculture.....	303	30.3	408	27.2	483	24.1
Aids to youth.....	185	18.5	245	16.3	314	15.7
Social security.....	3	.3	6	.4	11	.5
Work relief.....	827	82.7	510	34.0	764	38.2
Refunds.....	0	0	0	0	0	0
Interest on the public debt.....	0	0	0	0	0	0
Transfers to trust accounts.....	12	1.2	19	1.3	30	1.5
Supplemental items, regular.....	25	2.5	50	3.3	75	3.8
<b>Total reductions.....</b>	<b>1,000</b>	<b>100.0</b>	<b>1,500</b>	<b>100.0</b>	<b>2,000</b>	<b>100.0</b>

<sup>1</sup> These revisions reflect allocations of the total reductions posed by the Senate Finance Committee, and are not to be considered as recommendations of the Director of the Budget.

<sup>2</sup> Less than \$500,000.

## APPENDIX K

## NUMBER OF PERSONS RECEIVING WORK RELIEF



SOURCE: SOCIAL SECURITY BULLETIN

\* INCLUDES OFFENSE TRAINING SINCE JULY 1, 1941

[PUBLIC LAW 250—77TH CONGRESS]

[CHAPTER 412—1ST SESSION]

[B. R. 5417]

AN ACT

To provide revenue, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act, divided into titles and sections according to the following Table of Contents, may be cited as the "Revenue Act of 1941":

TABLE OF CONTENTS

TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

- Sec. 101. Surtax on individuals.  
 Sec. 102. Optional tax on individuals with certain gross income of \$3,000 or less.  
 Sec. 103. Corporation defense tax rates incorporated in rate schedules.  
 Sec. 104. Surtax on corporations and termination of defense tax.  
 Sec. 105. Tax on nonresident alien individuals.  
 Sec. 106. Tax on foreign corporations.  
 Sec. 107. Withholding of tax at source.  
 Sec. 108. Treaty obligations.  
 Sec. 109. Reduction in pursuance of treaties of rates of tax and withholding on nonresident alien individuals resident in, and corporations organized under laws of, Western Hemisphere countries.  
 Sec. 110. Defense tax rates on personal holding companies and transfers to avoid income tax incorporated in rate schedules.  
 Sec. 111. Personal exemption.  
 Sec. 112. Returns of income tax.  
 Sec. 113. Credit for dependents.  
 Sec. 114. Noninterest-bearing obligations issued at discount.  
 Sec. 115. Short-term obligations issued on a discount basis.  
 Sec. 116. Information returns with respect to Federal obligations.  
 Sec. 117. Extension of time of orders of Securities and Exchange Commission.  
 Sec. 118. Taxable years to which amendments applicable.

TITLE II—EXCESS PROFITS TAX

- Sec. 201. Excess profits tax rates and credits.  
 Sec. 202. Deduction of excess-profits tax.  
 Sec. 203. New capital.  
 Sec. 204. Corporations engaged in mining strategic metals.  
 Sec. 205. Taxable years to which amendments applicable.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

- Sec. 301. Capital stock tax.  
 Sec. 302. Declared value excess-profits tax—Defense tax rates incorporated in rate schedule.

TITLE IV—ESTATE AND GIFT TAXES

- Sec. 401. Estate tax rates.  
 Sec. 402. Gift tax rates.

TITLE V—EXCISE TAXES

PART I—1932 EXCISE TAXES MADE PERMANENT

- Sec. 501. 1932 excise taxes made permanent.  
 Sec. 502. Pipe line tax.

- Sec. 503. Technical amendment.  
 Sec. 504. Bond tax.  
 Sec. 505. Conveyance tax.

**PART II—DEFENSE TAX RATES MADE PERMANENT (NO INCREASE IN TAX AND NO CHANGE IN BASIS OF TAX)**

- Sec. 521. Defense excise tax rates made permanent which are not increased by this Act.

**PART III—INCREASES IN RATES OF EXISTING EXCISE TAXES**

- Sec. 531. Playing cards.  
 Sec. 532. Safe deposit boxes.  
 Sec. 533. Distilled spirits.  
 Sec. 534. Wines.  
 Sec. 535. Tires and tubes.  
 Sec. 536. Effective date of Part III.

**PART IV—CHANGES IN BASIS OF COMPUTING TAX (RATES INCREASED IN CERTAIN CASES)**

- Sec. 541. Admissions tax.  
 Sec. 542. Cabaret, roof garden, etc., tax.  
 Sec. 543. Club dues.  
 Sec. 544. Automobile, truck, bus, and parts tax.  
 Sec. 545. Radios, phonographs, records, and musical instruments.  
 Sec. 546. Mechanical refrigerators.  
 Sec. 547. Matches.  
 Sec. 548. Telephone, telegraph, etc.  
 Sec. 549. Installment, etc., payments.  
 Sec. 550. Effective date of Part IV.

**PART V—NEW EXCISE TAXES**

- Sec. 551. New manufacturers' excise taxes.  
 Sec. 552. New retailers' excise taxes.  
 Sec. 553. Administrative changes in manufacturers' excise tax title of Code.  
 Sec. 554. Transportation of persons, etc.  
 Sec. 555. Coin-operated amusement and gaming devices.  
 Sec. 556. Bowling alleys, etc.  
 Sec. 557. Use of motor vehicles and boats.  
 Sec. 558. Effective date of Part V.

**PART VI—PROCESSING TAX ON CERTAIN OILS**

- Sec. 561. Payment of proceeds of processing tax to Guam and American Samoa.

**TITLE VI—NONESSENTIAL FEDERAL EXPENDITURES**

- Sec. 601. Nonessential Federal expenditures.

**TITLE VII—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES**

- Sec. 701. Credit against Federal unemployment taxes.

**TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES**

**SEC. 101. SURTAX ON INDIVIDUALS.**

Section 12 (b) of the Internal Revenue Code is amended to read as follows:

"(b) **RATES OF SURTAX.**—There shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual the surtax shown in the following table:

"If the surtax net income is:

Not over \$2,000.....	6% of the surtax net income.
Over \$2,000 but not over \$4,000.....	\$120, plus 9% of excess over \$2,000.
Over \$4,000 but not over \$6,000.....	\$300, plus 13% of excess over \$4,000.
Over \$6,000 but not over \$8,000.....	\$560, plus 17% of excess over \$6,000.
Over \$8,000 but not over \$10,000.....	\$900, plus 21% of excess over \$8,000.
Over \$10,000 but not over \$12,000.....	\$1,320, plus 25% of excess over \$10,000.
Over \$12,000 but not over \$14,000.....	\$1,820, plus 29% of excess over \$12,000.
Over \$14,000 but not over \$16,000.....	\$2,400, plus 32% of excess over \$14,000.
Over \$16,000 but not over \$18,000.....	\$3,040, plus 35% of excess over \$16,000.
Over \$18,000 but not over \$20,000.....	\$3,740, plus 38% of excess over \$18,000.
Over \$20,000 but not over \$22,000.....	\$4,500, plus 41% of excess over \$20,000.
Over \$22,000 but not over \$24,000.....	\$5,320, plus 44% of excess over \$22,000.
Over \$24,000 but not over \$26,000.....	\$7,080, plus 47% of excess over \$24,000.
Over \$26,000 but not over \$28,000.....	\$9,000, plus 50% of excess over \$26,000.
Over \$28,000 but not over \$44,000.....	\$12,000, plus 53% of excess over \$28,000.
Over \$44,000 but not over \$50,000.....	\$16,080, plus 55% of excess over \$44,000.
Over \$50,000 but not over \$60,000.....	\$19,380, plus 57% of excess over \$50,000.
Over \$60,000 but not over \$70,000.....	\$25,080, plus 59% of excess over \$60,000.
Over \$70,000 but not over \$80,000.....	\$30,080, plus 61% of excess over \$70,000.
Over \$80,000 but not over \$90,000.....	\$37,080, plus 63% of excess over \$80,000.
Over \$90,000 but not over \$100,000.....	\$43,380, plus 64% of excess over \$90,000.
Over \$100,000 but not over \$150,000.....	\$49,780, plus 65% of excess over \$100,000.
Over \$150,000 but not over \$200,000.....	\$82,280, plus 66% of excess over \$150,000.
Over \$200,000 but not over \$250,000.....	\$115,280, plus 67% of excess over \$200,000.
Over \$250,000 but not over \$300,000.....	\$148,780, plus 69% of excess over \$250,000.
Over \$300,000 but not over \$400,000.....	\$183,280, plus 71% of excess over \$300,000.
Over \$400,000 but not over \$500,000.....	\$254,280, plus 72% of excess over \$400,000.
Over \$500,000 but not over \$750,000.....	\$326,280, plus 73% of excess over \$500,000.
Over \$750,000 but not over \$1,000,000.....	\$508,780, plus 74% of excess over \$750,000.
Over \$1,000,000 but not over \$2,000,000.....	\$693,780, plus 75% of excess over \$1,000,000.
Over \$2,000,000 but not over \$5,000,000.....	\$1,443,780, plus 76% of excess over \$2,000,000.
Over \$5,000,000.....	\$3,723,780, plus 77% of excess over \$5,000,000."

**SEC. 102. OPTIONAL TAX ON INDIVIDUALS WITH CERTAIN GROSS INCOME OF \$3,000 OR LESS.**

(a) **OPTIONAL TAX.**—The Internal Revenue Code is amended by inserting after section 396 the following new Supplement:

**"Supplement T—Individuals With Gross Income From Certain Sources of \$3,000 or Less**

**SEC. 400. IMPOSITION OF TAX.**

"In lieu of the tax imposed under sections 11 and 12, an individual may elect, for each taxable year, to pay the tax shown in the following

table if his gross income for such taxable year is \$3,000 or less and consists wholly of one or more of the following: Salary, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties:

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
\$1.....	\$750	\$0	\$0
\$750.....	775	1	0
\$775.....	800	2	0
\$800.....	825	3	0
\$825.....	850	5	0
\$850.....	875	7	0
\$875.....	900	9	0
\$900.....	925	11	0
\$925.....	950	14	0
\$950.....	975	16	0
\$975.....	1,000	18	0
\$1,000.....	1,025	20	0
\$1,025.....	1,050	22	0
\$1,050.....	1,075	24	0
\$1,075.....	1,100	26	0
\$1,100.....	1,125	29	0
\$1,125.....	1,150	31	0
\$1,150.....	1,175	33	0
\$1,175.....	1,200	35	0
\$1,200.....	1,225	37	0
\$1,225.....	1,250	39	0
\$1,250.....	1,275	42	0
\$1,275.....	1,300	44	0
\$1,300.....	1,325	46	0
\$1,325.....	1,350	48	0
\$1,350.....	1,375	50	0
\$1,375.....	1,400	52	0
\$1,400.....	1,425	55	0
\$1,425.....	1,450	57	0
\$1,450.....	1,475	59	0
\$1,475.....	1,500	61	0
\$1,500.....	1,525	63	1
\$1,525.....	1,550	65	2
\$1,550.....	1,575	68	3
\$1,575.....	1,600	70	5
\$1,600.....	1,625	72	6
\$1,625.....	1,650	74	7
\$1,650.....	1,675	76	9
\$1,675.....	1,700	78	11
\$1,700.....	1,725	80	13
\$1,725.....	1,750	83	15
\$1,750.....	1,775	85	17
\$1,775.....	1,800	87	19
\$1,800.....	1,825	89	22

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
\$1,825.....	\$1,850	\$91	\$24
\$1,850.....	1,875	93	26
\$1,875.....	1,900	96	28
\$1,900.....	1,925	98	30
\$1,925.....	1,950	100	32
\$1,950.....	1,975	102	35
\$1,975.....	2,000	104	37
\$2,000.....	2,025	106	39
\$2,025.....	2,050	109	41
\$2,050.....	2,075	111	43
\$2,075.....	2,100	113	45
\$2,100.....	2,125	115	48
\$2,125.....	2,150	117	50
\$2,150.....	2,175	119	52
\$2,175.....	2,200	122	54
\$2,200.....	2,225	124	56
\$2,225.....	2,250	126	58
\$2,250.....	2,275	128	60
\$2,275.....	2,300	130	63
\$2,300.....	2,325	132	65
\$2,325.....	2,350	134	67
\$2,350.....	2,375	137	69
\$2,375.....	2,400	139	71
\$2,400.....	2,425	141	73
\$2,425.....	2,450	143	76
\$2,450.....	2,475	145	78
\$2,475.....	2,500	147	80
\$2,500.....	2,525	150	82
\$2,525.....	2,550	152	84
\$2,550.....	2,575	154	86
\$2,575.....	2,600	156	89
\$2,600.....	2,625	158	91
\$2,625.....	2,650	160	93
\$2,650.....	2,675	163	95
\$2,675.....	2,700	165	97
\$2,700.....	2,725	167	99
\$2,725.....	2,750	169	102
\$2,750.....	2,775	172	104
\$2,775.....	2,800	174	106
\$2,800.....	2,825	177	108
\$2,825.....	2,850	180	110
\$2,850.....	2,875	183	112
\$2,875.....	2,900	186	114
\$2,900.....	2,925	189	117
\$2,925.....	2,950	191	119
\$2,950.....	2,975	194	121
\$2,975.....	3,000	197	123

In applying the above schedule to determine the tax of a taxpayer with one or more dependents there shall be subtracted from his gross income \$400 for each such dependent.

**"SEC. 401. RULES FOR APPLICATION OF SECTION 400.**

"For the purposes of this Supplement—

**"(a) DEFINITIONS—**

"(1) 'Married person' means a married person living with husband or wife.

"(2) 'Dependent' means a person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective, excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B).

**"(b) DETERMINATION OF STATUS.**—The determination of whether a person is living with husband or wife, is a head of a family, or is a dependent, shall be made as of the last day of the taxpayer's taxable year.

**"(c) SEPARATE RETURN OF HUSBAND AND WIFE.**—If a husband and wife living together file separate returns, each shall be treated as a single person.

**"(d) MARRIED PERSONS NOT LIVING WITH HUSBAND OR WIFE.**—A married person not a head of a family and not living with husband or wife shall be treated as a single person.

**"SEC. 402. MANNER OF ELECTION.**

"The election referred to in section 400 shall be considered to have been made if the taxpayer files the return prescribed for this Supplement and such election shall be irrevocable. If the taxpayer for any taxable year has filed a return computing his tax without regard to this Supplement, he may not thereafter elect for such year to compute his tax under this Supplement.

**"SEC. 403. CREDITS AGAINST TAX NOT ALLOWED.**

"Section 31 (relating to foreign tax credit) and section 32 (relating to credit for taxes withheld at source) shall not apply with respect to the tax imposed by this Supplement.

**"SEC. 404. CERTAIN TAXPAYERS NOT ELIGIBLE.**

"This Supplement shall not apply to a nonresident alien individual, or an estate or trust."

**(b) CROSS-REFERENCES.—**

(1) Section 11 of the Internal Revenue Code is amended by inserting at the end thereof the following: "(For alternative tax if gross income from certain sources is \$3,000 or less, see section 400)".

(2) Section 12 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(g) For alternative tax if gross income from certain sources is \$3,000 or less, see section 400."

**(c) AMENDMENT TO SECTION 4.**—Section 4 of the Internal Revenue Code is amended by inserting at the end thereof the following:

**"(k) Shareholders of Personal Service Corporations.**—Supplement S.

"(1) Individuals with gross income from certain sources of \$3,000 or less.—Supplement T."

**SEC. 103. CORPORATION DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULES.**

**(a) TAX ON CORPORATIONS IN GENERAL.**—Section 13 (b) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) **GENERAL RULE.**—A tax of 24 per centum of the normal tax net income; or

"(2) **ALTERNATIVE TAX (CORPORATIONS WITH NORMAL-TAX NET INCOME SLIGHTLY MORE THAN \$25,000).**—A tax of \$4,250, plus 37 per centum of the amount of the normal-tax net income in excess of \$25,000."

**(b) TAX ON SPECIAL CLASSES OF CORPORATIONS.**—Section 14 (b) of the Internal Revenue Code is amended to read as follows:

**"(b) CORPORATIONS WITH NORMAL-TAX NET INCOMES OF NOT MORE THAN \$25,000.**—If the normal-tax net income of the corporation is not more than \$25,000, and if the corporation does not come within one of the classes specified in subsection (c), (d), or (e) of this section, the tax shall be as follows:

—Upon normal-tax net incomes not in excess of \$5,000, 15 per centum.

"\$750 upon normal-tax net incomes of \$5,000, and upon normal-tax net incomes in excess of \$5,000 and not in excess of \$20,000, 17 per centum in addition of such excess.

"\$3,300 upon normal-tax net incomes of \$20,000, and upon normal-tax net incomes in excess of \$20,000, 19 per centum in addition of such excess."

**(c) FOREIGN CORPORATIONS.**—Section 14 (c) of the Internal Revenue Code (relating to tax on resident foreign corporations) is amended by striking out "22½ per centum" and inserting "24 per centum".

**(d) SURTAX ON CORPORATIONS IMPROPERLY ACCUMULATING SURPLUSES.**—The rate schedule of section 102 of the Internal Revenue Code is amended to read as follows:

"27½ per centum of the amount of the undistributed section 102 net income not in excess of \$100,000, plus

"38½ per centum of the undistributed section 102 net income in excess of \$100,000."

**(e) MUTUAL INVESTMENT COMPANIES.**—Section 362 (b) of the Internal Revenue Code (relating to tax on mutual investment companies) is amended by striking out "22½ per centum" and inserting "24 per centum".

**SEC. 104. SURTAX ON CORPORATIONS AND TERMINATION OF DEFENSE TAX.**

**(a) GENERAL RULE.**—Section 15 of the Internal Revenue Code (relating to defense tax) is amended to read as follows:

**"SEC. 15. SURTAX ON CORPORATIONS.**

**"(a) CORPORATION SURTAX NET INCOME.**—For the purposes of this chapter the term 'corporation surtax net income' means the net income minus the credit for dividends received provided in section

26 (b), computed by limiting such credit to 85 per centum of the net income in lieu of 85 per centum of the adjusted net income.

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to the tax imposed by section 231 (a) or Supplement Q) a surtax as follows:

"Upon corporation surtax net incomes not in excess of \$25,000, 6 per centum of the amount thereof;

"Upon corporation surtax net incomes in excess of \$25,000, \$1,500, plus 7 per centum of the excess over \$25,000."

(b) SURTAX ON MUTUAL INVESTMENT COMPANIES.—Supplement Q of the Internal Revenue Code (relating to mutual investment companies) is amended by inserting at the end thereof a new section to read as follows:

**\*SEC. 363. SURTAX ON MUTUAL INVESTMENT COMPANIES.**

"(a) SUPPLEMENT Q SURTAX NET INCOME.—For the purposes of this chapter the term 'Supplement Q surtax net income' means the net income, computed without the net operating loss deduction provided in section 23 (s), minus the dividends paid during the taxable year increased by the consent dividends credit provided in section 28. For the purposes of this subsection the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the purpose of the basic surtax credit provided in section 27.

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the Supplement Q surtax net income of every mutual investment company a surtax as follows:

"Upon Supplement Q surtax net incomes not in excess of \$25,000, 6 per centum of the amount thereof;

"Upon Supplement Q surtax net incomes in excess of \$25,000, \$1,500, plus 7 per centum of the excess over \$25,000."

(c) SURTAX ON BANKS.—Section 104 (b) of the Internal Revenue Code (relating to certain banks and trust companies) is amended to read as follows:

"(b) RATE OF TAX.—Banks shall be subject to tax under section 13 or section 14 (b), and under section 15."

(d) SURTAX ON RESIDENT FOREIGN CORPORATIONS.—Section 231 (b) of the Internal Revenue Code (relating to certain foreign corporations) is amended to read as follows:

"(b) RESIDENT CORPORATIONS.—A foreign corporation engaged in trade or business within the United States or having an office or place of business therein shall be taxable as provided in section 14 (c) (1) and section 15."

(e) SURTAX ON CORPORATIONS ENTITLED TO THE BENEFITS OF SECTION 251.—Section 251 (c) (1) of the Internal Revenue Code (relating to the tax on corporations entitled to the benefits of section 251) is amended to read as follows:

"(1) CORPORATION TAX.—A domestic corporation entitled to the benefits of this section shall be subject to tax under section 13 or section 14 (b), and under section 15."

(f) SURTAX ON CHINA TRADE ACT CORPORATIONS.—

(1) SURTAX.—Section 261 (a) of the Internal Revenue Code (relating to the tax on China Trade Act corporations) is amended to read as follows:

"(a) CORPORATION TAX.—A corporation organized under the China Trade Act, 1922 (42 Stat. 849; U. S. C., 1934 ed., title 15, ch. 4), shall be subject to tax under section 13 or section 14 (b), and under section 15."

(2) CREDIT OF CHINA TRADE ACT CORPORATIONS.—Section 262 (a) of the Internal Revenue Code (relating to credit against net income of China Trade Act corporations) is amended by striking out "sections 13, 14, and 600" and inserting in lieu thereof "sections 13, 14, 15, and 600"; and by striking out "section 13 or 14" wherever occurring therein and inserting in lieu thereof "section 13, 14, or 15".

**SEC. 105. TAX ON NONRESIDENT ALIEN INDIVIDUALS.**

(a) TAX IN GENERAL.—Section 211 (a) (1) (A) of the Internal Revenue Code (relating to tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business therein) is amended by striking out "15 per centum" and inserting in lieu thereof "27½ per centum".

(b) AGGREGATE RECEIPTS MORE THAN \$23,000.—Section 211 (a) (2) of the Internal Revenue Code is amended to read as follows:

"(2) AGGREGATE MORE THAN \$23,000.—The tax imposed by paragraph (1) shall not apply to any individual if the aggregate amount received during the taxable year from the sources therein specified is more than \$23,000."

(c) TAX WHERE GROSS INCOME OF MORE THAN \$23,000.—Section 211 (c) of the Internal Revenue Code (relating to tax on certain nonresident alien individuals) is amended by striking out "\$24,000" wherever occurring therein and inserting in lieu thereof "\$23,000"; and by striking out "15 per centum" and inserting in lieu thereof "27½ per centum".

**SEC. 106. TAX ON FOREIGN CORPORATIONS.**

Section 231 (a) of the Internal Revenue Code (relating to tax on nonresident foreign corporations) is amended by striking out "15 per centum" and inserting in lieu thereof "27½ per centum".

**SEC. 107. WITHHOLDING OF TAX AT SOURCE.**

(a) Sections 143 (a) and (b) and 144 of the Internal Revenue Code are amended by striking out "15 per centum" wherever occurring therein and inserting in lieu thereof "27½ per centum".

(b) Section 143 (h) of the Internal Revenue Code is repealed.

(c) Subsections (a) and (b) of this section shall apply only with respect to the period beginning with the tenth day after the date of the enactment of this Act.

**SEC. 108. TREATY OBLIGATIONS.**

No amendment made by this title shall apply in any case where its application would be contrary to any treaty obligation of the United States.

**SEC. 109. REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NONRESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES.**

(a) Section 143 (a) (1) (relating to withholding of tax on tax-free covenant bonds); section 143 (b) (relating to withholding of tax on dividends, rents, etc.); section 144 (relating to payment of corporation income tax at source); section 211 (a) (1) (relating to tax on nonresident alien individuals); and section 231 (a) (1) (relating to tax on nonresident foreign corporations) of the Internal Revenue Code are amended by striking out "a contiguous country" and inserting in lieu thereof "any country in North, Central, or South America, or in the West Indies, or of Newfoundland".

(b) Section 211 (a) (3) of the Internal Revenue Code is amended to read as follows:

"(3) **RESIDENTS OF CERTAIN COUNTRIES.**—The provisions of paragraph (2) shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

(c) Section 211 (c) (4) of the Internal Revenue Code is amended to read as follows:

"(4) This subsection shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

**SEC. 110. DEFENSE TAX RATES ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX INCORPORATED IN RATE SCHEDULES.**

(a) **PERSONAL HOLDING COMPANIES.**—Section 500 of the Internal Revenue Code (relating to tax on personal holding companies) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By amending the rate schedule to read as follows:

"(1) 71½ per centum of the amount thereof not in excess of \$2,000; plus

"(2) 82½ per centum of the amount thereof in excess of \$2,000; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(b) **TRANSFERS TO AVOID INCOME TAX.**—Section 1250 of the Internal Revenue Code (relating to tax on transfers to avoid income tax) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By striking out "25 per centum" and inserting "27½ per centum"; and

(3) By repealing subsection (b) (relating to defense tax for five years).

**SEC. 111. PERSONAL EXEMPTION.**

(a) Section 25 (b) (1) of the Internal Revenue Code is amended to read as follows:

"(1) **PERSONAL EXEMPTION.**—In the case of a single person or a married person not living with husband or wife, a personal exemption of \$750; or in the case of the head of a family or a married person living with husband or wife, a personal exemption of \$1,500. A husband and wife living together shall receive but one personal exemption. The amount of such personal exemption shall be \$1,500. If such husband and wife make separate returns, the personal exemption may be taken by either or divided between them, except that if one spouse makes a return under Supplement T, the personal exemption of the other spouse shall be \$750."

(b) Section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) is amended by striking out "\$800" and inserting in lieu thereof "\$750".

(c) Section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to benefits of section 251) is amended by striking out "\$800" and inserting in lieu thereof "\$750".

**SEC. 112. RETURNS OF INCOME TAX.**

(a) **INDIVIDUAL RETURNS.**—Section 51 (a) of the Internal Revenue Code is amended to read as follows:

"(a) **REQUIREMENT.**—The following individuals shall each make under oath a return stating specifically the items of his gross income and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual who is single or who is married but not living with husband or wife, if having a gross income for the taxable year of \$750 or over.

"(2) Every individual who is married and living with husband or wife, if no joint return is made under subsection (b) and if—

"(A) Such individual has for the taxable year a gross income of \$1,500 or over, and the other spouse has no gross income; or

"(B) Such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is \$1,500 or over."

(b) **FIDUCIARY RETURNS.**—Section 142 (a) of the Internal Revenue Code is amended to read as follows:

"(a) **REQUIREMENT OF RETURN.**—Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Com-

missioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual having a gross income for the taxable year of \$750 or over, if single, or if married and not living with husband or wife;

"(2) Every individual having a gross income for the taxable year of \$1,500 or over, if married and living with husband or wife;

"(3) Every estate the gross income of which for the taxable year is \$750 or over;

"(4) Every trust the net income of which for the taxable year is \$100 or over, or the gross income of which for the taxable year is \$750 or over, regardless of the amount of the net income; and

"(5) Every estate or trust of which any beneficiary is a non-resident alien."

(c) **INFORMATION RETURNS.**—Section 147 (a) of the Internal Revenue Code (relating to information at the source) is amended by striking out "\$800" wherever occurring therein and inserting in lieu thereof "\$750".

#### SEC. 113. CREDIT FOR DEPENDENTS.

Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended to read as follows:

"(2) **CREDIT FOR DEPENDENTS.**—

"(A) **Allowance in General.**—\$400 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective.

"(B) **Exception for Certain Heads of Families.**—If the taxpayer would not occupy the status of head of a family except by reason of there being one or more dependents for whom he would be entitled to credit under subparagraph (A), the credit under such subparagraph shall be disallowed with respect to one of such dependents."

#### SEC. 114. NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.

Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting before the first sentence thereof "(a) **GENERAL RULE.**—", and by inserting at the end of such section a new subsection to read as follows:

"(b) **NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.**—If, in the case of a taxpayer owning any noninterest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals, the increase in the redemption price of such obligation occurring in the taxable year does not (under the method of accounting used in computing his net income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year beginning after December 31, 1940, treat such increase as income received in such taxable year. If any such

election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless upon application by the taxpayer the Commissioner permits him, subject to such conditions as the Commissioner deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition and the first day of such taxable year shall also be treated as income received in such taxable year."

#### SEC. 115. SHORT-TERM OBLIGATIONS ISSUED ON A DISCOUNT BASIS.

(a) **DISCOUNT ACCRUED AT MATURITY.**—Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting at the end thereof the following new subsection:

"(c) **SHORT-TERM OBLIGATIONS ISSUED ON DISCOUNT BASIS.**—In the case of any obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue, the amount of discount at which such obligation is originally sold shall not be considered to accrue until the date on which such obligation is paid at maturity, sold, or otherwise disposed of."

(b) **CAPITAL GAIN RULE NOT APPLICABLE.**—Section 117 (a) (1) of the Internal Revenue Code (relating to definition of capital assets) is amended by striking out the semicolon at the end thereof and inserting in lieu thereof the following: ", or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue;".

(c) **EFFECTIVE DATE OF AMENDMENTS.**—The amendments made by this section shall be applicable with respect to taxable years ending after February 28, 1941.

#### SEC. 116. INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS.

(a) Section 147 (d) of the Internal Revenue Code (exempting interest on obligations of the United States from information requirement) is repealed.

(b) Section 147 (b) of the Internal Revenue Code is amended by striking out "and (2)" and inserting in lieu thereof "(2) in the case of payments of interest upon obligations of the United States or any agency or instrumentality thereof, and (3)".

(c) Subsections (a) and (b) of this section shall take effect upon the day after the date of the enactment of this Act.

### SEC. 117. EXTENSION OF TIME OF ORDERS OF SECURITIES AND EXCHANGE COMMISSION.

(a) **EXTENSION.**—Section 373 (a) of the Internal Revenue Code (relating to the definition of orders of the Securities and Exchange Commission with respect to which Supplement R applies) is amended to read as follows:

“(a) The term ‘order of the Securities and Exchange Commission’ means an order (1) issued after May 28, 1938, and prior to January 1, 1943, by the Securities and Exchange Commission to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935 (49 Stat. 820; U. S. C., Supp. V, title 15, section 79k (b)), or (2) issued by the Commission subsequent to December 31, 1942, in which it is expressly stated that an order of the character specified in clause (1) is amended or supplemented, and (3) which has become final in accordance with law.”

(b) **EFFECTIVE DATE OF AMENDMENT.**—The amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1939.

### SEC. 118. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title (except sections 107, 115, 116, and 117) shall be applicable only with respect to taxable years beginning after December 31, 1940.

## TITLE II—EXCESS PROFITS TAX

### SEC. 201. EXCESS PROFITS TAX RATES AND CREDITS.

(a) **RATES.**—Section 710 (a) of the Internal Revenue Code is amended to read as follows:

“(a) **IMPOSITION.**—

“(1) **GENERAL RULE.**—There shall be levied, collected, and paid, for each taxable year, on the adjusted excess profits net income, as defined in subsection (b), of every corporation (except a corporation exempt under section 727) the tax shown in the following table:

“If the adjusted excess profits net income is:	The tax shall be:
Not over \$20,000.....	35% of the adjusted excess profits net income.
Over \$20,000, but not over \$50,000.....	\$7,000, plus 40% of excess over \$20,000.
Over \$50,000, but not over \$100,000.....	\$19,000, plus 45% of excess over \$50,000.
Over \$100,000, but not over \$250,000.....	\$41,500, plus 50% of excess over \$100,000.
Over \$250,000, but not over \$500,000.....	\$116,500, plus 55% of excess over \$250,000.
Over \$500,000.....	\$254,000, plus 60% of excess over \$500,000.

“(2) **APPLICATION OF RATES IN CASE OF CERTAIN EXCHANGES.**—If the taxpayer's highest bracket amount for the taxable year computed under section 752 (relating to certain exchanges) is less than \$500,000, then in the application of the table in paragraph (1) of this subsection to such taxpayer, in lieu of each amount,

other than the percentages, specified in such table, there shall be substituted an amount which bears the same ratio to the amount so specified as the highest bracket amount so computed bears to \$500,000.”

(b) **EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.**—Section 714 of the Internal Revenue Code, as amended, is amended to read as follows:

### “SEC. 714. EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.

“The excess profits credit, for any taxable year, computed under this section, shall be the amount shown in the following table:

“If the invested capital for the taxable year, determined under section 715, is:

The credit shall be:	
Not over \$5,000,000.....	8% of the invested capital.
Over \$5,000,000.....	\$400,000, plus 7% of the excess over \$5,000,000.”

### SEC. 202. DEDUCTION OF EXCESS-PROFITS TAX.

(a) **AMENDMENT OF SECTION 23 (c).**—Section 23 (c) of the Internal Revenue Code (relating to the deduction of taxes in computing net income) is amended to read as follows:

“(c) **TAXES GENERALLY.**—

“(1) **ALLOWANCE IN GENERAL.**—Taxes paid or accrued within the taxable year, except—

“(A) Federal income taxes;

“(B) war-profits and excess-profits taxes imposed by Title II of the Revenue Act of 1917, Title III of the Revenue Act of 1918, Title III of the Revenue Act of 1921, section 216 of the National Industrial Recovery Act, or section 702 of the Revenue Act of 1934, or by any such provisions as amended or supplemented;

“(C) income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States; but this deduction shall be allowed in the case of a taxpayer who does not signify in his return his desire to have to any extent the benefits of section 131 (relating to credit for taxes of foreign countries and possessions of the United States);

“(D) estate, inheritance, legacy, succession, and gift taxes; and

“(E) taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not exclude the allowance as a deduction of so much of such taxes as is properly allocable to maintenance or interest charges.

“(2) **EXCESS-PROFITS TAX UNDER CHAPTER 2E—SPECIAL RULES.**—For the purposes of this subsection, in the case of the excess-profits tax imposed by Subchapter E of Chapter 2—

“(A) The deduction shall be limited to the tax imposed for the taxable year, but any portion of such tax paid after the taxable year shall be considered as having been paid within the taxable year;

"(B) No reduction in such tax shall be made by reason of the credit for income, war-profits, or excess-profits taxes paid to any foreign country or possession of the United States;

"(C) Such tax shall be computed without regard to the adjustments provided in section 734; and

"(D) Such tax, in the case of a consolidated return under section 730, shall be allocated to the members of the affiliated group under regulations prescribed by the Commissioner, with the approval of the Secretary."

(b) AMENDMENT OF SECTION 102 (d).—Section 102 (d) (1) (A) of the Internal Revenue Code (relating to the deduction of taxes in computing section 102 net income) is amended to read as follows:

"(A) Taxes.—Federal income, war-profits, and excess-profits taxes (other than the tax imposed by Subchapter E of Chapter 2 for a taxable year beginning after December 31, 1940) paid or accrued during the taxable year, to the extent not allowed as a deduction by section 23, but not including the tax imposed by this section or a corresponding section of a prior income-tax law."

(c) COMPUTATION OF EXCESS-PROFITS NET INCOME.—

(1) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1940.—

(A) Section 711 (a) (1) (A) (relating to adjustment for income taxes in computing excess-profits net income under income credit) is amended to read as follows:

"(A) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;"

(B) Section 711 (a) (2) (C) (relating to adjustment for income taxes in computing excess-profits net income under invested capital credit) is amended to read as follows:

"(C) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;"

(2) TAXABLE YEARS IN THE BASE PERIOD.—Section 711 (b) (1)

(A) (relating to adjustment for income taxes for taxable years in the base period) is repealed.

(d) COMPUTATION OF CHARITABLE, ETC., DEDUCTIONS.—

(1) Section 711 (a) (1) of the Internal Revenue Code is amended by inserting at the end thereof the following new subparagraph:

"(G) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(2) Section 711 (a) (2) of the Internal Revenue Code is amended by adding at the end thereof the following new subparagraph:

"(I) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income

from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(e) EXCESS-PROFITS CREDIT CARRY-OVER.—Section 710 (c) (1) (defining the unused excess-profits credit) is amended by adding at the end thereof a new sentence to read as follows: "For such purpose the excess-profits credit and the excess-profits net income for any taxable year beginning in 1940 shall be computed under the law applicable to taxable years beginning in 1941."

(f) EQUITY INVESTED CAPITAL.—Section 718 (c) (3) (relating to the computation of earnings and profits for invested capital purposes) is amended by adding after the word "subchapter" the words "or chapter 1".

(g) ADJUSTMENT OF ABNORMAL BASE PERIOD NET INCOME.—Section 722 (c) (placing a limit on the amount of relief afforded under section 722) is amended by adding at the end thereof a new sentence to read as follows: "For the purposes of this subsection and subsection (d) the taxpayer's normal-tax net income shall be computed without deduction of the tax imposed by this subchapter."

(h) NONDEDUCTIBILITY OF EXCESS PROFITS TAX IN COMPUTATION OF DECLARED VALUE EXCESS PROFITS TAX.—Section 602 of the Internal Revenue Code is amended by striking out "computed without the deduction of the tax imposed by section 600" and inserting in lieu thereof "computed without the deduction of the tax imposed by section 600 or the tax imposed by Subchapter E of Chapter 2".

(i) ADJUSTED DECLARED VALUE.—

(1) Section 1202 (b) (1) (C) of the Internal Revenue Code is amended to read as follows:

"(C) its net income, computed without the deduction of the tax imposed by Subchapter E of Chapter 2,"

(2) Section 1202 (b) (1) (iii) is amended to read as follows:

"(iii) the excess of the deductions allowable for income tax purposes (not including the deduction for the tax imposed by Subchapter E of Chapter 2) over its gross income."

#### SEC. 203. NEW CAPITAL.

Section 718 (a) of the Internal Revenue Code is amended by striking out "and" at the end of paragraph (4); by striking out the period at the end of paragraph (5) and inserting in lieu thereof a semicolon and the word "and", and by inserting at the end thereof the following:

"(6) NEW CAPITAL.—An amount equal to 25 per centum of the new capital for such day. The term 'new capital' for any day means so much of the amounts of money or property includible for such day under paragraphs (1) and (2) as was previously paid in during a taxable year beginning after December 31, 1940, and so much of the distributions in stock includible for such day under paragraph (3) as was previously made during a taxable year beginning after December 31, 1940, subject to the following limitations:

"(A) There shall not be included money or property paid in by a corporation in an exchange to which section 112 (b)

(3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable (or would be applicable except for section 371 (g)), or would have been applicable if the term 'control' had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote or more than 50 per centum of the total value of shares of all classes of stock.

"(B) There shall not be included money or property paid in to the taxpayer by a transferor corporation if immediately after such transaction the transferor and the taxpayer are members of the same controlled group. As used in this subparagraph and subparagraph (C), a controlled group means one or more chains of corporations connected through stock ownership with a common parent corporation if (i) more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations, and (ii) the common parent corporation owns directly more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of at least one of the other corporations.

"(C) There shall not be included a distribution in stock described in paragraph (3) made to another corporation, if immediately after the distribution the taxpayer and the distributee are members of the same controlled group.

"(D) Increase in Inadmissible Assets.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the excess, if any, of the amount computed under section 720 (b) with respect to inadmissible assets held on such day, over the amount computed under section 720 (b) with respect to inadmissible assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. For the purposes of this subparagraph, in determining whether obligations which are described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income are to be treated as admissible or inadmissible assets, such obligations shall be treated in the same manner as they are treated for the taxable year for which tax under this subchapter is being computed.

"(E) Maximum New Capital Allowable.—The new capital for any day of the taxable year shall not be more than the amount, if any, by which—

"(i) the sum of the equity invested capital (computed without regard to this paragraph) and the borrowed capital (as defined in section 719 (a)) of the taxpayer as of such day, reduced by the amount of money or prop-

erty paid in which is excluded by reason of the limitation of subparagraph (A) or (B) of this paragraph, exceeds

"(ii) the sum of such equity invested capital and borrowed capital as of the beginning of the first day of such taxpayer's first taxable year beginning after December 31, 1940, reduced by the amount, if any, by which the accumulated earnings and profits as of such first day of such first taxable year exceed the accumulated earnings and profits (computed without regard to distributions made in taxable years beginning after December 31, 1940) as of the beginning of the first day of the taxable year for which the tax under this subchapter is being computed.

"(F) Reduction on Account of Distributions Out of Pre-1941 Accumulated Earnings and Profits.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the amount which, after the beginning of the first taxable year which begins after December 31, 1940, has been distributed out of earnings and profits accumulated prior to the beginning of such first taxable year."

#### SEC. 204. CORPORATIONS ENGAGED IN MINING STRATEGIC METALS.

Section 731 of the Internal Revenue Code (exempting from excess-profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940.

#### SEC. 205. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title shall be applicable only with respect to taxable years beginning after December 31, 1940.

### TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

#### SEC. 301. CAPITAL STOCK TAX.

(a) INCREASE IN RATE OF TAX.—Section 1200 (a) and (b) of the Internal Revenue Code (relating to rate of capital stock tax) is amended by striking out "\$1" and inserting in lieu thereof "\$1.25".

(b) DEFENSE TAX RATE.—Section 1200 (c) of the Internal Revenue Code is repealed.

(c) RETURNS FOR 1941.—Section 1203 (b) (2) of the Internal Revenue Code (relating to extensions of time for filing capital-stock tax returns) is amended by inserting at the end thereof the following: "With respect to the year ending June 30, 1941, the extension may be for not more than ninety days."

(d) EFFECTIVE DATE.—This section shall be effective only with respect to the year ending June 30, 1941, and succeeding years.

**SEC. 302. DECLARED VALUE EXCESS PROFITS TAX—DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULE.**

(a) **RATES.**—Section 600 of the Internal Revenue Code (relating to rate of declared value excess profits tax) is amended as follows:

- (1) By striking out the heading "(a) GENERAL RULE.—";  
 (2) By amending the rate schedule to read as follows:

"6 $\frac{3}{8}$  per centum of such portion of its net income for such income-tax taxable year as is in excess of 10 per centum and not in excess of 15 per centum of the adjusted declared value;

"13 $\frac{3}{8}$  per centum of such portion of its net income for such income-tax taxable year as is in excess of 15 per centum of the adjusted declared value.";

- (3) By repealing subsection (b) (relating to defense tax for five years).

(b) **EFFECTIVE DATE.**—This section shall be effective only with respect to income-tax taxable years ending after June 30, 1941.

**TITLE IV—ESTATE AND GIFT TAXES**

**SEC. 401. ESTATE TAX RATES.**

(a) **RATES.**—Section 935 (b) of the Internal Revenue Code is amended to read as follows:

"(b) The tentative tax referred to in subsection (a) (1) of this section shall be the tentative tax shown in the following table:

<b>"If the net estate is:</b>	<b>The tentative tax shall be:</b>
Not over \$5,000.....	3% of the net estate.
Over \$5,000 but not over \$10,000.....	\$150, plus 7% of excess over \$5,000.
Over \$10,000 but not over \$20,000.....	\$500, plus 11% of excess over \$10,000.
Over \$20,000 but not over \$30,000.....	\$1,800, plus 14% of excess over \$20,000.
Over \$30,000 but not over \$40,000.....	\$3,000, plus 18% of excess over \$30,000.
Over \$40,000 but not over \$50,000.....	\$4,800, plus 22% of excess over \$40,000.
Over \$50,000 but not over \$60,000.....	\$7,000, plus 25% of excess over \$50,000.
Over \$60,000 but not over \$100,000.....	\$9,500, plus 28% of excess over \$60,000.
Over \$100,000 but not over \$250,000.....	\$20,700, plus 30% of excess over \$100,000.
Over \$250,000 but not over \$500,000.....	\$65,700, plus 32% of excess over \$250,000.
Over \$500,000 but not over \$750,000.....	\$145,700, plus 35% of excess over \$500,000.
Over \$750,000 but not over \$1,000,000.....	\$233,200, plus 37% of excess over \$750,000.
Over \$1,000,000 but not over \$1,250,000.....	\$325,700, plus 39% of excess over \$1,000,000.
Over \$1,250,000 but not over \$1,500,000.....	\$423,200, plus 42% of excess over \$1,250,000.
Over \$1,500,000 but not over \$2,000,000.....	\$528,200, plus 45% of excess over \$1,500,000.
Over \$2,000,000 but not over \$2,500,000.....	\$753,200, plus 49% of excess over \$2,000,000.
Over \$2,500,000 but not over \$3,000,000.....	\$998,200, plus 53% of excess over \$2,500,000.
Over \$3,000,000 but not over \$3,500,000.....	\$1,263,200, plus 56% of excess over \$3,000,000.
Over \$3,500,000 but not over \$4,000,000.....	\$1,548,200, plus 59% of excess over \$3,500,000.
Over \$4,000,000 but not over \$5,000,000.....	\$1,838,200, plus 63% of excess over \$4,000,000.

<b>"If the net estate is:</b>	<b>The tentative tax shall be:</b>
Over \$5,000,000 but not over \$6,000,000.....	\$2,468,200, plus 67% of excess over \$5,000,000.
Over \$6,000,000 but not over \$7,000,000.....	\$3,138,200, plus 70% of excess over \$6,000,000.
Over \$7,000,000 but not over \$8,000,000.....	\$3,838,200, plus 73% of excess over \$7,000,000.
Over \$8,000,000 but not over \$10,000,000.....	\$4,568,200, plus 76% of excess over \$8,000,000.
Over \$10,000,000.....	\$6,088,200, plus 77% of excess over \$10,000,000."

(b) **DEFENSE TAX REPEALED.**—Subchapter C of Chapter 3 of the Internal Revenue Code is repealed.

(c) **EFFECTIVE DATE.**—Subsections (a) and (b) shall be effective only with respect to estates of decedents dying after the date of the enactment of this Act.

**SEC. 402. GIFT TAX RATES.**

(a) **RATES.**—The Rate Schedule of section 1001 of the Internal Revenue Code is amended to read as follows:

<b>"If the net gifts are:</b>	<b>The tax shall be:</b>
Not over \$5,000.....	2½% of the net gifts.
Over \$5,000 but not over \$10,000.....	\$112.50, plus 5½% of excess over \$5,000.
Over \$10,000 but not over \$20,000.....	\$375, plus 8½% of excess over \$10,000.
Over \$20,000 but not over \$30,000.....	\$1,200, plus 10½% of excess over \$20,000.
Over \$30,000 but not over \$40,000.....	\$2,250, plus 13½% of excess over \$30,000.
Over \$40,000 but not over \$50,000.....	\$3,000, plus 16½% of excess over \$40,000.
Over \$50,000 but not over \$60,000.....	\$5,250, plus 18½% of excess over \$50,000.
Over \$60,000 but not over \$100,000.....	\$7,125, plus 21% of excess over \$60,000.
Over \$100,000 but not over \$250,000.....	\$15,525, plus 22½% of excess over \$100,000.
Over \$250,000 but not over \$500,000.....	\$40,275, plus 24% of excess over \$250,000.
Over \$500,000 but not over \$750,000.....	\$109,275, plus 26½% of excess over \$500,000.
Over \$750,000 but not over \$1,000,000.....	\$174,900, plus 27½% of excess over \$750,000.
Over \$1,000,000 but not over \$1,250,000.....	\$244,275, plus 29½% of excess over \$1,000,000.
Over \$1,250,000 but not over \$1,500,000.....	\$317,400, plus 31½% of excess over \$1,250,000.
Over \$1,500,000 but not over \$2,000,000.....	\$396,150, plus 33½% of excess over \$1,500,000.
Over \$2,000,000 but not over \$2,500,000.....	\$564,900, plus 36½% of excess over \$2,000,000.
Over \$2,500,000 but not over \$3,000,000.....	\$748,650, plus 39½% of excess over \$2,500,000.
Over \$3,000,000 but not over \$3,500,000.....	\$947,400, plus 42% of excess over \$3,000,000.
Over \$3,500,000 but not over \$4,000,000.....	\$1,157,400, plus 44½% of excess over \$3,500,000.
Over \$4,000,000 but not over \$5,000,000.....	\$1,378,650, plus 47½% of excess over \$4,000,000.
Over \$5,000,000 but not over \$6,000,000.....	\$1,851,150, plus 50½% of excess over \$5,000,000.

"If the net gifts are:		The tax shall be:	
Over \$6,000,000	but not over \$7,000,000.	\$2,353,650,	plus 52½% of excess over \$6,000,000.
Over \$7,000,000	but not over \$8,000,000.	\$2,878,650,	plus 54½% of excess over \$7,000,000.
Over \$8,000,000	but not over \$10,000,000.	\$3,426,150,	plus 57% of excess over \$8,000,000.
Over \$10,000,000		\$4,566,150,	plus 57½% of excess over \$10,000,000."

(b) **YEARS TO WHICH AMENDMENTS APPLICABLE.**—The amendments made by this section shall be applied in computing the tax for the calendar year 1942 and each calendar year thereafter (but not the tax for the calendar year 1941 or a previous calendar year), and such amendments shall be applied in all computations in respect of the calendar year 1941 and previous calendar years for the purpose of computing the tax for the calendar year 1942 and any calendar year thereafter.

(c) **DEFENSE TAX REPEALED.**—Section 1001 (d) of the Internal Revenue Code (relating to defense tax for five years on gifts) is repealed.

## TITLE V—EXCISE TAXES

### Part I—1932 Excise Taxes Made Permanent

#### SEC. 501. 1932 EXCISE TAXES MADE PERMANENT.

Section 3452 of the Internal Revenue Code (relating to expiration of 1932 excise taxes) is repealed.

#### SEC. 502. PIPE LINE TAX.

Section 3460 (a) of the Internal Revenue Code (relating to termination of tax on transportation by pipe line) is amended by striking out "originating before July 1, 1945".

#### SEC. 503. TECHNICAL AMENDMENT.

The heading of Subtitle C of the Internal Revenue Code is amended to read as follows:

### "SUBTITLE C—MANUFACTURERS' EXCISE AND IMPORT TAXES AND TEMPORARY TAXES"

#### SEC. 504. BOND TAX.

Section 3481 (b) of the Internal Revenue Code (relating to expiration of tax on transfer of bonds) is repealed.

#### SEC. 505. CONVEYANCE TAX.

Section 3482 of the Internal Revenue Code (relating to tax on conveyances) is amended by striking out "delivered before July 1, 1945".

## Part II—Defense Tax Rates Made Permanent (No Increase in Tax and No Change in Basis of Tax)

### SEC. 521. DEFENSE EXCISE TAX RATES MADE PERMANENT WHICH ARE NOT INCREASED BY THIS ACT.

(a) The following sections of the Internal Revenue Code are amended as follows:

(1) **BOX SEATS.**—Section 1700 (b) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(2) **SALES OUTSIDE BOX OFFICE.**—Section 1700 (c) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(3) **CORPORATE SECURITIES.**—Section 1801 is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and inserting in lieu thereof "11 cents".

(4) **CAPITAL STOCK ISSUES.**—Section 1802 (a) is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and the comma wherever following such expression and inserting in lieu thereof "11 cents"; and by striking out "2 cents until July 1, 1945, and 1 cent thereafter," and inserting in lieu thereof "3 cents".

(5) **CAPITAL STOCK TRANSFERS.**—Section 1802 (b) is amended by striking out "4 cents until July 1, 1945, and 2 cents thereafter," and inserting in lieu thereof "5 cents"; and by striking out "5 cents instead of 4 cents until July 1, 1945" and inserting in lieu thereof "6 cents".

(6) **INSURANCE POLICIES.**—Section 1804 is amended by striking out "3 cents" and inserting in lieu thereof "4 cents".

(7) **PASSAGE TICKETS.**—Section 1806 is amended by striking out "\$1" and inserting in lieu thereof "\$1.10"; by striking out "\$3" and inserting in lieu thereof "\$3.30"; and by striking out "\$5" and inserting in lieu thereof "\$5.50".

(8) **CIGARETTES.**—Section 2000 (c) (2) is amended by striking out "\$3" and inserting in lieu thereof "\$3.25" and by striking out "\$7.20" and inserting in lieu thereof "\$7.80".

(9) **PISTOLS AND REVOLVERS.**—Section 2700 (a) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(10) **FERMENTED MALT LIQUORS.**—Section 3150 (a) is amended by striking out "\$5" and inserting in lieu thereof "\$6".

(11) **WHOLESALEERS OF LIQUOR.**—Section 3250 (a) (1) is amended by striking out "\$100" and inserting in lieu thereof "\$110".

(12) **RETAILERS OF LIQUOR.**—Section 3250 (b) is amended by striking out "\$25" and inserting in lieu thereof "\$27.50".

(13) **BREWERS.**—Section 3250 (c) is amended by striking out "\$100" and inserting in lieu thereof "\$110" and by striking out "\$50" and inserting in lieu thereof "\$55".

(14) **WHOLESALEERS OF MALT LIQUORS.**—Section 3250 (d) is amended by striking out "\$50" and inserting in lieu thereof "\$55".

(15) **RETAILERS OF MALT LIQUORS.**—Section 3250 (e) (1) is amended by striking out "\$30" and inserting in lieu thereof "\$32".

and section 3250 (e) (3) is amended by striking out "\$2" and inserting in lieu thereof "\$2.20".

(16) RECTIFIERS.—Section 3250 (f) (1) is amended by striking out "\$200" and inserting in lieu thereof "\$220"; and by striking out "\$100" and inserting in lieu thereof "\$110".

(17) STILLs.—Section 3250 (j) is amended by striking out "\$50" and inserting in lieu thereof "\$55"; and by striking out "\$20" and inserting in lieu thereof "\$22".

(18) FIREARMS, ETC.—Section 3407 is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(19) ELECTRICAL ENERGY.—Section 3411 is amended by striking out "3 per centum" and inserting in lieu thereof "3½ per centum".

(20) GASOLINE.—Section 3412 (a) is amended by striking out "1 cent" and inserting in lieu thereof "1½ cents".

(21) LUBRICATING OILS.—Section 3413 is amended by striking out "4 cents" and inserting in lieu thereof "4½ cents".

(22) TRANSPORTATION OF OIL BY PIPE LINE.—Section 3460 (a) is amended by striking out "4 per centum" and inserting in lieu thereof "4½ per centum".

(23) TRANSFER OF BONDS.—Section 3481 (a) is amended by striking out "4 cents" and inserting in lieu thereof "5 cents".

(24) CONVEYANCES.—Section 3482 is amended by striking out "50 cents" and inserting in lieu thereof "55 cents".

(b) The rates specified in subsection (a) shall be applicable only with respect to the period after the date of the enactment of this Act, and the rates specified in section 1650 (a), section 2004, and section 3190 of the Internal Revenue Code shall not apply with respect to such period.

### Part III—Increases in Rates of Existing Excise Taxes

#### SEC. 531. PLAYING CARDS.

Section 1807 (a) of the Internal Revenue Code is amended by striking out "10 cents" and inserting in lieu thereof "13 cents".

#### SEC. 532. SAFE DEPOSIT BOXES.

Section 1850 (a) of the Internal Revenue Code is amended by striking out "10 per centum" and inserting in lieu thereof "20 per centum".

#### SEC. 533. DISTILLED SPIRITS.

(a) RATE ON DISTILLED SPIRITS.—Section 2800 (a) (1) of the Internal Revenue Code is amended by striking out "at the rate of \$2.25 (and on brandy at the rate of \$2)" and by inserting in lieu thereof "at the rate of \$4", and by striking out "(except brandy)".

(b) RATE ON IMPORTED PERFUMES CONTAINING ALCOHOL.—Section 2800 (a) (3) of the Internal Revenue Code is amended by striking out "\$2.25" and inserting in lieu thereof "\$4".

(c) DRAWBACK ON DISTILLED SPIRITS.—The third paragraph of section 2887 of the Internal Revenue Code is amended by striking out "but shall not exceed a rate of \$3 (or, in the case of brandy, \$2.75)" and inserting in lieu thereof "but shall not exceed a rate of \$4".

(d) FLOOR STOCKS TAX.—Section 2800 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

#### "(i) FLOOR STOCKS TAX.—

"(1) Upon all distilled spirits upon which the internal-revenue tax imposed by law has been paid, and which on October 1, 1941, are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of \$1 (except that in the case of brandy, the rate shall be \$1.25) on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon.

"(2) Every person required by this subsection to pay any floor stocks tax shall, on or before January 1, 1942, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than August 1, 1942, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(3) All provisions of law, including penalties, applicable in respect of internal-revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder. For the purposes of this subsection the term 'distilled spirits' shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g)."

#### SEC. 534. WINES.

(a) RATE ON STILL WINES.—Section 3030 (a) (1) (A) of the Internal Revenue Code is amended by striking out "5 cents" and inserting in lieu thereof "8 cents"; by striking out "15 cents" and inserting in lieu thereof "30 cents"; and by striking out "25 cents" and inserting in lieu thereof "65 cents".

(b) RATE ON SPARKLING WINES, LIQUEURS, CORDIALS, ETC.—Section 3030 (a) (2) of the Internal Revenue Code is amended by striking out "2½ cents" and inserting in lieu thereof "7 cents"; and by striking out "1½ cents" and inserting in lieu thereof "3½ cents".

(c) Subchapter F of Chapter 26 of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

#### "SEC. 3192. FLOOR STOCKS TAX ON WINES.

"(a) FLOOR STOCKS TAX.—Upon all wines upon which the internal-revenue tax imposed by law has been paid, and which on October 1, 1941, are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax (over the defense tax rates) made applicable to such articles by section 534 of the Revenue Act of 1941.

"(b) RETURNS.—Every person required by subsection (a) to pay any floor stocks tax shall, on or before January 1, 1942, under such regulations as the Commissioner, with the approval of the Secretary,

shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than August 1, 1942, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3030 (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by subsection (a)."

#### SEC. 535. TIRES AND TUBES.

(a) RATE ON TIRES.—Section 3400 (1) of the Internal Revenue Code is amended by striking out "2¼ cents" and inserting in lieu thereof "5 cents".

(b) RATE ON TUBES.—Section 3400 (2) of the Internal Revenue Code is amended by striking out "4 cents" and inserting in lieu thereof "9 cents".

(c) FLOOR STOCKS TAX ON TIRES AND INNER TUBES.—Section 3400 of the Internal Revenue Code is amended by inserting "(a) TAX.—" before the beginning thereof and by inserting at the end thereof the following:

"(b) FLOOR STOCKS TAX.—Upon tires and inner tubes subject to tax under subsection (a) of the type used on vehicles subject to tax under section 3403 (a) or (b) which on October 1, 1941, are held for sale by any person there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 2½ cents per pound in the case of tires and 4½ cents per pound in the case of inner tubes. The tax shall apply to tires and inner tubes held for sale on, or in connection with, or held for use in the manufacture or production of, articles the sale of which will be subject to tax under section 3403 (a) or (b). The tax shall not apply to tires and inner tubes held for sale by the manufacturer, producer, or importer thereof, and to tires and inner tubes the sale of which will be subject under the provisions of sections 3444 (a) (2) and 3445 to the manufacturers' tax on tires and inner tubes."

#### SEC. 536. EFFECTIVE DATE OF PART III.

The amendments made by this Part shall be applicable only with respect to the period beginning with October 1, 1941, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on October 1, 1941.

### Part IV—Changes in Basis of Computing Tax (Rates Increased in Certain Cases)

#### SEC. 541. ADMISSIONS TAX.

(a) REDUCTION OF EXEMPTION.—Section 1700 (a) (1) of the Internal Revenue Code is amended to read as follows:

"(1) RATE.—A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including

admission by season ticket or subscription. In the case of persons (except bona fide employees, municipal officers on official business, children under twelve years of age, members of the military or naval forces of the United States when in uniform, and members of the Civilian Conservation Corps when in uniform) admitted free or at reduced rates to any place at any time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so admitted. No tax shall be imposed on the amount paid for the admission of a child under twelve years of age if the amount paid is less than 10 cents."

(b) TERMINATION OF EXEMPTIONS.—Section 1701 of the Internal Revenue Code (relating to exemptions from admissions tax) shall not apply with respect to amounts paid, on or after the effective date of this Part, for admission.

(c) EXEMPTION OF NATIONAL PARK, ETC., ADMISSIONS TERMINATED.—The Interior Department Appropriation Act, 1942, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows:

"Hereafter fees incident to admission to the national parks and monuments and other areas in the national park system, charged and collected with the approval of the Secretary of the Interior, shall be exempt from all Federal tax on admissions."

The Act entitled "An Act making appropriations for the Department of the Interior for the fiscal year ending June 30, 1936, and for other purposes", approved May 9, 1935, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows: " : *Provided*, That any admission fee charged for entrance to Carlsbad Caverns and any fee charged for guide service therein, shall be exempt from all taxes on admissions."

#### SEC. 542. CABARET, ROOF GARDEN, ETC., TAX.

(a) IMPOSITION.—Section 1700 (e) of the Internal Revenue Code is amended to read as follows:

"(e) TAX ON CABARETS, ROOF GARDENS, ETC.—

"(1) RATE.—A tax equivalent to 5 per centum of all amounts paid for admission, refreshment, service, and merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, if any payment, or part thereof, for admission, refreshment, service, or merchandise, entitles the patron to be present during any portion of such performance. No tax shall be applicable under subsection (a) (1) on account of an amount paid with respect to which tax is imposed under this subsection.

"(2) BY WHOM PAID.—The tax imposed under paragraph (1) shall be returned and paid by the person receiving such payments."

(b) PLACE OF PAYMENT.—Section 1715 (b) of the Internal Revenue Code is amended to read as follows:

"(b) PLACE OF PAYMENT.—The taxes collected under subsection (a), and the taxes required to be paid under section 1700 (c), (d),

or (e), shall be paid to the collector of the district in which the principal office or place of business is located."

(c) **RETURNS.**—Section 1716 (a) of the Internal Revenue Code is amended to read as follows:

"(a) **REQUIREMENT.**—Every person required under subsection (a) of section 1715 to collect the taxes, or required under section 1700 (c), (d), or (e) to pay the taxes, imposed by this chapter shall make returns under oath, in duplicate, in such manner and containing such information as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe."

(d) Section 1700 (c) (3) and section 1700 (d) (3) of the Internal Revenue Code are repealed as of the effective date of this Part.

#### SEC. 543. CLUB DUES.

(a) **REDUCTION OF EXEMPTION AND DEFENSE TAX RATE MADE PERMANENT.**—Section 1710 (a) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) **DUES OR MEMBERSHIP FEES.**—A tax equivalent to 11 per centum of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of \$10 per year.

"(2) **INITIATION FEES.**—A tax equivalent to 11 per centum of any amount paid as initiation fees to such a club or organization, if such fees amount to more than \$10, or if the dues or membership fees, not including initiation fees, of an active resident annual member are in excess of \$10 per year."

(b) **DEFINITION OF DUES.**—Section 1712 (a) of the Internal Revenue Code is amended to read as follows:

"(a) **DUES.**—The term 'dues' includes any assessment, irrespective of the purpose for which made, and any charges for social privileges or facilities, or for golf, tennis, polo, swimming, or other athletic or sporting privileges or facilities, for any period of more than six days; and"

#### SEC. 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX.

(a) **INCREASE OF RATE AND CLASSIFICATION OF BUSES.**—Section 3403 (a) and (b) of the Internal Revenue Code are amended to read as follows:

"(a) Automobile truck chassis, automobile truck bodies, automobile bus chassis, automobile bus bodies, truck and bus trailer and semitrailer chassis, truck and bus trailer and semitrailer bodies, tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer (including in each of the above cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 5 per centum. A sale of an automobile truck, bus, or truck or bus trailer or semitrailer, shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

"(b) Other automobile chassis and bodies, chassis and bodies for trailers or semitrailers suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories

therefor sold on or in connection therewith or with the sale thereof), except tractors, 7 per centum. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

(b) **INCREASE IN RATE ON PARTS AND EXCLUSION OF RADIOS FROM AUTOMOBILE TAX.**—The first sentence of section 3403 (c) of the Internal Revenue Code is amended to read as follows: "Parts or accessories (other than tires and inner tubes and other than radios) for any of the articles enumerated in subsection (a) or (b), 5 per centum."

(c) **CREDITS ON ACCOUNT OF TIRE AND TUBE TAX.**—Section 3403 (e) of the Internal Revenue Code is amended to read as follows:

"(e) If tires or inner tubes on which tax has been imposed under this chapter are sold on or in connection with, or with the sale of, a chassis, body, or motorcycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary) be credited against the tax under this section an amount equal to, in the case of an article taxable under subsection (a), 5 per centum, and in the case of an article taxable under subsection (b), 7 per centum—

"(1) of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 3400 (relating to tax on tires and inner tubes); or

"(2) if such tires or inner tubes were taxable under section 3444 (relating to use by manufacturer, producer, or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner. In lieu of the rates of credit of 5 per centum and 7 per centum above provided, the rates, respectively, for the following periods, shall be as follows:

"(A) With respect to the period after June 30, 1940, and before the effective date of the increase in tax on automobiles made by the Revenue Act of 1941, 2½ per centum and 3½ per centum; and

"(B) With respect to the period before July 1, 1940, 2 per centum and 3 per centum."

(d) **CREDITS ON TERMINATION OF TAX.**—Section 3403 (f) of the Internal Revenue Code (relating to credits and refunds on termination of automobile tax) is repealed.

#### SEC. 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS.

Section 3404 of the Internal Revenue Code is amended to read as follows:

"SEC. 3404. TAX ON RADIO RECEIVING SETS, PHONOGRAPHS, PHONOGRAPH RECORDS, AND MUSICAL INSTRUMENTS.

"There shall be imposed upon the following articles (including in each case, except in the case of musical instruments, parts or accessories therefor sold on or in connection with the sale thereof) sold

by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which sold:

"(a) Radio receiving sets, automobile radio receiving sets, combination radio and phonograph sets, and phonographs.

"(b) Chassis, cabinets, tubes, reproducing units, power packs, antennae of the 'built-in' type, and phonograph mechanisms, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a), whether or not primarily adapted for such use.

"(c) Phonograph records.

"(d) Musical instruments."

#### SEC. 546. MECHANICAL REFRIGERATORS.

Section 3405 of the Internal Revenue Code is amended to read as follows:

#### "SEC. 3405. TAX ON REFRIGERATORS, REFRIGERATING APPARATUS, AND AIR-CONDITIONERS.

"There shall be imposed on the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which so sold:

"(a) REFRIGERATORS, ETC.—Refrigerators, beverage coolers, ice cream cabinets, water coolers, food and beverage display cases, food and beverage storage cabinets, ice making machines, and milk cooler cabinets, each such article having, or being primarily designed for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene, or gasoline.

"(b) REFRIGERATING APPARATUS.—Compressors, condensers, evaporators, expansion units, absorbers, and controls, for, or suitable for use as part of, or with, a refrigerating plant, refrigerating system, refrigerating equipment or unit, or any of the articles enumerated in subsection (a).

"(c) AIR-CONDITIONERS.—Self-contained air-conditioning units.

"(d) COMPONENTS.—Cabinets, compressors, condensers, fans, blowers, heating coils, cooling coils, filters, humidifiers, and controls, for, or suitable for use as part of, or with, any of the articles enumerated in subsection (c)."

#### SEC. 547. MATCHES.

Section 3409 of the Internal Revenue Code is amended to read as follows:

#### "SEC. 3409. TAX ON MATCHES.

"(a) MANUFACTURERS' TAX.—There shall be imposed upon matches sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5½ cents per 1,000 matches.

"(b) FLOOR STOCKS TAX.—On matches subject to tax under subsection (a) which, on October 1, 1941, are held and intended for sale, or for disposition in connection with the sale of other articles, there shall

be levied, assessed, collected, and paid a floor stocks tax at the rate of 2 cents per thousand matches. The tax shall not apply to matches in retail stocks held at the place where intended to be sold or disposed of. The tax shall not apply to matches held for sale by the manufacturer, producer, or importer thereof, nor to fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem."

#### SEC. 548. TELEPHONE, TELEGRAPH, ETC.

Sections 3465 and 3466 of the Internal Revenue Code are amended to read as follows:

#### "SEC. 3465. IMPOSITION AND RATE OF TAX.

"(a) There shall be imposed:

"(1) (A) In the case of each telephone or radio telephone message or conversation which originates within the United States, for which the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge.

"(B) In the case of each telegraph, cable, or radio dispatch or message which originates within the United States, a tax of 10 per centum of the amount of the charge.

Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message, or conversation.

"(2) (A) A tax equivalent to 10 per centum of the amount paid for leased wire, teletypewriter, or talking circuit special service.

"(B) A tax equivalent to 5 per centum of the amount paid for any wire and equipment service (including stock quotation and information services, burglar alarm or fire alarm service, and all other similar services, but not including service described in subparagraph (A)).

The tax shall apply under this paragraph whether or not the wires or services are within a local exchange area.

"(3) A tax equivalent to 6 per centum of the amount paid by subscribers for local telephone service and for any other telephone service in respect of which a tax is not payable under paragraph (1) or (2). Amounts paid for the installation of instruments, wires, poles, switchboards, apparatus, and equipment shall not be considered amounts paid for service. Service paid for by inserting coins in coin-operated telephones shall not be subject to the tax imposed by this paragraph.

"(b) This section shall not apply to the amount paid for so much of the service described in paragraph (2) of subsection (a) as is utilized in the conduct, by a common carrier or telephone or telegraph company or a radio broadcasting station or network, of its business as such.

#### "SEC. 3466. EXEMPTION FROM TAX.

"(a) No tax shall be imposed under section 3465 upon any payment received for services or facilities furnished to the United States

or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(b) No tax shall be imposed under section 3465 (a) (1) and (2) upon any payment received from any person for services or facilities utilized in the collection of news for the public press, or a news ticker service furnishing a general news service similar to that of the public press, or radio broadcasting, or in the dissemination of news through the public press, or a news ticker service furnishing a general news service similar to that of the public press, or by means of radio broadcasting, if the charge for such services or facilities is billed in writing to such person. Section 3465 (a) (3) shall not be construed as imposing a tax on services and facilities described in section 3465 (a) (1) or (2) which are exempt from tax under this subsection.

"(c) The right to exemption under this section shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe."

#### SEC. 549. INSTALLMENT, ETC., PAYMENTS.

Section 3441 (c) of the Internal Revenue Code is amended to read as follows:

"(c) (1) In the case of (A) a lease, (B) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (C) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment.

"(2) In the application of paragraph (1) to the articles with respect to which the rate of tax is increased by the Revenue Act of 1941 or by the Revenue Act of 1940, where the lease, contract of sale, or conditional sale, and delivery thereunder—

"(A) was made before July 1, 1940, the total tax referred to in paragraph (1) shall be the tax at the rate in force on June 30, 1940, and not at any greater rate; or

"(B) was made after June 30, 1940, and before October 1, 1941, the total tax referred to in paragraph (1) shall be the tax at the rate in force on September 30, 1941, and not at any greater rate.

"(3) Despite the provisions of paragraph (1), no tax shall be imposed with respect to any article not taxable under the law in existence on the day before the date of the enactment of the Revenue Act of 1941, if with respect to such article the lease, contract for sale, or conditional sale, and delivery thereunder, was made before October 1, 1941."

#### SEC. 550. EFFECTIVE DATE OF PART IV.

(a) The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on October 1, 1941.

(b) Despite the provisions of subsection (a), the tax imposed by section 1700 (c) of the Internal Revenue Code, as amended by section 542 of this Act (relating to cabaret, etc., tax), shall be applicable only with respect to the period beginning at 10 a. m. on October 1, 1941, and the tax imposed by such subsection as in force prior to its amendment by section 542 of this Act, as modified by section 1650 (a) of the Internal Revenue Code, shall be applicable with respect to the period before 10 a. m. on such date.

(c) Despite the provisions of subsection (a), the amendment of section 3465 (a) (2) made by section 548 of this Act (relating to tax on leased-wire, etc., services) shall be applicable only to amounts paid on or after such effective date for services rendered, on or after October 1, 1941, and the provisions of such subsection before its amendment by section 548 shall be applicable with respect to the period before October 1, 1941.

(d) Despite the provisions of subsection (a), section 3465 (a) (3) of the Internal Revenue Code (relating to tax on telephone bills), added to the Internal Revenue Code by section 548 of this Act, shall apply only to the amounts paid in pursuance of bills rendered, after October 5, 1941, for services for which no previous bill was rendered. Such section 3465 (a) (3) shall not apply to amounts paid for services otherwise taxable under section 3465 (a) (1) which were rendered before October 6, 1941; nor to amounts paid for services otherwise taxable under section 3465 (a) (2) which were rendered or paid for before October 6, 1941.

### Part V—New Excise Taxes

#### SEC. 551. NEW MANUFACTURERS' EXCISE TAXES.

Subchapter A of Chapter 29 of the Internal Revenue Code is amended by inserting after section 3405 the following new section:

#### "SEC. 3406. EXCISE TAXES IMPOSED BY THE REVENUE ACT OF 1941.

"(a) **IMPOSITION.**—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to the rate, on the price for which sold, set forth in the following paragraphs (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof):

"(1) **SPORTING GOODS.**—Badminton nets; badminton rackets (measuring 22 inches over-all or more in length); badminton racket frames (measuring 22 inches over-all or more in length); badminton racket string; badminton shuttlecocks, badminton standards; baseballs; baseball bats (measuring 26 inches or more in length); baseball body protectors and shin guards; baseball gloves and mitts; baseball masks; basketballs; billiard and pool tables (measuring 45 inches over-all or more in length); billiard and pool balls and cues for such tables; bowling balls and pins; boxing gloves, masks, head guards, and ear guards; clay pigeons; cricket balls; cricket bats; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; fencing equipment; fishing rods, creels, reels, and artificial lures, baits, and flies; footballs; football harness; football helmets;

golf bags (measuring 26 inches or more in length); golf balls; golf clubs (measuring 30 inches or more in length); gymnasium equipment and apparatus; hockey balls; hockey pucks; hockey sticks (measuring 30 inches or more in length); indoor baseballs; indoor baseball bats (measuring 26 inches or more in length); indoor baseball gloves and mitts; lacrosse balls; lacrosse sticks; mass balls; polo balls; polo mallets; push balls; skates; skis; ski poles; snow shoes; snow toboggans and sleds; soccer balls; softball balls; softball bats (measuring 26 inches or more in length); softball gloves and mitts; squash balls; squash rackets (measuring 22 inches over-all or more in length); squash racket frames (measuring 22 inches over-all or more in length); squash racket string; tennis balls; table tennis tables, balls, nets, and paddles; tennis nets; tennis rackets (measuring 22 inches over-all or more in length); tennis racket frames (measuring 22 inches over-all or more in length); tennis racket string; truck hurdles; traps for throwing clay pigeons; vaulting poles, cross bars, and standards; volley balls, nets, and standards; water polo balls and goals; and wrestling head harness; 10 per centum.

"(2) LUGGAGE.—Trunks, valises, traveling bags, suitcases, hat boxes for use by travelers, fitted toilet cases (not including contents), and other traveler's luggage, and leather and imitation leather brief cases, 10 per centum.

"(3) ELECTRIC, GAS, AND OIL APPLIANCES.—Electric direct motor-driven fans and air circulators; electric, gas, or oil water heaters; electric flat irons; electric air heaters (not including furnaces); electric immersion heaters; electric heating pads and blankets; electric, gas, or oil appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises; electric mixers, whippers, and juicers; and household type electric vacuum cleaners; 10 per centum.

"(4) PHOTOGRAPHIC APPARATUS.—Cameras and lenses; unexposed photographic films (including motion picture films but not including X-ray film), photographic plates and sensitized paper; photographic apparatus and equipment; and any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in the developing, printing, or enlarging of photographs or motion picture films; 10 per centum.

"(5) ELECTRIC SIGNS.—Neon-tube signs, electric signs, and electric advertising devices, 10 per centum.

"(6) BUSINESS AND STORE MACHINES.—Adding machines, addressing machines, autographic registers, bank proof machines, billing machines, bookkeeping machines, calculating machines, card punching machines, cash registers, change making machines, check writing machines, check signing machines, check canceling machines, check perforating machines, check cutting machines, check dating machines, other check protector machine devices, computing machines, coin counters, dictographs, dictating machine record shaving machines, dictating machines, duplicating machines, embossing machines, envelope opening machines, erasing machines, folding machines, fanfold machines, fare registers, fare boxes, listing machines, line-a-time and similar machines, mailing machines, multigraph machines, multigraph typesetting

machines, multigraph type justifying machines, numbering machines, portable paper fastening machines, pay roll machines, pencil sharpeners, postal permit mailing machines, punch card machines, sorting machines, stencil cutting machines, shorthand writing machines, sealing machines, tabulating machines, ticket counting machines, ticket issuing machines, typewriters, transcribing machines, time recording devices, and combinations of any of the foregoing, 10 per centum.

"(7) RUBBER ARTICLES.—Articles of which rubber is the component material of chief weight, 10 per centum. The tax imposed under this paragraph shall not be applicable to footwear, articles designed especially for hospital or surgical use, or articles taxable under any other provision of this chapter.

"(8) WASHING MACHINES.—Washing machines of the kind used in commercial laundries, 10 per centum. No tax shall be imposed under this paragraph on washing machines of the household type.

"(9) OPTICAL EQUIPMENT.—Refractometers; spectrometers; spectroscopes; colorimeters; polariscopes; optical measuring instruments; telescopic sights; projection lenses and prisms; optical machinery; microscopes; telescopes; photo-micro and micro-projection apparatus; fire control optical instruments; and search-light mirrors and reflectors; 10 per centum.

"(10) ELECTRIC LIGHT BULBS AND TUBES.—Electric light bulbs and tubes, not including articles taxable under any other provision of this subchapter, 5 per centum.

"(b) EXEMPTION IF ARTICLE TAXABLE AS JEWELRY.—No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax).

"(c) EFFECTIVE DATE.—This section shall take effect on October 1, 1941."

#### SEC. 552. NEW RETAILERS' EXCISE TAXES.

(a) IMPOSITION OF TAX.—The Internal Revenue Code is amended by adding after chapter 18 the following new chapter:

#### "CHAPTER 19—RETAILERS' EXCISE TAXES

##### "SEC. 2400. TAX ON JEWELRY, ETC.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses; and binoculars. The tax imposed by this section shall not apply to any article used for religious purposes, to surgical instruments, or to frames or mountings for spectacles or eyeglasses, or to a fountain pen if the only parts of the pen which consist of precious metals are essential parts not used for ornamental purposes.

**"SEC. 2401. TAX ON FURS.**

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Articles made of fur on the hide or pelt, and articles of which such fur is the component material of chief value.

**"SEC. 2402. TAX ON TOILET PREPARATIONS.**

"(a) **TAX.**—There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

"(b) **BEAUTY PARLORS, ETC.**—For the purposes of subsection (a) the sale of any article described in subsection (a) to any person operating a barber shop, beauty parlor, or similar establishment shall be considered a sale at retail; resale by such person shall be subject to tax as a sale at retail, but there shall be credited against the tax payable by such person with respect to such resale the amount of tax paid on the sale to such person.

**"SEC. 2403. RETURN AND PAYMENT OF RETAILERS' EXCISE TAXES.**

"(a) Every person who sells at retail any article taxable under this chapter shall make monthly returns under oath in duplicate and pay the taxes imposed by this chapter to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid.

"(c) In determining, for the purposes of this chapter, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this chapter, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Commissioner, in accordance with the regulations. There shall also be excluded, if stated as a separate charge, the amount of any retail sales tax imposed by any State or Territory or political subdivision

of the foregoing, or the District of Columbia, whether the liability for such tax is imposed on the vendor or the vendee.

**"SEC. 2404. DEFINITION OF SALE.**

"For the purposes of this chapter, the lease of an article shall be considered the sale of such article.

**"SEC. 2405. LEASES, CONDITIONAL SALES, ETC.**

"In the case of (a) a lease, (b) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (c) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment. No tax shall be imposed under this chapter on the sale of any article taxable under section 2400 or section 2401 if with respect to such article the lease, contract for sale, or conditional sale was made, delivery thereunder was made, and a part of the consideration was paid, before October 1, 1911.

**"SEC. 2406. TAX-FREE SALES.**

"Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax under this chapter shall be imposed with respect to the sale of any article—

"(a) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

"(b) for export, or for shipment to a possession of the United States, and in due course so exported or shipped.

**"SEC. 2407. CREDITS AND REFUNDS.**

"(a) A credit against tax under this chapter, or a refund, may be allowed with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article, or by a bona fide discount, rebate, or allowance, in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

"(b) No overpayment of tax under this chapter shall be credited or refunded, in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the purchaser, or (2) that he has repaid the amount of the tax to the purchaser of the article, or unless he files with the Commissioner written consent of such purchaser to the allowance of the credit or refund.

**"SEC. 2408. APPLICABILITY OF ADMINISTRATIVE PROVISIONS.**

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and

not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

**"SEC. 2409. PENALTY FOR REPRESENTATION THAT TAX IS NOT PASSED ON.**

"Whoever in connection with the sale or lease, or offer for sale or lease, of any article taxable under this chapter, makes any statement, written or oral, in advertisement or otherwise, intended or calculated to lead any person to believe that the price of the article does not include the tax imposed by this chapter, shall on conviction thereof be punished by a fine of not more than \$1,000.

**"SEC. 2410. RULES AND REGULATIONS.**

"The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this chapter.

**"SEC. 2411. EFFECTIVE DATE.**

"This chapter shall be effective on and after October 1, 1941."

(b) **TERMINATION OF MANUFACTURERS' TAX ON TOILET PREPARATIONS.**—The tax imposed by section 3401 of the Internal Revenue Code shall not apply to articles sold on or after October 1, 1941.

**SEC. 553. ADMINISTRATIVE CHANGES IN MANUFACTURERS' EXCISE TAX TITLE OF CODE.**

(a) **LEASES.**—Section 3440 of the Internal Revenue Code is amended to read as follows:

**"SEC. 3440. DEFINITION OF SALE.**

"For the purposes of this chapter the lease of an article (including any renewal or any extension of a lease or any subsequent lease of such article) by the manufacturer, producer, or importer shall be considered a taxable sale of such article."

(b) **EXISTING CONTRACTS.**—Chapter 29 of the Internal Revenue Code is amended by adding at the end thereof the following new section:

**"SEC. 3453. EXISTING CONTRACTS.**

"(a) **TAX PAYABLE BY VENDEE.**—If (1) any person has, prior to the effective date of Part V of Title V of the Revenue Act of 1941, made a bona fide contract for the sale on or after such date, of any article with respect to the sale of which a tax is imposed by that Act or an existing rate of tax is increased by that Act, and (2) such contract does not permit the adding to the amount to be paid under such contract of the whole of such tax or increased rate of tax, then (unless the contract prohibits such addition) the vendee shall, in lieu of the vendor, pay so much of the tax as is not so permitted to be added to the contract price.

"(b) **TAX PAID TO VENDOR.**—Taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated, and shall

be collected and paid to the United States by the vendor in the same manner as provided in section 3487. In case of failure or refusal by the vendee to pay such taxes to the vendor, the vendor shall report the facts to the Commissioner who shall cause collection of such taxes to be made from the vendee."

(c) **UNEXPOSED MOTION PICTURE FILMS.**—Section 3443 (a) (3) (A) of the Internal Revenue Code (relating to credits or refunds of tax to manufacturer) is amended by inserting at the end thereof the following new clause:

"(v) in the case of unexposed motion picture films, used or resold for use in the making of news reel motion picture films."

(d) **CREDITS, AND TAX FREE SALES OF AUTOMOBILE RADIOS.**—Section 3442, section 3443 (a) (1), and section 3444 (a) (1) and (2) of the Internal Revenue Code (relating to tax in case of sale of tires to manufacturers of automobiles, etc., and credit on sale) are amended by striking out "tires or inner tubes" wherever appearing therein and inserting "tires, inner tubes, or automobile radios taxable under section 3404"; and by striking out "tire or inner tube" wherever appearing therein and inserting "tire, inner tube, or automobile radio taxable under section 3404". Section 3403 (e) of the Internal Revenue Code, as amended by this Act, is further amended by striking out "tires and inner tubes" where the phrase appears the first time and inserting "tires, inner tubes, or automobile radios"; paragraph (1) of subsection (e) of such section is amended by inserting before the semicolon "or, in the case of automobile radios, if such radios were taxable under section 3404"; paragraph (2) of subsection (e) of such section is amended by striking out "tires or inner tubes" wherever such phrase appears and inserting "tires, inner tubes, or automobile radios".

**SEC. 554. TRANSPORTATION OF PERSONS, ETC.**

(a) The heading of subchapter C is amended to read as follows:

**"SUBCHAPTER D—ADMINISTRATIVE PROVISIONS".**

(b) Chapter 30 of the Internal Revenue Code is amended by inserting after section 3468 the following new subchapter:

**"SUBCHAPTER C—TRANSPORTATION OF PERSONS**

**"SEC. 3469. TAX ON TRANSPORTATION OF PERSONS, ETC.**

"(a) **TRANSPORTATION.**—There shall be imposed upon the amount paid within the United States, on or after October 10, 1941, for the transportation, on or after such effective date, of persons by rail, motor vehicle, water, or air, within or without the United States, a tax equal to 5 per centum of the amount so paid. Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than ten adult passengers, including the driver, only when such vehicle is operated on an established line.

"(b) **EXEMPTION OF CERTAIN TRIPS.**—The tax imposed by subsection (a) shall not apply to amounts paid for transportation which do not exceed 35 cents, to amounts paid for commutation or season

tickets for single trips of less than thirty miles, or to amounts paid for commutation tickets for one month or less.

"(c) SEATS, BERTHS, ETC.—There shall be imposed upon the amount paid within the United States for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) a tax equivalent to 5 per centum of the amount so paid.

"(d) RETURNS AND PAYMENT.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax. Each person receiving any payment specified in subsection (a) or (c) shall collect the amount of the tax imposed from the person making such payment, and shall, on or before the last day of each month, make a return, under oath, for the preceding month, and pay the taxes so collected to the collector in the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(e) EXTENSIONS OF TIME.—The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than ninety days.

"(f) EXEMPTIONS.—

"(1) GOVERNMENTAL EXEMPTION.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished to the United States, or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(2) EXEMPTION OF MEMBERS OF MILITARY AND NAVAL SERVICE.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished under special tariffs providing for fares of not more than 1¼ cents per mile applicable to round trip tickets sold to personnel of the United States Army, Navy, Marine Corps, and Coast Guard traveling in uniform of the United States at their own expense when on official leave, furlough, or pass, including authorized cadets and midshipmen, issued on presentation of properly executed certificate."

"(c) STAMP TAX ON PASSAGE TICKETS NOT TO APPLY.—No tax shall be imposed under chapter 11 of the Internal Revenue Code on a ticket sold or issued for passage the amount paid for which is taxable under section 3469 of the Internal Revenue Code.

"(d) TECHNICAL AMENDMENTS.—

(1) Section 55 (a) (2) of the Internal Revenue Code is amended by striking out "subchapters A and B of".

(2) Section 3471 (a) and (c) are amended by inserting after "subchapter B" wherever occurring therein "or subchapter C".

(3) Section 3472 of the Internal Revenue Code is amended by striking out "of subchapters A and B".

#### SEC. 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

Subchapter A of chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new part:

#### "Part IX—Coin-Operated Amusement and Gaming Devices

##### "SEC. 5267. TAX ON COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

"(a) RATE.—Every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device shall pay a special tax as follows:

"(1) \$10 per year in the case of a device defined in clause (1) of subsection (b);

"(2) \$50 per year, in the case of a device defined in clause (2) of subsection (b); and

"(3) \$10 or \$50, as the case may be, for each additional device so maintained or the use of which is so permitted. If one such device is replaced by another, such other device shall not be considered an additional device.

"(b) DEFINITION.—As used in this part the term 'coin-operated amusement and gaming devices' means (1) so-called 'pin-ball' and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object, and (2) so-called 'slot' machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive, cash, premiums, merchandise, or tokens. The term does not include bona fide vending machines in which are not incorporated gaming or amusement features.

"(c) APPLICABILITY OF ADMINISTRATIVE PROVISIONS.—An operator of a place or premises who maintains for use or permits the use of any coin-operated device shall be considered, for the purposes of subchapter B, to be engaged in a trade or business in respect of each such device.

"(d) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this part for any period prior to October 1, 1941."

#### SEC. 558. BOWLING ALLEYS, ETC.

Subchapter A of chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new part:

#### "Part X—Bowling Alleys, and Billiard and Pool Tables

##### "SEC. 3268. TAX ON BOWLING ALLEYS, AND BILLIARD AND POOL TABLES.

"(a) RATE.—Every person who operates a bowling alley, billiard room, or pool room shall pay a special tax of \$10 per year for each bowling alley, billiard table, or pool table. Every building or place where bowls are thrown or where games of billiards or pool are played, except in private homes, shall be regarded as a bowling alley, billiard room, or pool room, respectively.

"(b) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this part for any period prior to October 1, 1941."

## SEC. 557. USE OF MOTOR VEHICLES AND BOATS.

The Internal Revenue Code is amended by inserting after chapter 33 the following new chapter:

## "CHAPTER 33A—USE OF MOTOR VEHICLES AND BOATS

## "SEC. 3540. TAX ON USE OF MOTOR VEHICLES AND BOATS.

"(a) IMPOSITION OF TAX.—There shall be imposed upon the use of motor vehicles and boats a tax, with respect to each year in which such use occurs, at the following rates:

"(1) Motor vehicles—\$5.

"(2) BOATS.—

"Over-all length 16 feet or over but not over 25 feet, \$3.

"Over-all length over 25 feet but not over 50 feet, \$10.

"Over-all length over 50 feet but not over 100 feet, \$40.

"Over-all length over 100 feet but not over 150 feet, \$100.

"Over-all length over 150 feet but not over 200 feet, \$150.

"Over-all length over 200 feet, \$200.

Such tax, in the case of a motor vehicle, shall be paid by the person in whose name the motor vehicle is, or is required to be, registered under the law of the State, Territory, or the District of Columbia in which such motor vehicle is, or is required to be, registered. Such tax, in the case of a boat, shall be paid by the owner of the boat. The tax imposed by this section shall not apply to any use before February 1, 1949, and use before such date shall not be considered to be use within the meaning of this section.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) The term 'year' means the year beginning July 1.

"(2) The term 'motor vehicle' means all motor vehicles of the kind chiefly used for highway transportation.

"(3) The term 'boat' means all boats propelled by machinery, sail, or both, measuring sixteen feet or more in over-all length, owned by a citizen or resident of the United States. Such term does not include boats used chiefly for trade, or commercial fishing, or boats used without profit by any benevolent, charitable, or religious organization exclusively for furnishing aid, comfort, or relief to seamen, or boats used by the sea scouts department of the Boy Scouts of America chiefly for training scouts in seamanship.

"(4) The term 'use' in the case of the use of a motor vehicle means use on the public highways.

"(c) PRORATION OF TAX.—If in any year the first use of the motor vehicle or boat is after July 31 the tax shall be reckoned proportionately from the first day of the month in which such use occurs to and including the 30th day of June following.

"(d) ONE PAYMENT PER YEAR.—If the tax imposed by this section is paid with respect to any motor vehicle or boat for any year no further tax shall be imposed for such year with respect to such motor vehicle or boat.

"(e) EVIDENCE OF TAX PAYMENT.—The payment of the tax imposed by this section shall be evidenced by such suitable stamp, sticker, or tag of such form, which shall be affixed to the motor vehicle or

boat in such manner, as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(f) MANNER OF COLLECTION.—The place, time, and manner of making payment of the tax, and of furnishing such stamp, sticker, or tag shall be such as may be provided in regulations prescribed by the Commissioner with the approval of the Secretary.

"(g) COOPERATION OF POST OFFICE DEPARTMENT.—The Commissioner shall furnish to the Postmaster General without prepayment a suitable quantity of stamps, stickers, or tags to be distributed to and kept on sale by postmasters in the United States. The Postmaster General may require each such postmaster to give additional or increased bond as postmaster for the value of the stamps, stickers, or tags furnished to him, and each such postmaster shall deposit the receipts from the sale of such stamps, stickers, or tags to the credit of and render accounts to the Postmaster General at such times and in such form as he may by regulations prescribe. The Postmaster General shall at least once monthly transfer all collections from this source to the Treasury as internal-revenue collections. The Postmaster General is authorized to cooperate to the fullest extent possible with the Commissioner in the sale of such stamps, stickers, or tags and in forwarding to the Commissioner or to the collector of internal revenue such blanks or forms as the Commissioner may determine necessary to the collection of the tax. There are authorized to be appropriated such sums as may be necessary to enable the Secretary of the Treasury to advance from time to time to the Postmaster General such sums as the Postmaster General may show shall be required for the expenses of the Post Office Department in performing in the District of Columbia and elsewhere all services required by this section.

"(h) SALE OF STAMPS BY PRIVATE PERSONS.—If the Commissioner provides for the sale of stamps, stickers, or tags by persons not officers or employees of the United States he may require bond, with sufficient sureties, in a sum to be fixed by the Commissioner, conditioned for the faithful return, whenever required, of all quantities or amounts undisposed of, and for the payment for, all quantities or amounts sold or not remaining on hand. The Commissioner, with the approval of the Secretary, may from time to time make such regulations as he may find necessary to insure the safekeeping or prevention of illegal use of all such stamps, stickers, or tags.

"(i) PENALTIES FOR UNLAWFUL USE.—Any person liable for the tax under this section who uses or permits the use of the motor vehicle or boat before tax has been paid shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than \$25 or imprisoned for not more than thirty days, or both. Any person who uses or operates a motor vehicle or boat at a time when the stamp, sticker, or tag does not appear on the motor vehicle or boat in the manner provided in the regulations prescribed under subsection (e) or (f) shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than \$25.

"(j) EXEMPT USES.—The tax imposed by this section shall not apply to the use of a motor vehicle or boat by the United States, a State, Territory, the District of Columbia, or a political subdivision of any of the foregoing."

**SEC. 558. EFFECTIVE DATE OF PART V.**

This part shall take effect on October 1, 1941.

**Part VI—Processing Tax on Certain Oils****SEC. 561. PAYMENT OF PROCEEDS OF PROCESSING TAX TO GUAM AND AMERICAN SAMOA.**

(a) **PAYMENT TO POSSESSIONS.**—Chapter 21 of the Internal Revenue Code (relating to processing tax on oils) is amended by adding at the end thereof the following new section:

"Sec. 2483. All taxes collected under this chapter with respect to coconut oil wholly of the production of Guam or American Samoa or produced from materials wholly of the growth or production of Guam or American Samoa, shall be held as separate funds and paid to the Treasury of Guam or American Samoa, respectively. No part of the money from such funds shall be used, directly or indirectly, to pay a subsidy to the producers or processors of copra, coconut oil, or allied products, except that this sentence shall not be construed as prohibiting the use of such money, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, for the acquisition or construction of facilities for the better curing of copra or for bona fide loans to copra producers of Guam or American Samoa."

(b) **EFFECTIVE DATE OF AMENDMENT.**—The amendment made by this section shall be applicable only with respect to taxes collected after the date of enactment of this Act.

**TITLE VI—NONESSENTIAL FEDERAL EXPENDITURES****SEC. 601. NONESSENTIAL FEDERAL EXPENDITURES.**

(a) There is hereby established a committee to investigate Federal expenditures (hereinafter referred to as the "committee"), to be composed of (1) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (2) three members of the House Committee on Ways and Means and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (3) the Secretary of the Treasury, and the Director of the Bureau of the Budget. A vacancy in the committee shall not affect the power of the remaining members to execute the functions of the committee, and shall be filled in the same manner as the original selection. A majority of the committee shall constitute a quorum, and the powers conferred upon them by this section may be exercised by a majority vote.

(b) It shall be the duty of the committee to make a full and complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed by the committee to be nonessential. The committee shall report to the President and to the Congress the results of its study, together with its recommendations, at the earliest practicable date.

(c) The committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places, to employ such experts and such clerical and other assistants, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable. The provisions of sections 102 to 104, inclusive, of the Revised Statutes shall apply in case of any failure of any witness to comply with any subpoena, or to testify when summoned under the authority of this section.

(d) The committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government.

(e) There is hereby authorized to be appropriated, the sum of \$10,000, or so much thereof as may be necessary, to carry out the provisions of this section.

(f) All authority conferred by this section shall terminate upon the submission of the committee's final report.

SEC. 602. Section 1303 of the Revenue Act of 1918, as amended, is amended by striking out "President of the Senate" wherever it appears therein and inserting in lieu thereof "President pro tempore of the Senate".

**TITLE VII—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES****SEC. 701. CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES.**

(a) **ALLOWANCE OF CREDIT AGAINST TAX FOR 1936, 1937, AND 1938.**—Against the tax imposed by section 901 of the Social Security Act for the calendar year 1936, 1937, or 1938, any taxpayer shall be allowed credit (if credit is not allowable under section 902 of such Act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this Act, if such credit is claimed before the expiration of six months after such date of enactment;

(2) Without regard to the date of payment, with respect to wages paid after September 19, 1939;

(3) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the fifty-nine-day period following such date of enactment, or were at any time during the period August 11, 1939, to October 8, 1939, inclusive, or the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Social Security Act in force prior to February 11, 1939 (except the provision limiting the credit to amounts paid before the date of filing returns), shall apply to allowance of credit under this subsection; except that the amount of credit against the tax for the calendar year 1936, 1937, or 1938, for contributions paid after December 6, 1940, shall not (unless the credit is allowable on account of paragraph (2) or (3)) exceed 90 per centum of the amount which would have been allowable as credit on account of such con-

tributions had they been paid before the last day upon which the taxpayer was required under section 905 of such Act to file a return for such year. The terms used in this subsection shall have the same meaning as when used in title IX of such Act prior to February 11, 1939. The total credit allowable against the tax imposed by section 901 of such Act for the calendar year 1936, 1937, or 1938 shall not exceed 90 per centum of such tax.

(b) ALLOWANCE OF CREDIT AGAINST TAX FOR 1939 AND 1940.—Against the tax imposed by the Federal Unemployment Tax Act for the calendar year 1939 or 1940, any taxpayer shall be allowed credit (if credit is not allowable under section 1601 of such Act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this Act, if such credit is claimed before the expiration of six months after such date of enactment;

(2) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the fifty-nine-day period following such date of enactment, or were at any time during the period from the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return of the tax against which credit is claimed to June 30 next following such last day, inclusive, or (in the case of credit against the tax for the calendar year 1939) the period October 1, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Federal Unemployment Tax Act (except section 1601 (a) (3)), including such provisions as modified by section 902 (e) of the Social Security Act Amendments of 1939, shall apply to allowance of credit under this subsection. The amount of such credit against the tax for the calendar year 1939 or 1940, in the case of contributions paid after the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return for such year, shall not (unless the credit is allowable on account of paragraph (2)) exceed 90 per centum of the amount which would have been allowable as credit on account of such contributions had they been paid on or before such last day. The terms used in this subsection shall have the same meaning as when used in the Federal Unemployment Tax Act. The total credit allowable against the tax imposed by such Act for the calendar year 1939 or 1940 shall not exceed 90 per centum of such tax.

(c) REFUND.—Refund, credit, or abatement of the tax (including penalty and interest assessed or collected with respect thereto, if any), based on any credit allowable under subsection (a) or (b), may be made in accordance with the provisions of law applicable in the case of erroneous or illegal assessment or collection of the tax (including statutes of limitations). No interest shall be allowed or paid on the amount of any such credit or refund. On and after the date of the enactment of this Act no refund, credit, or abatement shall be allowed based on any credit allowable under section 810 of the Revenue Act of 1938, section 902 (a) of the Social Security Act Amendments of 1939, or section 701 of the Second Revenue Act of 1940.

Approved, Sept. 20, 12.15 p. m. E. S. T., 1941

10/29/41

155

Mr. Foley took the original to the group meeting at 10 o'clock today but brought it back marked "not used"

## STRICTLY CONFIDENTIAL

Secretary Morgenthau

October 29, 1941

E. H. Foley, Jr.

You requested yesterday that I give you a table of the appropriations presently available for defense procurement and related purposes which the President is authorized to transfer administratively to any existing agency of the Government or to any new agency which may be created.

I have had a careful search made of all the appropriation acts passed during the last session of Congress and during the present session, and I attach a table showing (1) the appropriation acts containing appropriations of this character, (2) the original amount of each such appropriation, and (3) the amount of each such appropriation still available for transfer by the President, based on the best information obtainable within this Department.

The total amount presently available for transfer by the President is approximately \$8,758,000,000.

You will note, however, that most of the funds which are presently available for transfer were appropriated by the two Lend-Lease Appropriation Acts, the second of which was signed by the President only yesterday.

The appropriations which have been made for defense to the Army, Navy, Maritime Commission, and other agencies and Departments of the Government are not available for Executive transfer. There is no general power in the President to transfer appropriations.

The brief time available has necessarily conditioned the character of our search, but I believe that for practical purposes the list of appropriations subject to Presidential transfer is complete.

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

Attachment

ES/ERF:s 10-29-41

October 28, 1941.

Table of Defense Procurement and Related Appropriations Available for Transfer by the President to any Agency of the Government.

<u>Name of Appropriation Act</u>	<u>Amount of Original Appropriation</u>	<u>Amount Still Available</u>
First Lend-Lease Appropriation Act (Defense Aid Supplemental Appropriation Act, 1941 (Pub. No. 23, 77th Cong.))	\$ 7,000,000,000	\$ 2,656,408,431 (1)
Second Lend-Lease Appropriation Act (Defense Aid Supplemental Appropriation Act, 1942 (H.R. 5788, 77th Cong.))	\$ 5,985,000,000	\$ 5,985,000,000 (2)
Act of June 11, 1940 (54 Stat. 297) Under heading "Emergency Fund for the President".	\$ 34,000,000	
Act of June 13, 1940 (54 Stat. 377) Under heading "Emergency Fund for the President".	\$ 66,000,000	
Act of March 1, 1941 (Pub. No. 9, 77th Cong.) Under heading "Emergency Funds for the President".	\$ 5,000,000	\$ 92,619,977 (3)
Act of April 5, 1941 (Pub. No. 28, 77th Cong.) Under heading "Emergency Fund for the President".	\$ 200,000,000	
Act of May 24, 1941 (Pub. No. 73, 77th Cong.) Under heading "Emergency Funds for the President".	\$ 15,000,000	
Second Deficiency Appropriation Act, 1941 (Pub. No. 150, 77th Cong.) Under heading "Office for Emergency Management".	\$ 36,500,000	\$ 23,887,307 (4)
<b>Totals</b>	<b>\$13,341,500,000</b>	<b>\$ 8,757,915,715</b>

(1) This is as of September 30, 1941, the latest figure available. Of this total \$530,803,808 was unallocated on that date, and \$2,125,604,623 was allocated but unobligated. The unobligated sum may, for practical purposes, be somewhat misleading, inasmuch as it has been allocated to various agencies of the Government which have undoubtedly undertaken programs and made informal commitments against the funds. It might be impractical to withdraw such outstanding allocations from the agencies which now have them.

(2) This figure is as of the date of signature of this Act, October 28, 1941.

(3) This item represents unallocated balances as of September 30, 1941. There may be further funds allocated but unobligated. However, accurate current figures on the unobligated balances are not available in the Treasury Department.

(4) As of September 30, 1941.

JS:ENF:sha  
10/28/41.

October 29, 1941  
3 p.m.

RE SOCIAL SECURITY (COMPULSORY SAVINGS)

Present: Mr. Barnard  
Mr. Foley  
Mr. Sullivan  
Mr. Buffington  
Mr. Kades  
Mr. Gaston  
Mr. Tarleau  
Mr. Shere  
Mr. Plough  
Mr. Groves  
Mr. White  
Mr. Friedman  
Mr. Kuhn  
Mr. Paul

H.M.Jr: I didn't exaggerate when I said a public meeting, did I? Where is the press?

Barnard: The only fellow that is missing had to go home.

H.M.Jr: I see. Randolph Paul stuck it out, did he?

Paul: Yes, sir.

Barnard: Paul Shoup asked me to convey his regrets that he couldn't be here.

H.M.Jr: I see. Well, do you want to read it out loud?

Barnard: I will read it if you like.

H.M.Jr: Yes.

Barnard: "Preliminary Report of Anti-Inflationary  
Tax-Saving Plans

"Nature and Magnitude of Problem

The minimum amount of deduction from income of consumers required to prevent inflation of 10% or more by June, 1942 over June, 1941, is \$6 billion. The computed maximum required is \$9 billion; but it is possible that this might be exceeded. We have considered means of direct taxation-saving control which at most only would attempt to withdraw the minimum required, i.e., \$6 billion.

"It is agreed that any direct tax-saving plan to control or minimize inflation should be adopted and made effective as soon as possible.

"Social Security Extension

It is agreed that the proposals of the Social Security Board with respect to the extension of old-age and survivor insurance, and with respect to unemployment insurance should be accepted; and that the proposals with respect to hospitalization and sickness insurance and general relief should be rejected. The proposals thus approved involve increases of payroll taxes of 1% for employers and of 2% for employees, or a total additional rate of 3%. For the first few years these rates involve an increase of excess collections of about \$1.7 billions. For our purposes it was assumed that the immediate (but not permanent) anti-inflationary effect of these increased taxes is equivalent to \$1.7 billions

reduction of income. This would leave \$4.3 billions to be subtracted from income by other methods.

"It is noted that although the predominant opinion is as stated above, the acquiescence in the social security program is based on general considerations; and that some of us regard the plans as positively unsound and inadvisable under present conditions.

"If the proposed Social Security taxes cannot be effective before 1943, they cannot help in the immediate inflation problem."

H.M.Jr: Can I stop you there a minute?

Barnard: Yes, sir.

H.M.Jr: When you say that "some of us regard that," is there a minority report on this?

Barnard: No, not on that.

Paul: Not on this subject.

Barnard: Not on that subject.

H.M.Jr: I mean, who regards it as unsound and inadvisable?

Barnard: Well, I am one.

H.M.Jr: Oh, you are one?

Barnard: Not greatly so, but I would much prefer to have that amount of tax handled by other methods, either direct saving or direct revenue.

H.M.Jr: But when you say "positively unsound and inadvisable," that is pretty strong language.

Sullivan: Well, I object to it too, but not on the grounds of unsoundness.

H.M.Jr: Well, I would go back, but I was just trying to get the thing.

Barnard: The most positive opinion on that was Mr. Anderson, who unequivocally, and definitely, and positively didn't like it.

H.M.Jr: He didn't leave any memorandum as to why?

Barnard: No.

H.M.Jr: Well, that leaves me in the air. All right.

Barnard: "Tax and Compulsory Saving Plans

Assuming the adoption of the Social Security program as above, the amount of spendable income further to be taken to meet the minimum requirements is not less than \$4.3 billions. It is agreed that to accomplish the purpose severe restrictions of spending in low income groups is necessary and in the interest of persons in these groups. There is some disagreement as to the desirability or feasibility of securing the desired \$4.3 billions by a combined compulsory saving-tax-at-the-source plan. The plan which most nearly represents the views of all will be stated first, then three alternatives considered and meriting attention as making clearer the practical problem."

H.M.Jr: Just a minute, please. All right. "A" is the preferred?

Barnard: Yes.

H.M.Jr: All right.

Barnard: The least disagreement from this plan of any that you state.

"A new 12 $\frac{1}{2}$ % supplementary individual income tax on all sources of income, withheld at the source with respect to salaries, wages, dividends, interest and royalties. The proceeds are to be allocated in the amount of \$500,000,000 to savings confined to withholdings at low income levels. The exemptions are to be lowered to \$500 and \$1,000 for the present \$750 and \$1,500, and \$300 for dependents instead of \$400."

H.M.Jr: What does that mean, "The proceeds are to be allocated in the amount of \$500,000,000"?

Barnard: It means we would call savings five hundred million of the total, and we would give those savings to those in the very low income brackets.

H.M.Jr: How would you give it to them?

Barnard: The detail hasn't been worked out. I am just trying to do it.

H.V.Jr: I see.

Paul: You would pay that back, Mr. Morgenthau, give it to them in some form so that it could be paid back in the post-defense period, and therefore that return would be somewhat inflationary when we have a deflationary period. It would serve a double purpose.

Foley: You take from all now, and give back only to the people in the low income groups in the post-war period, isn't that right, Randolph?

Paul: Yes.

Barnard:

That is essentially the first feature of the plan I put up.

"This plan would produce \$.5 billions saving plus \$3.1 billions tax revenue, or a total of about \$3.6. This is \$.7 billions short of the required amount.

"Details of the plan are given in Appendix A.

"b. Maximum Plan Considered

"15% withholding tax, on reduced exemptions as under (a) above, about \$1. billion to be treated as savings, giving \$3.3 tax revenues. Total withdrawal \$4.3 billions, or the required amount."

Under the assumptions stated, these two alternatives were stated and have a good deal of sympathetic consideration by some.

"Either 15% with exemption as in present law, or 10% on lower exemptions as above. The withdrawal would be about \$2.8 billion in the first case and about \$3 billion in the second. This would be about \$1.5 to \$1.3 short of the required amount.

"d. Straight payroll tax at 5 or 6% plus withholding tax on other income at a higher rate. By varying the percentage or the exemption this would give various amounts, and could be made to yield more than required.

"Other tax plans

"It is agreed that additional taxes and changes in other taxes are desirable as a part of the program, though it may or may not be desirable to separate them from the withholding tax plan in the interest of speedy enactment of the latter. Some of these proposals would be

- 7 -

directly valuable in inflation control, others would be desirable strictly for revenue reasons; and as a whole they are desirable to secure a better balanced tax system and for reasons of morale and public support of the withdrawal tax.

"A list of these proposals, under consideration, is given in Appendix B.

"Other Controls of Inflation

"It is agreed that the cooperation of other agencies should be secured in the restriction of consumption, such as the limitation of inventories, the further restriction or elimination of installment buying, and restrictive allocation of raw materials combined with price control.

"Control of Expenses

"It is also agreed that effort to secure the reduction of Federal, State and Municipal expenditures is important in controlling inflation."

H.V.Jr: Well now, I take it what you are giving me here is a sort of report on a little bit of everybody, is that right?

Barnard: Well, it is not too far away from a pretty general agreement of about everybody that has been brought in on this thing, but I think it raises a question --

H.V.Jr: Let's start with you. Where do you stand, if you don't mind my asking?

Barnard: I can tell you where I stand. I would have dropped this "b. Maximum plan considered, 15% withholding tax on reduced exemptions"

and with at least a billion of the savings, probably a billion and a half, a very substantial element of savings interest.

H.M.Jr: I don't quite understand the language.

Barnard: I would adopt a fifteen per cent withholding tax on all income.

H.M.Jr: I get that.

Barnard: And I would allocate a part of the payment to savings and not to tax revenue.

H.M.Jr: You mean, to be refunded?

Barnard: To be refunded afterward, and I would make that a substantial amount and concentrate it on the lower income groups.

H.M.Jr: Now that is where you stand?

Barnard: Yes, sir.

H.M.Jr: Let me get the outside people first. Paul, how about you?

Paul: Well, I am in the group that is for the lowest plan, that is, the lower alternative, "c" on page three.

H.M.Jr: When you say "group" --

Paul: There are several that agree with me on that lower alternative.

H.M.Jr: Would they mind being named?

Paul: I don't believe so. Mr. Foley, Mr. White, Mr. Kades, Mr. Haas, Mr. Morris, and I don't know about John. We hadn't had a chance to talk

to him this morning after we formulated these final ideas. I think that is pretty much the group. That is all we have been able to focus so far.

White: Mr. Groves has one possible difference.

Paul: Well, that is an important difference. We prepared a memorandum setting forth our views, Mr. Morgenthau.

H.M.Jr: You have a memorandum?

Paul: Yes.

Sullivan: That memorandum he was referring to, Mr. Tarleau and Mr. Blough and I were preparing a similar memorandum. There is practically no difference in the general tax program between the one that Mr. Blough and Mr. Tarleau and I are recommending and the one that they were working on.

H.M.Jr: Now, wait a minute, I am a little dizzy. I mean, is Paul on two sides, is he in two memoranda or are you in two memoranda?

Paul: No, we happened to prepare separate memoranda, the way it worked out, and Mr. Sullivan says the two memoranda are substantially the same.

H.M.Jr: Supposing you give me what is in your mind and then I will ask Mr. Groves, and then I will come to Mr. Sullivan, how is that?

Foley: The simplest thing to do would be to give him my memorandum.

Paul: Yes, have you got a copy of it?

Foley: I haven't got it, I gave it to John.

- 10 -

Barnard: Here is a copy (handing copy to the Secretary). I received that thirty minutes ago.

H.M.Jr: All right. Well, Paul, supposing you read it for me, will you?

Paul: Yes, I will be very glad to. This program consists of three parts. The first part to become effective January 1, 1942. "A" under that part, "A 15% withholding tax upon all individuals measured by

"1. income from all sources (e.g., wages, salaries, dividends, interest, rents, royalties, etc.)"

That would be after personal exemptions now provided under the income tax, that is seven hundred fifty dollars for a single person, fifteen hundred dollars for married people, and four hundred dollars for each dependent. That plan would have provision for repayment, that is, a compulsory savings feature in part, after the emergency to those in the lowest brackets.

This plan would yield two billion seven hundred million dollars.

Part two, also to become effective January 1, 1942, a payroll increase which is very much the same - I think it is exactly the same as Mr. Barnard outlined. That would increase revenue one billion nine hundred million, and as Mr. Barnard previously explained, in the early years of operation it would have a greater effect on inflation than in later years.

Now, we regard part three as very important if we are going to sell part one and part two to the country, because parts one and two come very heavily upon incomes in the lower brackets, and I think we have got to show that

- 11 -

we are tackling the other, higher incomes, and also that we are trying to get a sound, well-balanced tax system, and so we have listed in part three various items designed to that end.

The first is an excess profits tax revision which has the feature of adding the tax under the invested capital method to the tax under the average earnings method, and dividing the result by two. That is an obvious compromise between those who don't like invested capital and those who prefer the present income credit idea.

B, manufacturers' excise taxes, increased to discourage purchases of goods competitive with defense articles.

C, Estate and gift tax revision in rates along the lines of the Treasury 1941 proposal, and additional revision to prevent avoidance by life insurance and powers of appointment.

D, the elimination of tax exemption of holders of future state and municipal securities.

E, the elimination of discrimination in favor of community property states.

F, reduction in depletion deduction.

G, revision of capital gains tax provisions.

H, taxation of life insurance industry, thirty billion in assets and six billion in tax-exempt income, as things now stand.

I, the elimination of tax exemption of dividends on stock issued by Federal Reserve Banks, Savings and Loan Associations, Farm Loan Banks, and so forth.

J, the equalization of the status of dividends and corporate interest for deduction purposes, and finally, under K, a number of things which we considered too unimportant relatively to list them in detail, but all designed to prevent tax avoidance and promote an equitable incidence of the tax.

Now, that plan is agreed to and has the endorsement besides myself of Mr. Foley, and Mr. Groves, and Mr. Morris, and Mr. Kades.

Mr. Groves makes the important reservation that the exemption in part one A two, that is, the seven hundred fifty dollars and the fifteen hundred dollars should be lower, and that the rate of fifteen per cent should be reduced to twelve and a half per cent. I might add that this paragraph from the memorandum, "In order to show that the Treasury is contemplating a balanced program not unduly burdensome to the low income groups, we are strongly of the opinion that the separate parts," one, two, and three, "of the plan should be presented to Congress at the same time, with a recommendation that part one be taken up immediately," and that, I am sure, Mr. Sullivan agrees with.

H.M.Jr: Mr. Groves, do you want to add anything?

Groves: Yes, I would like to add just a word about the supplementary part of the program. I presented the thought this morning, although I think it was a thought too complicated and perhaps too violent a change to put in this report, but I presented the idea this morning that the supplementary program should have a few major changes. That is, we come in with the withholding tax and an anti-inflationary measure. Then we come in with a supplementary

- 13 -

program which is designed for fiscal adequacy and for a balanced tax program. Now, what I should stress in there are the following two or three things. First, the idea that the individuals should pay upon all of their incomes. Here I would include the tax exempt security program which the Treasury has already endorsed, and I would try to make a combination of the excess profits tax along the line of the Treasury's endorsement, and the idea of taxing the individual upon the pro-rata share, whether or not distributed with corporate income.

That is, so that all of the undistributed income goes through the individual tax mill. I think that is an important thing to accomplish, and that now is the time to do it.

Then I would raise the individual surtaxes as suggested somewhat and perhaps make this idea of taxing undistributed income to the individual an alternative to this excess profits tax program. That is, take one or the other, A or B, subject to the choice of the corporation. A, a very severe profits tax program along the lines which the Treasury has supported, and B, a tax on the pro-rata share of the individual's income, so that you could then go with the proposition that you have got a stiff individual tax program and that all of it goes through the mill, and that everybody - it is an all out program. Everybody is asked to contribute and at the same time there are important concessions in the upper brackets as well as the lower brackets. That would be my general approach to the thing.

H.M.Jr:

Well, I am listening today. I am not arguing. I mean, I am trying to - I mean, my silence doesn't mean anything. I am just trying to

get the pulse, because you people have been living with this now for a week or ten days.

John?

Malivert:

Well, as Randolph told you, we are in substantial accord on the general pattern. I think that it would be folly to go up to the Congress with just a withholding tax and an increase in Social Security. That would be entirely too lop-sided. It wouldn't be well received.

On the other hand, we need to have that part of the program enacted quickly, and we cannot have that hanging around up there while a two-months fight on tax exempts and another month's fight on community property is going on, and it seemed to me that at the time when you talked with the ranking leaders of the two committees, you could outline the entire program and insist that when you go up there on anything you present the entire program and then if they think we can get better action by splitting it up, all right, obviously the number one thing to go ahead on is the withholding taxes, have them enacted and have them effective within two or three weeks after enactment, so that we can immediately siphon off that increased purchasing power.

On all the rest of the program, we are almost in entire accord, and it is funny that this group should be in one room writing out a memorandum and we should be in another room writing out a memorandum, and we come out closer together than I have ever seen any group on any part of a tax program. It doesn't seem right.

Boley:

It wasn't intentional, Mr. Secretary, we tried to get him.

White: But he was busy writing his.

H.M.Jr: I don't think he means that, does he?

Foley: I don't think he means it. There was no slight intended.

H.M.Jr: You don't mean it wasn't right, do you?

Sullivan: Oh, not at all. I mean, it doesn't seem natural.

Foley: No, I didn't get it, I just didn't want the Secretary to get it.

H.M.Jr: From the words, "it doesn't seem right," I knew he meant that it seemed unnatural.

Sullivan: I had never seen such substantial agreement among such a large group of people working on taxes since I have been here.

H.M.Jr: Maybe the people who don't agree dropped out.

Sullivan: Oh, I don't know.

Barnard: No, that isn't so. My name was included in these things they are talking about now. I am with them on it. I have no opposition to it, in the least. I have just acted as an umpire, is the reason I am not on the list.

H.M.Jr: I am sorry, I don't hear you.

Barnard: I am not in disagreement with what they say on part three at all. My name isn't listed in either one, I guess, but that is just inadvertant.

Foley: We addressed the memorandum to Mr. Barnard.

Parnard: Yes, but it just came in. It was not prepared until a minute or two ago, but there is no disagreement, I don't believe, of any substantial amount on that feature of the thing.

Sullivan: You see, our morning meeting broke up after twelve and then both of us did this afterward, and we just hadn't had time to get around.

Now, the place where I do part company with them on this whole program is on enforced savings and Mr. Shoup, Mr. Morris, Mr. Blough, and Mr. Tarleau, and Mr. Friedman, and I feel that this coming year is probably the easiest we will have for the next four or five years, and that once we start enforced savings, it is going to be harder sledding all the way along the line, and we don't think that in this first hard year is the time to start giving away sets of dishes or cigar coupons. I feel that once you begin that, you have opened the door to something you will not be able to control, and they agree with me on that. I think the other fellows feel that if this were very much higher than twelve and a half per cent they would feel even more strongly that there should be compulsory savings and that a larger proportion of the total collection should be allocated to compulsory savings. Isn't that a fair statement, Harry?

White: Quite.

Parnard: I would like to make my position clear there, since I have started this. If this whole thing were really up to me, I mean, I was the executive responsible, I would agree with these men as to the question of action. I would disagree with them in principle. I don't think they have opened their minds far enough to see the broader problem involved. I don't think they are taking into account the broad social

organization of the country to the extent that it ought to be and should be by the savings method, and I think in the long run if you are going four or five or six years, the differences from their present point of view wouldn't be material in the total situation, whereas from my point of view, the differences would be very great, but I would go along with them completely as to the question of what do we do now. I haven't been able to sell them on a single feature of it and if you can't sell your proposition maybe you are wrong. I would go along with them if you have got to take action, and I think getting action here is far more important than any other consideration at the present, so I don't think there is any real disagreement between me and them, except on what you might call the academic aspect for a moment.

U.S. Dept:

Now wait a minute, let me just see if I understand it. What you are saying is this: you believe that the important thing is action, and therefore there should go along with this program a combination of a withholding tax and Social Security and the rest of it. But I still don't get why, in terms of five or six years - what features would you include if the thing rested solely with you?

Answers:

I would include very much more enforced savings. I would find a reasonably practicable method to take up part of the increased income status of various classes of people as time goes on, and I would hope to get a further inflationary control as time went on, by that method. There are objections of a practical character to it, and one important one at least of principle. The objection of principle is, that tends to freeze things where they are. I think the kind of a party we are going into, you have got to do a lot of freezing. You have got to do quite a lot of harsh treating of people. If we get too far

in the question of theoretical equity - we ought to do as much as we can, though - we are going to miss the main boat we are up against. You can't debate when you take an army into battle which fellow is going to get killed, and I think we are in that kind of a situation, and I discount, perhaps too heavily, the objections of the people here on that side. I think if I get an increase of a thousand dollars in income, I ought to be compelled to give up part of it, even if a fellow who has got several thousand more than I, doesn't have to give up any of it in the form of compulsory savings.

Now, I can see a very legitimate set of reasons for opposing that, but I think for these conditions, with the kind of a job we have got on our hands, that I would waive all the good reasons that can be advanced against it, and it looks to me as if the magnitude of the program we are getting into would mean we would have to get by every method that we could all the money we can, and the maximum restriction of consumption that we can get. In other words, my general position is that they are not looking at the thing big enough, and that sounds like a hell of a statement to make when Sullivan is obviously trying to look at it very big, too, but there is a difference in focus there.

But I would go along as a practical decision as to what should be done now. I wouldn't urge my own views any further on this thing.

I would hope in six months or a year I could convince people they should have gone along my way, but I might be entirely wrong on that.

R.M. Jr: Herbert, do you want to say something?

Gaston: No, I think I think I haven't been in on this enough to be able to say anything about it.

H.W. Jr: Harry?

Waite: No, I don't think I have anything to add. I thought that there was an agreement with the position which was outlined by Randolph Paul on the part of everybody with the exception of Shoup, who, I take it - whose views will be presented by somebody here, because he had a very definite opposing view.

I thought that Mr. Barnard was right along with him as he has indicated with one exception, somewhat along the lines of Mr. Grove's exception, namely, that Mr. Barnard favored a lower exemption on the withholding tax. He favored the five hundred, seven hundred and fifty, and three hundred exemptions, whereas Paul's proposal which we concurred with was the present exemptions, which were a little higher.

I thought that was the conclusion he arrived at in principle. I didn't realize, and it doubtless is my fault, that he was merely going along and that he still adheres to his other views.

Now, if he wants to go back to his own views, if, in other words, they are to be reconsidered, then I would be very glad to discuss those again, but I was under the impression that your (Barnard's) adherence was one of principle rather than expediency.

Barnard: No, I ought to make my position perfectly

clear there. You haven't convinced me that I am wrong in principle, and if you had time enough you couldn't with all the brains there is around here, work it out to accomplish the effectuation of those principles. I know you don't agree with that, and I think it is far more important. After all, it is only one person's view here. I wouldn't stop a small stream for my own view on anything.

White:

Well, that is never the position the Secretary has taken. I have been frequently in the minority and can appreciate it. I can say that I don't think the Secretary has ever taken the position that merely because there have been five noses on one side and one on the other that the five always win. It is a question of the view, and he has always given a complete hearing to both views when there hasn't been agreement on the principle. However, the Secretary is here and can speak for himself. (Laughter)

Barnard:

Now, you take these gentlemen. I would be glad to have them in my business organization, and they would be as competent as any men I have got, but I know it would take them two or three years before they would reach the point where I couldn't cut circles around them in making telephone tariffs, and I just would be in the same position here. I have only been here two or three weeks, and certainly a man with any sense, if you will permit me to say so, wouldn't discount four or five of these men around here on a question of judgment as against myself. I wouldn't myself. As I say, I would go along with what they said, no matter what reservations I had in principles.

H.M.Jr:

Well, it is a little bit deeper than that.

Whether it be twelve and a half or fifteen percent or seven hundred and fifty dollars or a thousand, that is something else, but if there is something deeper than that on this question of savings and this thing of setting up what you are going to do with the money, how much of it, in other words, you are going to hand back after this war is over and to whom are you going to hand it back and under what circumstances, I take it those are the things that you are adhering to, isn't that right?

Barnard: You are absolutely correct.

H.M.Jr: What I would like you to do for me, if you are not too tired this afternoon or tomorrow morning, would be to again state those very simply for me. I mean, after listening to all these things I would like to again have your position after you have listened to all of these things. Where does this not include your principle and where do you think it falls short? Now, I would like to have that in a memorandum from you, and I would like to read it. I don't want to say tomorrow morning or tomorrow afternoon. Whenever you can comfortably get it out, you see.

Barnard: I will do it.

H.M.Jr: Because as Harry said, sometimes you can get these things in a week or ten days. Sometimes it takes me several months. Then I have got the job of trying to sell it to the President. I would again very much like to see what you feel after having heard - I needn't tell you about the preponderancy of the experts. That doesn't matter. But if you would do that for me, would you?

Barnard: I will.

- H.M. Jr: Ed, have you spoken your piece?
- Foley: No, I have nothing to add. I haven't been sitting in on these meetings. Chuck has been sitting in for me, Mr. Secretary, and what Randolph Paul said represents what I think.
- Paul: I would like to add this, Mr. Morgenthau, that there is in the attitude of those who favor the lower alternatives which brings about three billion - or two billion eight on account of the withdrawal tax, there is the feeling that that is about all the psychological traffic will bear at this time at the end of 1941, and there is the feeling in addition that that amount should not be taken out of any incomes of married people below fifteen hundred or single people below seven hundred fifty, the present exemptions.
- H.M. Jr: Well, I am willing to express my view on that. You people will have trouble selling me on going that low. I wouldn't under any circumstances go below that.
- Paul: Well, that is our point that that is the lowest we ought to go.
- H.M. Jr: You will have trouble selling me seven hundred fifty to fifteen hundred dollars, but if anybody wants to go below, I am willing to express my opinion that that is out, as far as I am concerned.
- Paul: Well, that was the furthest this crowd disagreed.
- H.M. Jr: If some other people want to go below seven hundred fifty and fifteen hundred, they wouldn't get anywhere with me, because I don't

even know whether I want to go that far because there are too many taxes which already hit them. I mean, the fellow that buys a package of cigarettes, et cetera, et cetera, he is paying that tax already. So when you hit the fellow on top of that with some more stuff, you are getting right down to the crowd who can - and I mean I was very, very reluctant to go to seven hundred fifty and fifteen hundred on the income tax, but I was jockeyed into that position through the community property tax people.

Paul: If you are not going to go that low, Mr. Morgenthau, and are going to get two billion eight, then you will have to increase the rate.

H.M.Jr: Well, the rate doesn't bother me. I want to get just as much as I can get, you see. The rate doesn't bother me. You will find me on the high side on the rate and arguing against going as low as seven hundred fifty and fifteen hundred; so if I were you, I would save my breath, anybody that wants to go below seven hundred fifty and fifteen hundred because I wouldn't do it. I was very, very reluctant to go that low. I know how many taxes these people pay already.

Paul: I should add, I think, that we are all reluctant even to go to those figures, but we feel - Congress at least, tell us that that is necessary in order to have any appreciable effect on inflation. We are not going down to those figures except that that is where the mass purchasing power is.

H.M.Jr: Who says that?

Paul: Well, Mr. Blough can tell us about that.

Sullivan: Mr. Friedman has some figures that are very interesting if you care to hear them, sir.

H.M.Jr: I will come to him in a minute. I haven't heard Blough.

Sullivan: He has a memorandum, too.

H.M.Jr: I wanted to hear Blough on the whole picture and then I will be glad to hear Mr. Friedman.

Blough: I am in substantial agreement with the program which Mr. Paul outlined with respect to the supplementary types of taxes, the revisions of excess profits tax, the community property, tax exempt securities, et cetera, et cetera. When it comes to this main issue of savings vs. taxes, I have certain very serious--

H.M.Jr: Now let me just get this. When you are talking - I keep thinking of - you are talking about savings vs. taxes. You mean taking the money now and promising to give it back to them?

Blough: I say savings in this connection. I mean taking the money they bring in or pay in and spending it but setting up an account for the man who pays it in, holding sort of a deposit account there for him so that after this is over it may be paid back to him.

H.M.Jr: Now, where are you on that?

Blough: I feel that at the levels we have been talking about here, and at this stage of the game, that it would be well not to go into allocating these funds to individual accounts. I haven't the slightest doubt that before this is over we must do it and I shall be in favor of doing it, and if I thought this was the last bill that was going up, I would be

in favor of doing it now. I am not in favor of the proposals made by Mr. Barnard for rather fundamental reasons in some cases and for purely administrative reasons in other cases, but on the program that was presented here, my only feeling is that at the levels now stated and at the - with the exemptions which you have mentioned, which I think for inflation control purposes are too high, but I will not waste my breath in discussing them--

H.H.Jr: Which is too high?

Blough: The seven fifty and the fifteen hundred.

H.H.Jr: You think that is too high?

Blough: If you want to control inflation, I think it is too high. Not from the point of view of equity. I feel it is too low from the point of view of equity, but from the point of view of controlling inflation, I think it is too high.

H.H.Jr: We will have a dissertation on that in a minute.

Blough: But at this stage and with these rates, that would not be wise to include compulsory savings in the picture.

H.H.Jr: The withholding tax is all right, but compulsory savings isn't, is that it?

Blough: I have no objections to giving this money back to them after the war except that it seems to me that to start at this point to promise it back to them is to pile up a huge amount over the next few years, more than we will want to have piled up in that form.

H.M.Jr: Well, for somewhat different reasons I come to more or less the same conclusion, because I think if we begin to promise at this stage what we are going to give back after the war is over, whoever will be here when this war is over is going to face an impossible fiscal situation. We may have to talk about handing out your cigar coupons. We may have to do that later on, make some promises which may be very difficult to keep.

Also, how do we know today who the people are that we want to benefit after the war is over?

White: Is that subject open for discussion? You have raised a new subject that I didn't know was going to be discussed, because if they are there are some things to be said on the other side.

H.M.Jr: I am sure there are, Harry. I will tell you what I would rather do if your blood pressure will permit it. You can contain yourself for a minute. I would like to hear an argument - we will go back to the original because I side-tracked that to give Blough a chance. I will come back. I would like to hear an argument why they should go below seven hundred and fifty dollars in the interest of inflation.

Foley: Groves?

H.M.Jr: Groves or Friedman.

Blough: Mr. Friedman has the figures, and I suggest he present them. I haven't a copy.

H.M.Jr: You gentlemen flip a coin to decide between you.

Groves: You give the figures, and I will give the

argument. (Laughter)

Friedman: I have here some data for families showing how the money spent by income classes falls in the different classes. The striking feature is the spending in the class of family with incomes between one thousand and two thousand dollars. Of all consumption items, for all consumption items, thirty-six and a half percent was spent in 1935 and '36 by people in that class, the one thousand dollar to the two thousand dollar class. If you take durable goods alone, where we have--

H.M.Jr: Whose figures are these?

Friedman: These are based on an extensive study that was tabulated by the National Resources Planning Board.

If you take durable goods alone, and that is where an important part of the inflationary problem resides, some thirty-four percent of the total is purchased by people in the thousand to two thousand dollar class. That is families with that income. The percentages are somewhat the same for most other types of goods, so that if you were to leave out families with incomes under two thousand dollars and take account of the allowance for dependents, most of them pay very small taxes under the seven hundred fifty and fifteen hundred dollar exemptions. You would be leaving out more than half or about half of all expenditures on consumption items.

H.M.Jr: Now, have you broken down how much of that so-called consumption items is food and clothing?

Friedman: Yes.

- H.M.Jr: Well, how much of it is food and clothing?
- Friedman: Of the total food expenditures, about twenty-seven percent is spent by the families with incomes under a thousand dollars. About thirty-nine percent by the families from a thousand to two thousand and about thirty-three or -four percent by all families above two thousand dollars. I don't have the breakdown for clothing, but I do have it for semi-durable goods as a whole, including clothing and certain other items, but clothing is a very important item in that. There, only sixteen percent is spent by the families under a thousand. Thirty-four percent is spent by the families from a thousand to two thousand and about fifty percent by all the rest of the families.
- H.M.Jr: Go ahead. Let me just ask Blough this thing. With the exception for one, two, and three children, would you reach them with a fifteen hundred dollar base?
- Blough: On the fifteen hundred dollar base with two children, you would have twenty-three hundred of exemption.
- H.M.Jr: So you wouldn't reach them?
- Blough: No, and that is the basis of my comment a few minutes ago that for inflation control it seemed to me you had to go lower even though from the viewpoint of equity it wouldn't be desirable to do so.
- Friedman: I think those are the high-lights of these figures. There are more details, but there is the main point, which is that you have a great concentration of the purchasing power that actually buys the goods and services in this in-between income group of

about a thousand to two thousand.

H.M.Jr: Now, does Mr. Groves want to say something?

Groves: Well, I have the view, Mr. Secretary, that it is necessary to include a larger number of people in the direct income tax system in order to avoid inflation in this case or a sales tax or a gross income tax for which there is very considerable amount of support. I feel personally that that is sound from a general point of view and outside of considerations of the war. I think that more people should support the national government with a direct tax. It is rather unsound to have the national government supported through a direct tax by a very small minority of the people. I would agree that the - that might involve some decrease in the indirect taxes. I think, however, that the main consideration at the present time is the fact that in order to finance this war successfully you have got to have a very considerable portion of the American people involved in the financing, even a direct part.

The exemptions are still substantially above those in England and Canada and Australia, and while I have never been accused of favoring tax policies that are especially hard on the little fellow, I should like to see a broadening of the income tax program to include more people, and I think that this is the right direction, especially in view of the inflation situation.

H.M.Jr: Now, Harry, which argument did you want to give?

White: Both. You see you first started out and asked us about our position and we stated it.

You are now raising the points, and I think I, and doubtless some others, would like to comment on it if it is open for discussion.

I would first like to direct myself against the consideration as to whether it is desirable at this time to have a portion of the withholding tax forced saving, or whether it is preferable to have it all taxes. I feel that there is much to be said at this time for having a portion of it returned after the duration. The reasons have been given before. The arguments in support of that reason may be new, but the reasons which have been advanced are two. I think in the first place it is much easier and more desirable to have a tax which includes a savings provision. In the first place, on political grounds I think it is very important that the large groups who are being taxed for the first time in these new taxes which have already gone into effect not be struck suddenly with the burden of the additional tax that would be imposed by the fifteen percent without some factor which makes it more attractive to them. They are being asked to pay two taxes, two additions, at one time, and I think that the political situation in the country is such that we have to go a little more carefully than we would like to go on purely fiscal or economic ground, in the matter of imposing too great a burden on large groups of low income persons. After all, we are not in the war. If we were in a war, I would have no hesitation about doing that and possibly going even further. We are in a state of public mind in which there is a great deal of discussion as to the desirability of further defense, as to the cost of further defense, and if we start in by giving them a sock before we

have even got into the program, I am a little bit worried about the political reaction on the part of large groups, so that on the grounds of their reaction, and on the grounds of the Congressional acceptance of a tax, I feel that there is necessary a desirable measure of sweetening.

H.M.Jr: We are all in favor of sweetness--

White: Now comes the light.

H.M.Jr: ... and light.

White: The point you made about piling up balances and that the others who have opposed the tax agree with, thereby calling upon the Government to meet an out-payment during the depression period is one that I think has very considerable advantages. I don't think it would amount to a great deal, and that, I take it, is a point that Mr. Barnard meant, that if this thing was going six or seven years in which you might pile up an enormous debt which you would have to pay back, I think the consideration would be different, but I don't think that the amount that you are going to pile up through forced saving which you initiate now and are apt to continue during the next couple of years is going to be large enough to be troublesome, but it will be extremely helpful in distributing purchasing power where it is most effective in raising the level of business activity, and you know the difficulty we had in finding ways to spend money during the depression. This is an ideal system.

H.M.Jr: What?

White:

Yes, the difficulty we had in finding ways to spend money. You remember all the trouble we had in trying to figure out a spend-lend bill and all we could scrape up was a couple of billion dollars of good projects. Now here is a perfect project. It goes out in the various streams of those people who need it most because the people who don't need it probably won't call on it. They get two and a half percent on it. They can invest it in bonds. They will spend it in such ways as it does the most good, so I think from an economic point of view it is highly desirable to pile up that kind of a balance, so on both those grounds I think a portion of this tax withholding saving is highly to be desired.

H.M.Jr:

Now let me just get this. Does anybody that I haven't called on want to say something. Buffington?

Buffington:

No, I haven't had an opportunity to read these reports and give a considered judgment on the plans, the various plans, but broadly speaking, I agree with Mr. Blough and Mr. Groves. I am in favor of direct taxation, both for running the Government under normal circumstances and during this emergency. I think you set at this time a bad precedent in anything where you contemplate paying back to someone when you don't know what the circumstances are going to be five or six years hence, and further, I think that you have got to get into low income groups to avoid this inflationary effect.

H.M.Jr:

Chuck, you have been very quiet and very patient.

Kades:

Well, there isn't anything that I can really add to the discussion. I feel, though, that when you tax a man who is making ten dollars a week, which is what you do when you lower the exemption to five hundred dollars, that you are taking a tax away - taking part of a wage away from someone who hasn't a great stake in a democracy. I don't

- 33 -

think he could be very much worse off under any system, especially after you deduct the Social Security tax.

H.M.Jr:

You would leave it where?

Kades:

I would leave it at seven-fifty. It seems to me that we want to avoid inflation but that there are some things worse than inflation and one of those would be the sapping of the morale of the common man, and I don't see that a man who makes ten dollars a week need make any additional contributions over what he is making now.

H.M.Jr:

Now, Kuhn?

Kuhn:

Well, I would like to ask Mr. Friedman whether, if the exemptions were left where they are now, the effort to control inflation would be doomed right at the outset.

Friedman:

It is not so much that it would be doomed but that if these figures mean anything it would mean a very great burden on a very much smaller group. A very much heavier burden would be necessary in order to draw enough purchasing power to control the inflation problem.

H.M.Jr:

That is, if they left it at seven-fifty and fifteen hundred?

Friedman:

Yes.

Kuhn:

But it wouldn't be a hopeless fight? I think you made it sound a little as if --

Friedman:

No, it wouldn't be a hopeless fight. I think you are right on that.

H.M.Jr:

I want a memorandum from you, Friedman, on that. I haven't got those figures. Will you give me a very simple memorandum?

Friedman:

Yes, sir.

H.M.Jr: You might give it to Blough and Blough will see that I get it.

Friedman: Yes, sir.

Paul: I would like to ask --

H.M.Jr: Just a minute, there are two men on the back we haven't heard from.

Shere: I think one thing needs to be clarified and that is that the program presented by Mr. Paul doesn't completely do the job of inflation control and that it has implicit in it a substantial price rise. Now, if we get a five or a ten percent price rise or even a smaller percentage price rise, that is about as burdensome on the little fellow, the people down below the exemptions that we are all very much concerned about. It is like a gross income tax which taxes everybody without exemptions and if the choice is - and I am not saying that it is - if the choice is in going down below fifteen hundred and seven hundred and fifty dollars and preventing this price rise or letting the price rise go forward, it would probably be a lot kinder to the little fellow to tax him a little more with this withholding tax and to prevent the price rise and thereby the burden that goes with it.

White: That is partly --

H.M.Jr: I will give you a chance. Is that all?

Shere: I am through.

H.M.Jr: How about you?

Tarleau: Well, I agree, certainly, with what my boss, Mr. Sullivan, said in every respect, but I have --

(Laughter). There is one question, Mr. Secretary, that I --

Foley: How are you (Secretary)? (Laughter)

Tarleau: Mr. Secretary, you know what I mean by that. There is no offense intended.

H.M.Jr: I wasn't offended. I am used to these people, you see, that is all.

Tarleau: But I was interested in one question you asked, Mr. Secretary, which has disturbed me a great deal, and that is, what does a man making seven hundred and fifty dollars a year spend his money on and what does he spend his money on which we don't want him to spend his money on during this period, so that we are withdrawing from him by lowering the exemptions two hundred and fifty dollars down to five hundred and a fifteen percent tax, taking away thirty-two dollars and fifty-cents from him, which is equivalent to I don't know how many weeks' salary, but we want him not to spend this additional thirty-two dollars and fifty cents.

What I was wondering is, what - I just don't know, but it seems when you are getting down to that subsistence level, what is it that we don't want him to spend his money on and consequently take his money away from him?

H.M.Jr: I am glad you said that because in the stories they write now, no one ever writes a story that I had anything to do with the food stamp tax but we did the original work and the original study was made by me in the District of Columbia with Treasury money under Dr. Parran and I made the big fight against Wallace and against Hopkins in order to get this food stamp thing. We have some very interesting figures on the very lowest income group, what happens to the first money they

get and what it is spent for and I can't quote them. George Haas worked on the thing for me. It was very interesting and we found that the money didn't go for food and therefore we had to assist them in getting additional food because when they got an additional dollar or two they didn't spend it for food and the whole question of malnutrition came in.

I don't know about your figures, but I have got the studies Dr. Parran made for me with fifteen thousand dollars that I gave him in the District on the very lowest income group and I am not just going to, if you don't mind, take those figures of thirty-five lying down, and I think it is terribly important to decide what happens to the man with ten or fifteen dollars a week and how much taxes is he paying now to the Federal Government, and how much taxes is he paying to the community through his rent and so forth and so on, but I know that those figures which we have originally gotten shocked me so and the whole study that we made in the Treasury through Dr. Parran is available. It was made on the very lowest income group.

Just to say that we want to stop inflation by putting fifteen percent on those people, I am just not sold. Haas can dig up those original studies which Dr. Parran made right here in the District. I would like to see more work, and there must be more information. Didn't Brookings do a job on that?

Friedman:

Yes, they did, but that was back - for the period before 1929. These data which I am citing were nation wide studies. The study was made in 1935 and '36 with funds from the Works Progress Administration. It was a some ten million dollar study, all told.

Kuhn:

Mr. Secretary, if they didn't spend it first on

food, can you remember what they did spend it first on?

Q. Jr: It went to luxuries.

Q. Jr: Luxuries?

Q. Jr: Luxuries for them, so called, yes.

Q. Jr: On rents also?

Q. Jr: No, luxuries. The first of it went for luxuries. I mean it went for liquor and cigarettes and candy and that kind of thing, but it didn't go for clothing or food or shelter.

Q. Jr: Then the implication of that is, if you cut down on them, what they will cut out is necessary foods, or cut down, not cut out, and not cut out the things that you think they are going to cut out, that is the implication.

Q. Jr: And the things that you want them to buy less of, so I am wondering if by using the shotgun we are not hitting the wrong thing and we might have to use a rifle.

Q. Jr: And we would have a rifle to hand in the excise taxes on durable goods.

Q. Jr: Now you have got it; that is exactly the point that I am groping for. As I say, the study that Dr. Parran here - George went all through that with me. We had these meetings over there with Wallace and Hopkins and Dr. Stanley, and that original thing is what shocked me so, and I made that original fight.

Now, if by doing this thing you are going to have the people eat less food and buy less clothes and have less shelter, we are doing just what is contrary to everything that the New Deal stood for,

but unfortunately hasn't gone far enough in the way of accomplishing. You can get a specific tax on these specific things. After all, if we can tax automobiles and iceboxes and radios and luxuries, I am raising this thing at this time. That is what I have always had in my mind and that is - they have got to do a great deal more work on me before I am convinced.

Washburn: Then as you tax the liquor, the cigarettes and candy and so on, that these expenditures were for --

Washburn: Tax the things, Ferdie, that you don't want them to buy and don't use a shotgun and terms of fifteen percent and say, well, if you put fifteen percent on, that is going to have them buy fifteen percent less, but you may have them buy exactly the thing less that you want them to buy more of. You talk about morale. You want them to have - one of the troubles in the Army is that they have to reject so many people on account of malnutrition. Now we come along with something which will - I know my facts are right as to the - and Dr. Farran, I am sure, since then has made other studies, but if he hasn't, the one in the District was enough. Harry will remember it.

Washburn: I remember that very definitely and that whole episode. It is a very long report and episode of a few years ago as a result of those studies which you had and you pushed on the food stamp plan. A lot of things followed from that, but that is the basis of it.

Washburn: Yes, and now do we want to suddenly reverse that trend through what you people call a withholding tax? It is very important.

Sullivan: Well, you have to remember, Mr. Secretary, that when you put an increased excise tax on a commodity

that is commonly used by the general public, that is also a shotgun technique because you have no assurance that merely raising the tax on that particular commodity is going to reduce the consumption of that particular commodity. That too may mean that they will continue to buy those things, and because they pay a higher tax on those particular things, have less to spend on the things we want them to have.

White: That is only partly true, John.

H.M.Jr: That doesn't impress me, if you don't mind. The thing that Leon Henderson hasn't been able to answer to me, if there are only going to be half as many automobiles to go around - personally, I only think there should be one percent as many to go around, but using his present figure, that there only should be half as many, how are you going to decide who gets the half that are left? He hasn't been able to answer that. Now, if there are only half as many automobiles and twice as much purchasing power, how are you going to distribute it? Leon says he is working on it, but he is unable to give me an answer on that.

But that doesn't for the moment come in, but this question of how you are going to get this eight or ten billion dollars and at the same time get the people to eat more, clothe themselves more, and get better shelter, but keep the liquor and tobacco and candy away from them, I would like this group to do more work on that. My mind is kind of set on that, and if I am wrong, I want to be dynamited loose from it. I don't have many ideas but I have got a pretty good idea on that, and if I am wrong, I am glad to be worked on on that.

Kades: Mr. Secretary, there is another study also by

Dr. Lubin of the Bureau of Labor Statistics presented to the temporary National Economic Committee along those same lines. It showed, for example - I remember a few of the figures - that forty-four percent of the income of a family not on relief, below twelve hundred and fifty dollars, was spent on food and that if that family received two hundred fifty dollars a year more - the families in the country which received twelve hundred fifty went up to fifteen hundred - some seven or eight hundred million dollars a year more would be spent on food.

For example, I remember Dr. Lubin testifying that expenditures on oranges would increase from seventy-five cents a year by such a family to two dollars and a half a year. Now, when a family spends as little as that on fresh fruits and we propose to lower the exemption down to that level, it seems to me that we are impairing the purchasing power for the type of thing that it should be able to spend money on. Medical expenses would double in that same bracket. That is also, it seems to me, a supporting argument in favor of forced savings so that when that family's income does decrease after this emergency, it receives a cushion.

H.M. Jr:

Well, if I had to move today, I would be on much safer and much happier grounds, as far as I am concerned personally, to move on a higher income and then gradually move down; I mean, if I had to move today. You can always move down because the hue and cry from the rich people will be to move down. All the pressure will be to move down. It will take everything that I have got to resist it. But I think we have got to know more about that.

Barnard:

There is one consideration that ought to be kept

in mind. If what you propose to do isn't big enough to stop inflation, you are not going to stop taxing those people. If you raise the rate, for instance, if you can raise the rate to twenty percent on the people above those middle groups, that cuts down enough consumption to save the others, all right. But if you are not going to do that you have to envisage the possibility of willy-nilly taxing of these people down below. Let's not forget we are talking about the very least that we can consider to control inflation if the dope is any good. If we need nine billion we are nowhere nearly where we ought to be to check this thing.

H.M.Jr:

I agree with you, but after all, what I would like to do if possible, as I say, is to get - is, for instance, to say to Senator George and Mr. Doughton, "Now look, this is what we have got in mind. This is what we consider an ideal plan," bringing everything in, some of the things that Groves mentioned, and so forth. Give him the whole works. He will want to know what the Treasury is thinking about. Here is the whole thing.

Now, gentlemen, I am worried and I have got until the first of January to begin to pick up several billion dollars more. I would like to pick up eight or nine but I want to do it as of the first of January. I don't want to wait until the first of July. Now, how much of this can I get? That is the way we have got to do it. Isn't that right, John?

Sullivan:

Yes, sir, absolutely, and I think at that time the whole plan.

H.M.Jr:

I am perfectly willing because then they can't cry bad faith.

Sullivan: That is right.

H.M.Jr: And I can say, "Now, look, gentlemen, here is the whole works." Even this thing that I call Magill's Civil War Plan; wasn't that when it was declared unconstitutional, I mean that you take the profits of the taxpayer out of the treasury of the companies?

Kades: That is when it was declared constitutional, Mr. Secretary. It wasn't until 1894 that it was declared unconstitutional.

H.M.Jr: But it was the Civil War, wasn't it?

Kades: Yes.

H.M.Jr: Ros Magill was for that, you know. He has talked that for quite a while. Isn't that right? He has talked about it. I am perfectly willing to give them the works, so to speak, and simply say, "Gentlemen, this is what I would like to get." I want to be equally frank with you. I have been put up against the wall, not with two six-shooters, but they might as well have had them, one by a man by the name of Connally and the other named Rayburn, and they told me they are going to have my heart out if I attack the fair name of Texas and the women and their chastity and so forth by taking this right away from them, which they have had, I believe, since 1848, since the Alamo. I am perfectly willing to go up there and give them the works, these two people, and tell them what we are coming for.

I will say, "How much of this can I get on the books before the first of January," and I think I would do it that way, and then go to the President and say, "Now look, Boss, this is what I can get," and he will back me up.

Sullivan: Have you ever heard from Rayburn about this recess?

H.M.Jr: Well, John, I have heard about it. Now, I have seen Rayburn and I can't remember what he told me. Maybe it was from you, but the story as I get it is that they are going to come home Thanksgiving, come Hell or high water, and they will see me on Christmas Day.

Sullivan: January third.

White: There is just one point I would like to make. I think it is a little confusing to talk of enough to prevent inflation.

H.M.Jr: I didn't say that.

White: No, there are some who do it. You either have enough or you have inflation. I think clearly it is just a question of you either have a little more price rise or a little less price rise. It is not a question of getting it or not getting it.

H.M.Jr: But Harry, you who have been here in Washington since '34 have seen many instances, and if I go up and say I have got to have eight billion dollars beginning to come in on the first of January - and see what they have done to poor Leon Henderson in Banking and Currency. What is it, ten weeks now?

White: About three months.

H.M.Jr: I mean, you have these practical things and you have got people like George and Connally who are for taxes as long as they don't touch community property.

Blough: This touches it.

H.M.Jr: And you will have no tax bill if it touches community property. And you have got Sam Rayburn who - I don't know where he stands as long as it isn't community property. And you have got Doughton who has shouted, "Now no more taxes until you save a billion dollars on non-defense," so you have got a practical situation. I am keen to go in but the fact that I am going in with my eyes open after being here for eight or nine years and simply say, "Gentlemen, I want nine billion or nothing," doesn't mean that I am being weak kneed about it; but there is no use my going up there and pounding the desks of these people, because in the first place I have got to hear about Doughton's own tax case, which takes two hours. How is he with his mouse trap?

Sullivan: He is a little better now. It is about an hour and three quarters. (Laughter)

H.M.Jr: He has a case. He bought an invention for fifteen thousand and it is worth ninety. Isn't that right?

Sullivan: Yes, and then he sold it. The invested capital basis for the fellow he sold it to is only fifteen. Maybe the other fellow didn't pay him all in cash.

H.M.Jr: You have got your problem. Now, what I would like to do is this. I think this is a very good meeting and I think we have made a lot of progress. I could be ready again at 3:30 tomorrow afternoon, you see, and between now and then there could be other meetings and see if you can't kind of get a little bit closer together. I am willing to go up to the Hill Friday morning.

- Sullivan: I think you had better have them down here, sir.
- H.M.Jr: I will leave it to them. I think, as I say, if we have it at 3:30 tomorrow I can - yes, that is all right. I can make it 3:15. I think we ought to have a little peroration on the necessity of this, you see. I think we ought to have a peroration on that. In order to save time, I think for the time being, unless you fellows - maybe we had better stick to seven hundred and fifty and fifteen hundred, you see. But these other people, I would like arguments both ways, why it should be higher and why it should be lower. Friedman can argue why it should be lower and I hope somebody else will argue why it should be higher.
- Barnard: I won't argue that it should be higher. I will argue that it should be lower, but the rate should be higher, and I think it would be grand to get all we can. If you can't check more than half of the inflation, that much is gained, and it is gained in revenue, too.
- H.M.Jr: I think it is a very constructive meeting. Paul, can you stick with us a little bit longer?
- Paul: Certainly I can. I will stick as long as necessary.
- H.M.Jr: Can you stay another day?
- Paul: Certainly.

H.M. Jr: He will be here at nine o'clock Friday morning. He is up in New York. I think that is all right. I think if we come back with a peroration and so forth - they have thrown out this scheme that if you buy two dollars of my Defense Bonds you escape taxes?

Barnard: Oh, they threw that all out the window.

H.M. Jr: Not even any of his tax notes over here?

Barnard: No monkey doodle business in this.

(The Secretary held a telephone conversation with Congressman Doughton, as follows):

October 29, 1941  
4:32 a.m.

HMJr: Hello.

Robert  
Dougaton: All right.

HMJr: Bob, this is Henry talking.

D: All right, Henry.

HMJr: Bob, I'd like very much to sit down with you and Walter George Friday morning at a confidential talk, and tell you just what we have in mind in regard to additional revenues.

D: Well, can't you let that go until about next week?

HMJr: No, I'm afraid not, Bob.

D: Well, I'm going home tomorrow.

HMJr: Oh, gosh.

D: Yeah, I'm going home tomorrow. I've got an engagement down there and I was going home and wasn't coming back - I haven't been out at all to get a rest - I was going to go home and come back about Wednesday or Thursday. I'd get with you and Walter tonight, if it's pressing, somewhere.

HMJr: Well, Walter George isn't here. He's in New York.

D: Where did he go?

HMJr: He went up to New York.

D: Since we had the meeting today?

HMJr: I just called up his office, and he's gone.

D: Well, that's too bad.

- 2 -

- HMJr: But if he was going to get back here tomorrow, I'd be glad to drop everything.
- D: Well, I'll ask you this - is it relative to this Administrative Tax Bill or.....
- HMJr: No, I'm talking about more revenue.
- D: How's that?
- HMJr: I've got to get more revenue.
- D: Well, you don't expect to be able to get it now out of this year's business, do you?
- HMJr: No, I want it for January 1.
- D: You mean January 1?
- HMJr: I want to get it beginning January 1.
- D: Beginning January 1.
- HMJr: Yes.
- D: Well, that's what I thought. Out of 1942's profits and earnings and business.
- HMJr: That's right.
- D: Yeah. Well, we've got enough time for that haven't we? There's next week.
- HMJr: Well, I - not if you fellows are going to go home for Thanksgiving and stay home until after January.
- D: Well, I tell you, as far as I'm concerned - as far as I'm concerned, why I'll be - I'll stay any time - no matter what the House does - I think - I have an idea Senator George will do the same thing. Did you have in mind consideration of that bill ahead of the Administrative Tax Bill?
- HMJr: Well, I want to put up to you gentlemen how

much revenue I think we ought to begin to take in on January 1, and.....

D: You mean you're going to have some additional excise taxes?

HMJr: Oh, we've got a big program. You'll have to take it sitting down.

D: How's that?

HMJr: You'll have to take it sitting down. It's going to - it's a big program, and I want to lay it all before you two gentlemen in confidence; and I - I mean, my problem is to get more revenue beginning January 1.

D: Well, I think this - if you'll pardon just an humble suggestion from me.

HMJr: Well, I can only do what you fellows let me do.

D: Well, I know; and I don't dictate and I don't - I just make modest suggestions for what consideration they're entitled and they're worth.

HMJr: But they're very potent.

D: My opinion is this, that if we can accomplish something, I give evidence to the country that we will accomplish something in the way of immediate curtailment of non-defense expenditures, that we will - might not illude and ease our job to a very great extent in the tax bill.

HMJr: Well, I agree with you there, but the thing that's got me worried, and a little bit frightened, is I think we've got to move in both directions at the same time.

D: Well, you know I couldn't serve on both committees at the same time, but a subcommittee could go to work.

HMJr: Yeah.

D: But I've.....

HMJr: You've got to go down - what have you got, an election down there?

D: Oh, they're dedicating a - no, there's not an election down there - they're dedicating a memorial hospital down there right near my home, and I and this assistant are getting some WPA money and they put me on the program and I've got to be down there; and Mr. Dryden from the Works Projects Administrations is going down and the State Administrator is going to be there, and I couldn't break the engagement very well.

HMJr: What day is that, Bob?

D: That's Saturday. I was going down tomorrow.

HMJr: Well, this meeting of mine would be Friday morning. You could still get down - what are you going to do, drive down?

D: Yeah, going to drive down. Be down there two or three days. Why not let this go, Henry, if you can, until.....

HMJr: I'll send you down in a plane if you'll go down.

D: (Laughs) You might feel like the fellow that took the - the man who was looking for illicit stills - to the still house. You heard about that, didn't you?

HMJr: No, what was that, Bob?

D: An investigator - what they call - they called him a revenuer down in my country - a raider.....

HMJr: Yeah.

D: .....went to the home of a man who he suspected of being a moonshiner.

HMJr: Yeah.

D: And he asked the boy, he says, "Where's your daddy?"

HMJr: Yeah.

D: He says, "At the still house." He says, "You know where it is?" "Oh, yes, I know where it is." He says, "I've got a little business with your daddy. I'll give you five dollars if you'll take me over there to where he is."

HMJr: Yeah.

D: He said, "All right, I'll be glad to do it." So they started and went over and up the mountain and down the mountain around and around, and the boy stopped and said, "Do you see that smoke down there?"

HMJr: Yeah.

D: "A little ahead." "Yes, I see that." "Well," he said, "then I want my five dollars." He said, "That's a still house." He said, "I want my five dollars."

HMJr: Yeah.

D: Well, the revenue officer said, "I'll pay you to get back." "Oh," he says, "you're not coming back."

HMJr: (Laughs)

D: (Laughs)

HMJr: I see. Well, I want you back.

D: I'm coming back.

HMJr: I'll pay you five dollars for you to stay and bring you back.

D: (Laughs) But say, supposing you do this.

HMJr: Yeah.

D: I don't want to hold you up a minute longer than necessary. I'll rush back here. Suppose you make your appointment to see Senator George and myself next Tuesday evening?

HMJr: Well, look, what time are you leaving tomorrow. I don't want to be too personal.

D: Six o'clock in the morning or a little later.

HMJr: Tomorrow?

D: Yeah.

HMJr: You're leaving tomorrow morning?

D: Yeah, that was my plans now. I've got my driver and everything ready, and my car full of gas and oil. I'll see you tonight if it's all right with you.

HMJr: Well no, because Walter George isn't here now. I was trying to see if we could get Walter George back here tomorrow.

D: Yeah. Well, I couldn't reasonably go tomorrow.

HMJr: Oh, you're going to go tomorrow?

D: I need to. I promised to. I've arranged to, yes.

HMJr: Well.....

D: I wouldn't think a big tax bill like that would - just two or three days - would be safe, but you know more about that than I do.

HMJr: Well, then I'll tell you what we'll do. Should we say Wednesday morning at nine o'clock?

D: That'll be fine, and I'll be here if I'm living.

HMJr: Wednesday morning at nine o'clock.

D: Where do you want us to meet?

HMJr: Well, would - I think there'd be less publicity in my office.

D: All right. Wednesday morning at nine o'clock in your office. Now Senator George and I'll be there unless I get word of it's - I'll be there.

HMJr: All right.

D: Wednesday morning at nine o'clock.

HMJr: If you please.

D: Thank you. Thank you so much.

HMJr: Thank you.

D: Thank you again for those apples, and I'll write you a note when I get a little time.

HMJr: All right.

D: Thank you.

HMJr: Good-bye.

W. Jr: Well now, you fellows most likely thought I was exaggerating. Here is WPA money and all that, and I told you about his wanting the thing and he won't stay. He has got a courthouse dedication down there.

Sullivan: Well, you remember when we first discussed this preparing the budget he had to leave immediately to go down to the War Department and get a munitions plant in his district.

W. Jr: Well, we will keep on. It gives us a little more time.

Sullivan: Just what did you want us to consider before tomorrow afternoon, the particular question that was raised about where these people spend their money?

W. Jr: As far as I am concerned, seven hundred fifty is the limit. Just the things that we have brought up here today, that is all. See if we can't get a little closer together. I don't want to go over the whole damn - you know.

Barwood: Shall we go at it at nine?

Sullivan: O.K.

Deal: Yes, sir.

(The Secretary held another telephone conversation with the secretary of Senator George, as follows):

October 29, 1941  
4:30 p.m.

Sen. George's  
Secretary:

Yes.

HMJr: How are you?

S: I'm fine, thank you.

HMJr: I'd like to have a confidential meeting  
with Senator George and Congressman Doughton.....

S: Yes, sir.

HMJr: .....to tell them just what we have in mind  
in regard to revenue.

S: Yes, sir.

HMJr: Now, I'd like to have it very much Friday  
morning.

S: Friday morning? I can arrange it as far as  
the Senator is concerned. He can be there  
any time.

HMJr: Well, I'm suggesting the possibility of having  
it in my office only because I think there's  
less chance of there being publicity on it.

S: The Senator will be very glad to come down  
there.

HMJr: What time does the Senator like to meet in  
the morning? How early?

S: Well, he usually comes to the office around  
eight-thirty or sometimes earlier than that.

HMJr: He does?

S: Yes, sir. He can come by there, or he can  
come over later.

HMJr: Well, is nine o'clock a good time?

S: Nine o'clock will be a good time for him.

HMJr: Well, let's - suppose we set it tentatively for nine?

S: Nine o'clock Friday.

HMJr: Do you think you can deliver him?

S: Yes, I think I can.

HMJr: Wonderful.

S: I'll tell him tonight; and if there's any reason that I don't know about.....

HMJr: Yes.

S: .....I'll call you tomorrow.

HMJr: Very fine.

S: And you will, of course, make the arrangements with the Congressman.

HMJr: With Mr. Doughton?

S: Well, the Senator will be there unless you hear from me tomorrow.

HMJr: I'll expect the Senator at nine o'clock Friday morning unless I hear to the contrary.

S: And in your office.

HMJr: If you please. Or, if he wants some other place, I'll be glad to go any other place.

S: Oh, no; he'll be very glad to come there.

HMJr: And this will be a confidential meeting.

S: Yes, sir.

HMJr: Thank you.

S: Thank you, Mr. Morgenthau.

HMJr: Good-bye.

S: Good-bye.

H.M.Jr:

Well, I think you have all got what you want. We will have another whirl at it. I am very much obliged and I think we have made good progress.

Preliminary Report of Anti-Inflationary Tax-Saving Plans

Nature and Magnitude of Problem

The minimum amount of deduction from income of consumers required to prevent inflation of 10% or more by June, 1942 over June, 1941, is \$6 billion. The computed maximum required is \$9 billion; but it is possible that this might be exceeded. We have considered means of direct taxation-saving control which at most only would attempt to withdraw the minimum required, i.e., \$6 billion.

It is agreed that any direct tax-saving plan to control or minimize inflation should be adopted and made effective as soon as possible.

Social Security Extension

It is agreed that the proposals of the Social Security Board with respect to the extension of old-age and survivor insurance, and with respect to unemployment insurance should be accepted; and that the proposals with respect to hospitalization and sickness insurance and general relief should be rejected. The proposals thus approved involve increases of payroll taxes of 1% for employers and of 2% for employees, or a total additional rate of 3%. The aggregate payroll taxes for social security would become \$1.7 billion. For the first few years these rates involve an increase of excess collections of about \$1.7 billions. For our purposes it was assumed that the immediate (but not permanent) anti-inflationary effect of these increased taxes is equivalent to \$1.7 billions reduction of income. This would leave \$4.3 billions to be

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 subtracted from income by other methods.

It is noted that although the predominant opinion is as stated above, the acquiescence in the social security program is based on general considerations; and that some of us regard the plans as positively unsound and inadvisable under present conditions.

If the proposed Social Security taxes cannot be effective before 1943, they cannot help in the immediate inflation problem.

#### Tax and Compulsory Saving Plans

Assuming the adoption of the Social Security program as above, the amount of spendable income further to be taken to meet the minimum requirements is not less than \$4.3 billions. It is agreed that to accomplish the purpose severe restrictions of spending in low income groups is necessary and in the interest of persons in these groups. There is some disagreement as to the desirability or feasibility of securing the desired \$4.3 billions by a combined compulsory saving-tax-at-the-source plan. The plan which most nearly represents the views of all will be stated first, then three alternatives considered and meriting attention as making clearer the practical problem.

##### a. Preferred Plan

A new 12½% supplementary individual income tax on all sources of income, withheld at the source with respect to salaries, wages, dividends, interest and royalties. The proceeds are to be allocated in the amount of \$500,000,000 to savings confined to withholdings at low income levels. The exemptions are to be lowered to

\$500 and \$1,000 for the present \$750 and \$1,500, and \$300 for dependents instead of \$400.

This plan would produce \$.5 billions saving plus \$3.1 billions tax revenue, or a total of about \$3.6 billions. This is \$.7 billions short of the required amount.

Details of the plan are given in Appendix A.

b. Maximum Plan Considered

15% withholding tax, on reduced exemptions as under (a) above, about \$1. billion to be treated as savings, giving \$3.3 tax revenues. Total withdrawal \$4.3 billions, or the required amount.

c. Lower Alternatives

Either 15% with exemption as in present law, or 10% on lower exemptions as above. The withdrawal would be about \$2.8 billion in the first case and about \$3. billion in the second. This would be about \$1.5 to \$1.3 short of the required amount.

d. Straight payroll tax at 5 or 6% plus withholding tax on other income at a higher rate. By varying the percentage or the exemption this would give various amounts, and could be made to yield more than required.

Other Tax Plans

It is agreed that additional taxes and changes in other taxes are desirable as a part of the program, though it may or may not be desirable to separate them from the withholding tax plan in the interest of speedy enactment of the latter. Some of these proposals would be directly valuable in inflation control, others would be desirable strictly for revenue reasons; and as a whole they are desirable to secure a better balanced tax system and for reasons of morale and public support of the withdrawal tax.

A list of these proposals, under consideration, is given in Appendix B.

Other Controls of Inflation

It is agreed that the cooperation of other agencies should be secured in the restriction of consumption, such as the limitation of inventories, the further restriction or elimination of installment buying, and restrictive allocation of raw materials combined with price control.

Control of Expenditures

It is also agreed that effort to secure the reduction of Federal, State and Municipal expenditures is important in controlling inflation.

**APPENDIX A**  
**Details of withholding tax with**  
**compulsory savings feature**

1. **Tax Base:** Excludes net income as at present defined, with allowance for that amount of medical expenses in excess of 5 per cent of income but not to exceed \$2500; (to be allowed for income tax also)
2. **Exemptions:** Single person, \$500  
 Married person or head of family, \$1,000  
 Dependent, \$300  
 Raise age limit for dependent children from 18 to 21 years (to be allowed for income tax also)
3. **Rate:** 1 1/2 per cent; tax to be allowed as credit against income for income tax computation.
4. **Collection:**
  - (a) Wages and salaries: Collect at source subject to weekly exemption equal to: 1/50th of personal exemption and credit for dependents increased by 10 per cent (to allow tentatively for deductions.)
  - (b) Bond interest, dividends, royalties: Collect at source without exemption (except for special treatment to be worked out for persons with very small incomes largely from these sources)
  - (c) Income from proprietorship and partnership business and professions: Quarterly return and payment on estimated quarter-year income, less allocated personal exemptions and credit for dependents if not claimed for wages and salaries.
  - (d) Annual return with supplementary payment (or refund) for all income combined, including income not subject to withholding or returned quarterly.
5. **Period deposited to amount of taxover (compulsory saving)**  
 (To be determined)
6. **Administrative expense:** A withholding tax system with low exemptions would have a normal administrative expense of perhaps 1 to 2 per cent to provide for numerous local offices (for example, an office in every city of over 2500 and every county not having such a city).
7. As to conditions of repayment of reserves, same as in Bernard proposal.

## Appendix B

1. Rate and other changes recommended to balance the impact of the anti-inflation tax program

1. <u>Individual income tax</u> : Increase surtax rates of individual income tax on surtax net incomes in excess of \$5,000 beginning with 1 or 2 percent at the lower levels and ranging up to 5 or 6 percent in the higher brackets.	\$ 200,000,000
2. <u>Corporation taxes</u>	
A) <u>Excess profits tax</u> : Revise basis and increase rates. For example, if the tax were computed using an average of the income credit and the invested capital credit, the revenue would be increased substantially.	500,000,000
B) <u>Surtax</u> : Increase rates 2 percent from 6 and 7 to 8 and 9 respectively.	200,000,000
3. <u>Estate and gift taxes</u> : Increase rates and lower exemptions.	200,000,000
4. <u>Defense excise taxes</u> : Increase rates on a few important items as for example, automobiles, refrigerators, and possibly others which might be suggested by the defense agencies.	400,000,000
Total	\$ 1,800,000,000

II. Changes recommended to close loopholes

1. Mandatory joint returns

If mandatory joint returns cannot be enacted then at least a change relating to community property income is recommended.

2. Insurance taxation

A) Align the treatment for stock and mutual insurance companies other than life.

- 2 -

B) Revise basis for taxation of life insurance companies to provide more adequate taxation.

3. Eliminate percentage depletion or otherwise revise the present scale of successive allowances.

4. Tax-exempt securities

A) Eliminate the exemption with respect to future issues of State and local obligations.

B) Restrict the exemption on outstanding issues to the taxes now prevailing and possibly to those prevailing before the rate increases under the 1941 Act.

5. Capital gains and losses

Align alternative tax on capital gains and losses to allow for rate increases under the 1940 and 1941 Acts.

LS:dmh  
10/29/41

C O P Y

223

October 29, 1941

MEMORANDUM FOR MR. BARNARD:

The appended plan is submitted for the Secretary's consideration. It has the endorsement of Messrs. Paul, Groves, Foley, Morris, White, and Kades.

In order to show that the Treasury is contemplating a balanced program not unduly burdensome to the low income groups, we are strongly of the opinion that the separate parts of the plan should be presented to Congress at the same time, with the recommendation that Part I be taken up immediately.

Mr. Groves makes the important reservation that the exemption in Part I A (2) should be lower and that the rate of 15 per cent should be reduced to 12-1/2 per cent.

Attachment

CLK/EHF: s 10-29-41

TREASURY TAX AND ANTI-INFLATION PLAN

Part I - to become effective January 1, 1942

- A. A 15% withholding tax upon all individuals measured by
1. income from all sources (e.g., wages, salaries, dividends, interest, rents, royalties, etc.)
  2. after personal exemptions now provided for income tax under Revenue Act of 1941 (i.e., single person, \$750; married person, \$1,500, each dependent, \$400),
  3. with provision for repayment in part after emergency to those in lowest brackets.
- B. Net increase in revenue under this part of program estimated to be \$2,700,000,000.00

Part II - to become effective January 1, 1942.

- A. A 3% increase in payroll taxes for extended unemployment insurance and old-age assistance portions of program of Social Security Board as follows:

<u>Type</u>	<u>Employer</u>		<u>Employee</u>	
	<u>Now</u>	<u>After</u>	<u>Now</u>	<u>After</u>
<u>Unemployment Insurance</u>	<u>3</u>	<u>3</u>	<u>0</u>	<u>1</u>
<u>Old-age assistance</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>
	<u>4</u>	<u>5</u>	<u>1</u>	<u>3</u>

- B. Net increase in revenue under this part of program estimated to be \$1,900,000,000.00 (consisting of \$700,000,000 from unemployment part and \$1,200,000,000 from old-age part; gross tax increase being \$1,600,000,000 from unemployment part and \$2,000,000,000 from old-age part; difference made up through increased benefits paid out).

Part III - to become effective with Revenue Act of 1942 but to be submitted simultaneously with Part I.

- A. Excess profits taxation (Morris-Paul-McKeough Plan of averaging alternative taxes; i.e., adding the tax under invested capital method to the tax under average earnings method and dividing by 2).
- B. Manufacturers' Excise Taxes (imposed or increased to discourage purchase of goods competitive with defense articles).
- C. Estate and gift tax revision in rates and exemptions, along lines of Treasury 1941 proposal, and an additional revision to prevent avoidance by life insurance and powers of appointment.
- D. Elimination of tax-exemption of holders of future state and municipal securities on interest derived from this source.
- E. Elimination of discrimination in favor of community property states.
- F. Reduction in depletion deduction.
- G. Revision of capital gains tax provision.
- H. Taxation of life insurance industry (\$30,000,000,000 in assets and \$6,000,000,000 in tax-exempt income).
- I. Elimination of tax exemption of dividends on stock issued by Federal Reserve Banks, Savings and Loan Associations, Farm Loan Banks, etc.
- J. Equalization of the status of dividends and corporate interest for deduction purposes.
- K. Miscellaneous corrections of the statute to prevent avoidance and promote equitable incidence.

TREASURY DEPARTMENT

226

INTER OFFICE COMMUNICATION

DATE October 29, 1941

TO Secretary Morgenthau  
FROM Mr. Barnard

Preliminary Report of Anti-Inflationary Tax-Saving Plans

Nature and Magnitude of Problem

The minimum amount of deduction from income of consumers required to prevent inflation of 10% or more by June, 1942 over June, 1941, is \$6 billion. The computed maximum required is \$9 billion; but it is possible that this might be exceeded. We have considered means of direct taxation-saving control which at most only would attempt to withdraw the minimum required, i.e., \$6 billion.

It is agreed that any direct tax-saving plan to control or minimize inflation should be adopted and made effective as soon as possible.

Social Security Extension

It is agreed that the proposals of the Social Security Board with respect to the extension of old-age and survivor insurance, and with respect to unemployment insurance should be accepted; and that the proposals with respect to hospitalization and sickness insurance and general relief should be rejected. The proposals thus approved involve increases of payroll taxes of 1% for employers and of 2% for employees, or a total additional rate of 3%. The aggregate payroll taxes for social security would become 8%. For the first few years these rates involve an increase of excess collections of about \$1.7 billions. For our purposes it

was assumed that the immediate (but not permanent) anti-inflationary effect of these increased taxes is equivalent to \$1.7 billions reduction of income. This would leave \$4.3 billions to be subtracted from income by other methods.

It is noted that although the predominant opinion is as stated above, the acquiescence in the social security program is based on general considerations; and that some of us regard the plans as positively unsound and inadvisable under present conditions. If the proposed Social Security taxes cannot be effective before 1943, they cannot help in the immediate inflation problem.

#### Tax and Compulsory Saving Plans

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##### a. Preferred Plan

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The exemptions are to be lowered to \$500 and \$1,000 for the present \$750 and \$1,500, and \$300 for dependents instead of \$400.

This plan would produce \$.5 billions saving plus \$3.1 billions tax revenue, or a total of about \$3.6 billions.

This is \$.7 billions short of the required amount.

Details of the plan are given in Appendix A.

b. Maximum Plan Considered

15% withholding tax, on reduced exemptions as under

(a) above, about \$1. billion to be treated as savings, giving \$3.3 tax revenues. Total withdrawal \$4.3 billions, or the required amount.

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Either 15% with exemptions as in present law, or 10% on lower exemptions as above. The withdrawal would be about \$2.8 billion in the first case and about \$3. billion in the second. This would be about \$1.5 to \$1.3 short of the required amount.

d. Straight payroll tax at 5 or 6% plus withholding tax on other income at a higher rate. By varying the percentage or the exemptions this would give various amounts, and could be made to yield more than required.

Other Tax Plans

It is agreed that additional taxes and changes in other taxes are desirable as a part of the program, though it may or may not be desirable to separate them from the withholding tax plan in the interest of speedy enactment of the latter. Some of these proposals would be directly valuable in inflation control; others would be desirable strictly for revenue reasons; and as a whole they are desirable to secure a better balanced tax system and for reasons of morale and public support of the withdrawal tax.

A list of these proposals, under consideration, is given in Appendix B.

Other Controls of Inflation

It is agreed that the cooperation of other agencies should be secured in the restriction of consumption, such as the limitation of inventories, the further restriction or elimination of installment buying, and restrictive allocation of raw materials combined with price control.

Control of Expenses

It is also agreed that effort to secure the reduction of Federal, State and Municipal expenditures is important in controlling inflation.

*PMB.*

**APPENDIX A**  
**Details of withholding tax with  
 compulsory savings feature**

1. **Tax Base:** Surtax net income as at present defined, with allowance for that amount of medical expenses in excess of 5 per cent of income but not to exceed \$2500; (to be allowed for income tax also).
2. **Exemptions:** Single persons, \$500  
 Married person or head of family, \$1,000  
 Dependent, \$300  
 Raise age limit for dependent children from 18 to 21 years (to be allowed for income tax also).
3. **Rate:** 12½ per cent; tax to be allowed as credit against income for income tax computation.
4. **Collection:**
  - (a) **Wages and salaries:** Collect at source subject to weekly exemption equal to: 1/50th of personal exemption and credit for dependents increased by 10 per cent (to allow tentatively for deductions).
  - (b) **Bond interest, dividends, royalties:** Collect at source without exemption (except for special treatment to be worked out for persons with very small incomes largely from these sources).
  - (c) **Income from proprietorship and partnership businesses and professions:** Quarterly return and payment on estimated quarter-year income, less allocated personal exemptions and credit for dependents if not claimed for wages and salaries.
  - (d) **Annual return with supplementary payment (or refund)** for all income combined, including income not subject to withholding or returned quarterly.
5. **Fund deposited to account of taxpayer (compulsory saving)**  
 (To be determined)
6. **Administrative expense:** A withholding tax system with low exemptions would have a normal administrative expense of perhaps 1 to 2 per cent to provide for numerous local offices (for example, an office in every city of over 2500 and every county not having such a city).
7. **As to conditions of repayment of reserves, same as in Barnard proposal.**

I. Rate and other changes recommended to balance the impact of the anti-inflation tax program

1. <u>Individual income tax</u> : Increase surtax rates of individual income tax on surtax net incomes in excess of \$5,000 beginning with 1 or 2 percent at the lower levels and ranging up to 5 or 6 percent in the higher brackets.	\$ 200,000,000
2. <u>Corporation taxes</u>	
A) <u>Excess profits tax</u> : Revise basis and increase rates. For example, if the tax were computed using an average of the income credit and the invested capital credit, the revenue would be increased substantially.	500,000,000
B) <u>Surtax</u> : Increase rates 2 percent from 6 and 7 to 8 and 9 respectively.	200,000,000
3. <u>Estate and gift taxes</u> : Increase rates and lower exemptions.	200,000,000
4. <u>Defense excise taxes</u> : Increase rates on a few important items as for example, automobiles, refrigerators, and possibly others which might be suggested by the defense agencies.	400,000,000
Total	\$ 1,500,000,000

II. Changes recommended to close loopholes

1. Mandatory joint returns

If mandatory joint returns cannot be enacted then at least a change relating to community property income is recommended.

2. Insurance taxation

A) Align the treatment for stock and mutual insurance companies other than life.

- 2 -

B) Revise basis for taxation of life insurance companies to provide more adequate taxation.

3. Eliminate percentage depletion or otherwise revise the present scale of excessive allowances.

4. Tax-exempt securities

A) Eliminate the exemption with respect to future issues of State and local obligations.

B) Restrict the exemption on outstanding issues to the taxes now prevailing and possibly to those prevailing before the rate increases under the 1941 Act.

5. Capital gains and losses

Align alternative tax on capital gains and losses to allow for rate increases under the 1940 and 1941 Acts.

LS:DO:  
10/29/41

# COST OF LIVING

## Changes in Buying Power of Your Dollar World War and Now

### Total Cost of Living

**WORLD WAR —**

What Your Dollar  
Would Buy — 1914 Base



100%



92%



48%

**NOW —**

What Your Dollar  
Would Buy — 1939 Base



100%



91% 94%

June 1942 ? Answer depends on US

### Food

**WORLD WAR —**

What Your Dollar  
Would Buy — 1914 Base



100%



90%



44%

**NOW —**

What Your Dollar  
Would Buy — 1939 Base



100%



84% 88%

June 1942 ? Answer depends on US

### Clothing

**WORLD WAR —**

What Your Dollar  
Would Buy — 1914 Base



100%



89%



33%

**NOW —**

What Your Dollar  
Would Buy — 1939 Base



100%



90% 97%

June 1942 ? Answer depends on US

### Shelter

**WORLD WAR —**

What Your Dollar  
Would Buy — 1914 Base



100%



98%



77%

**NOW —**

What Your Dollar  
Would Buy — 1939 Base



100%



98% 99%

June 1942 ? Answer depends on US

**WORLD WAR —**

What Your Dollar  
Would Buy — 1914 Base



100%



96%



59%

**NOW —**

What Your Dollar  
Would Buy — 1939 Base



100%



94% 95%

June 1942 ? Answer depends on US

\*Figures in red represent June 1941

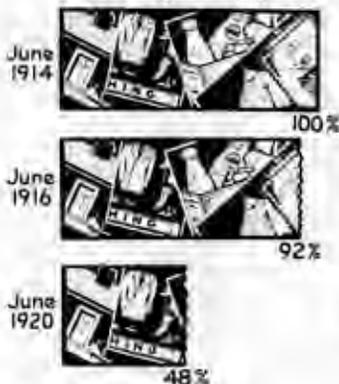
# COST OF LIVING

## Changes in Buying Power of Your Dollar World War and Now

### Total Cost of Living

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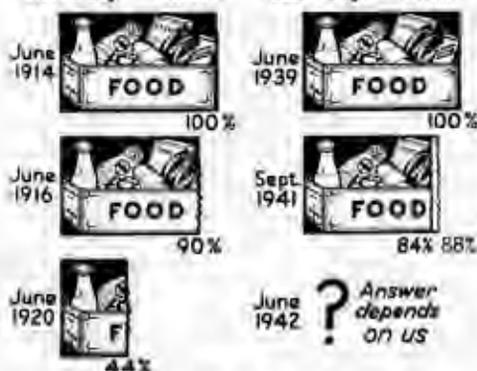
**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



### Food

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base

**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



### Clothing

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base

**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



### Shelter

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base

**NOW —**  
What Your Dollar  
Would Buy — 1939 Base



### Heat and Light

**WORLD WAR —**  
What Your Dollar  
Would Buy — 1914 Base

**NOW —**  
What Your Dollar  
Would Buy — 1939 Base

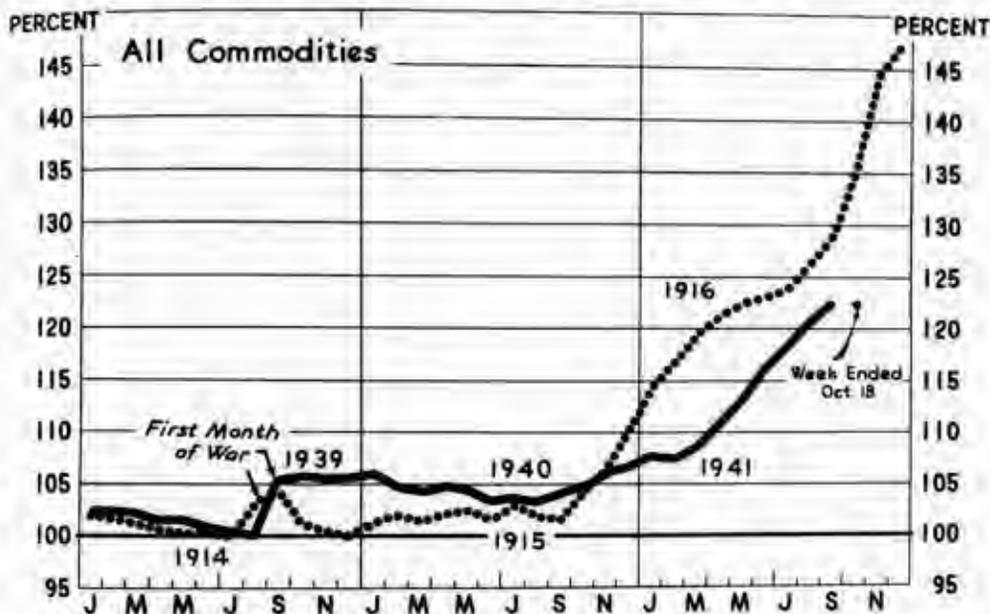


\*Figures in red represent June 1942

Regraded Unclassified

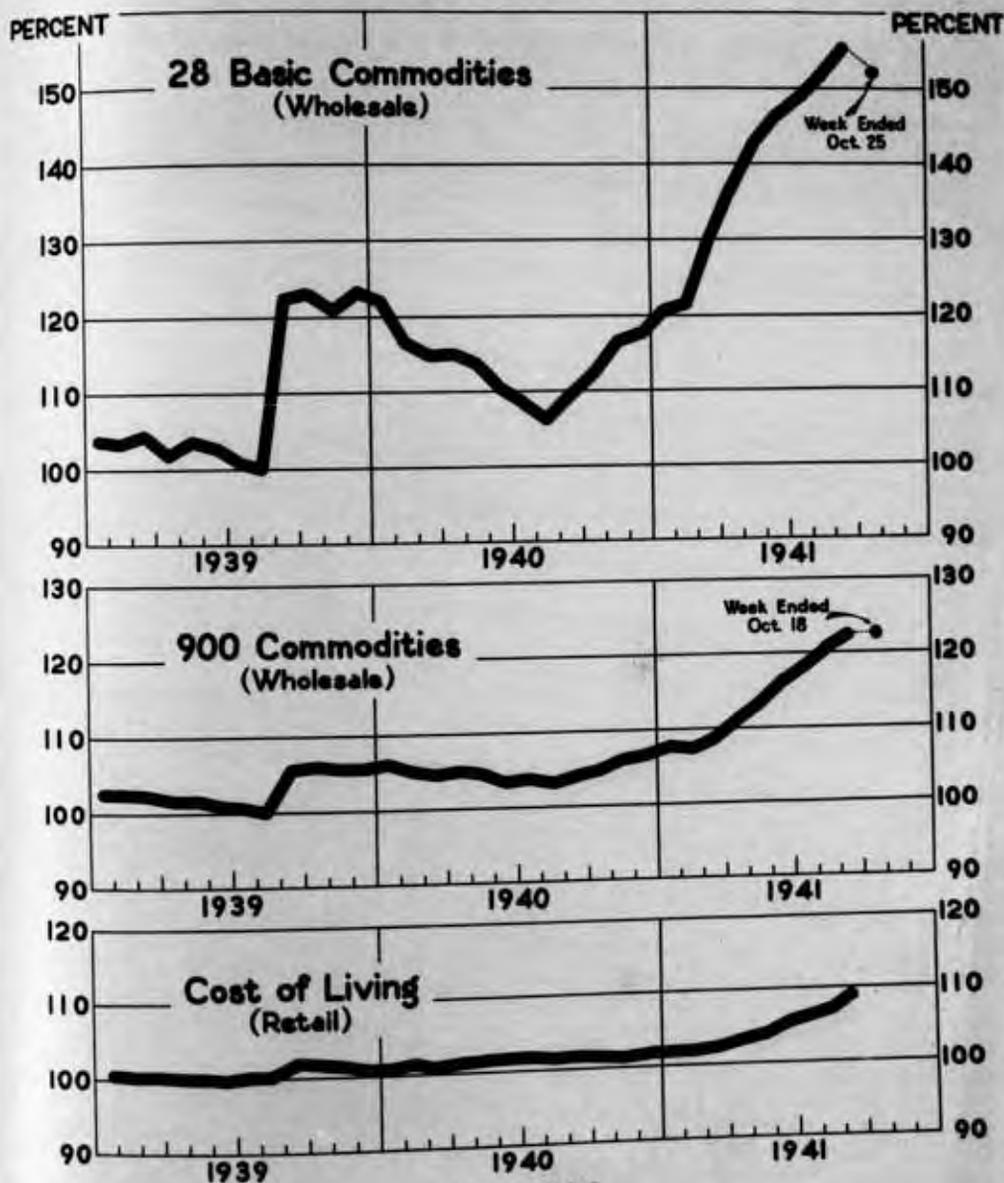
# PRICES, 1939-41 COMPARED WITH 1914-16

July 1914=100 World War Period; Aug. 1939=100 Present Period



## COMMODITY PRICES

August 1939=100

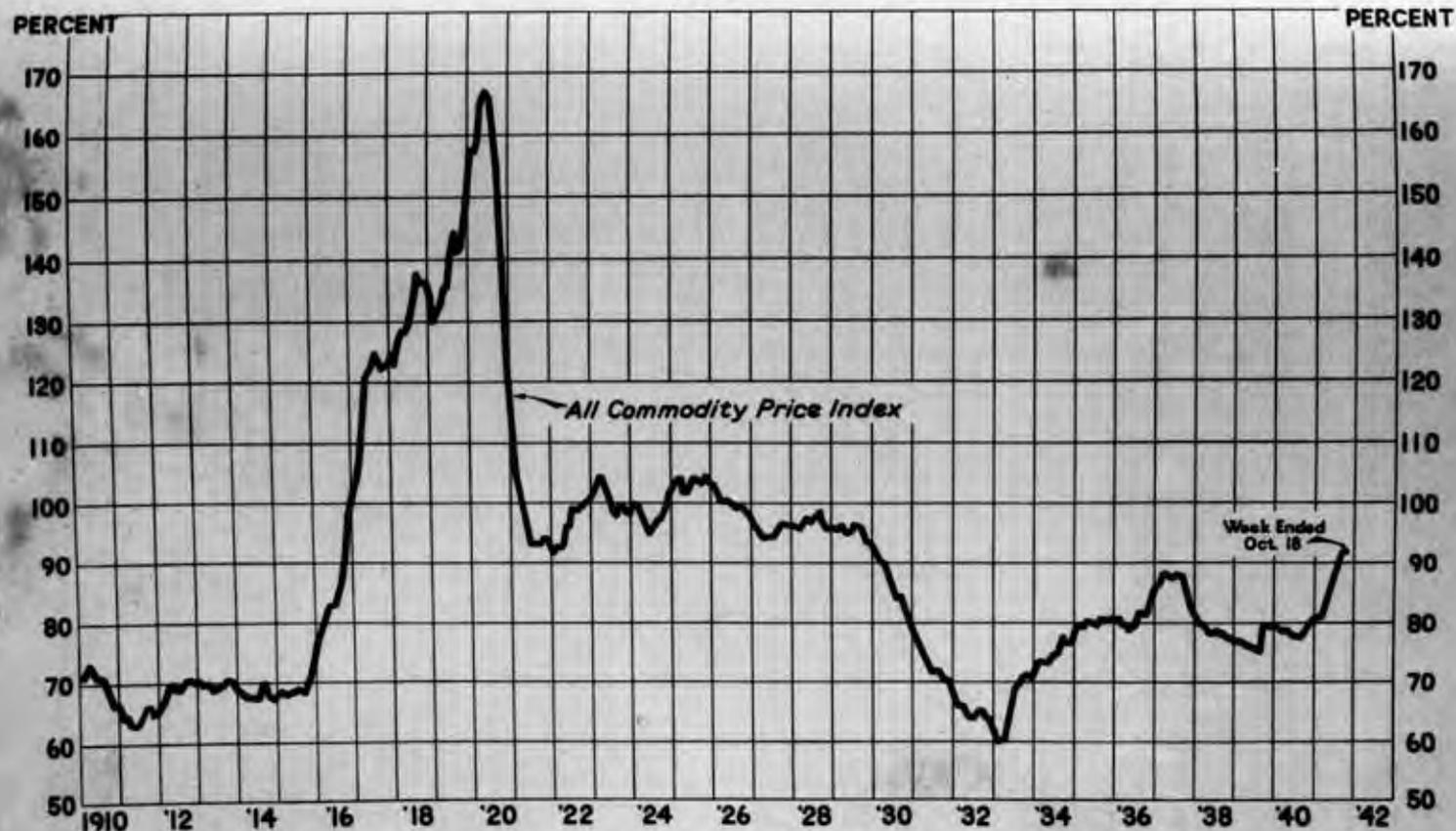


Source: B. L. S.

236

# WHOLESALE PRICES 1910 TO DATE

1926=100



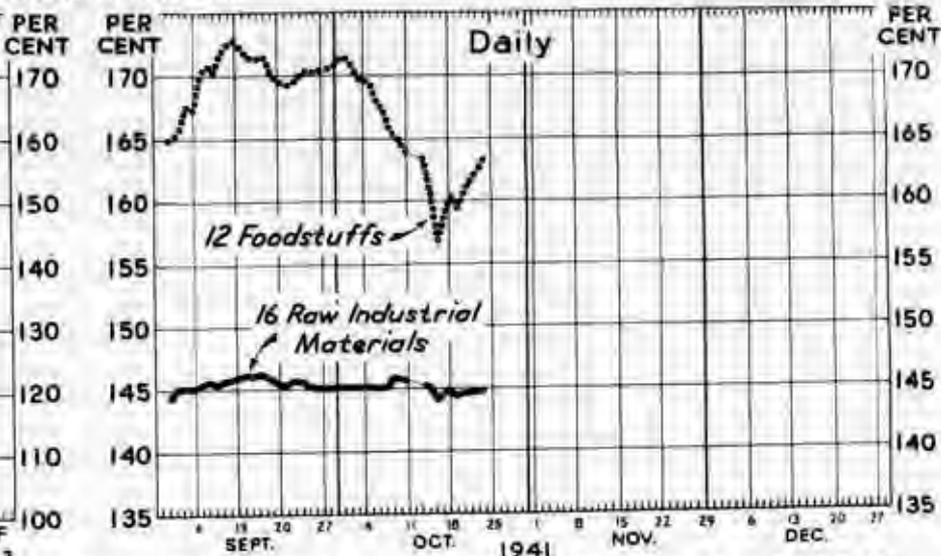
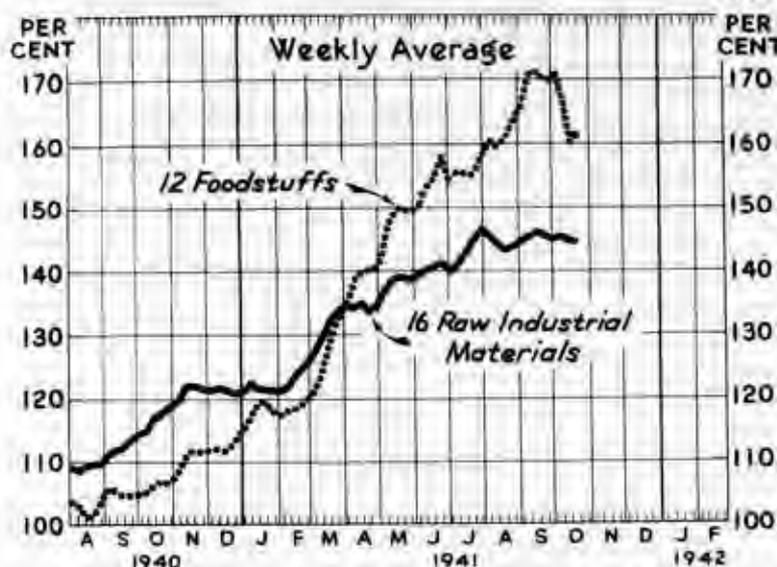
Source: B. L. S.

Office of the Secretary of the Treasury  
Bureau of Economic Warfare

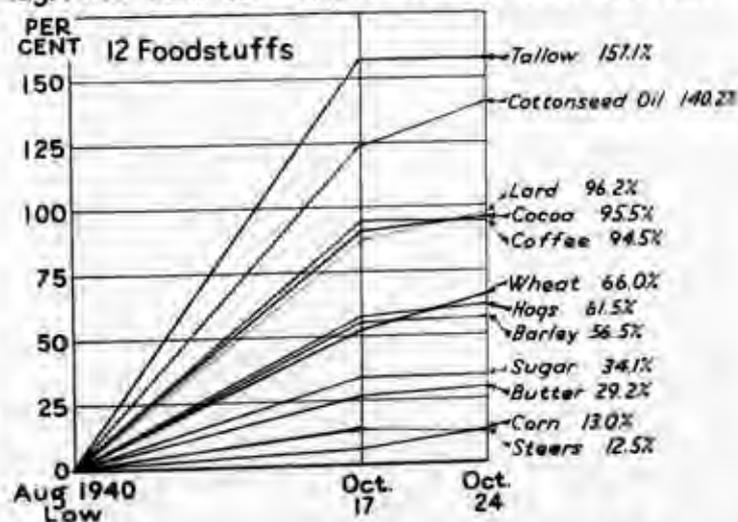
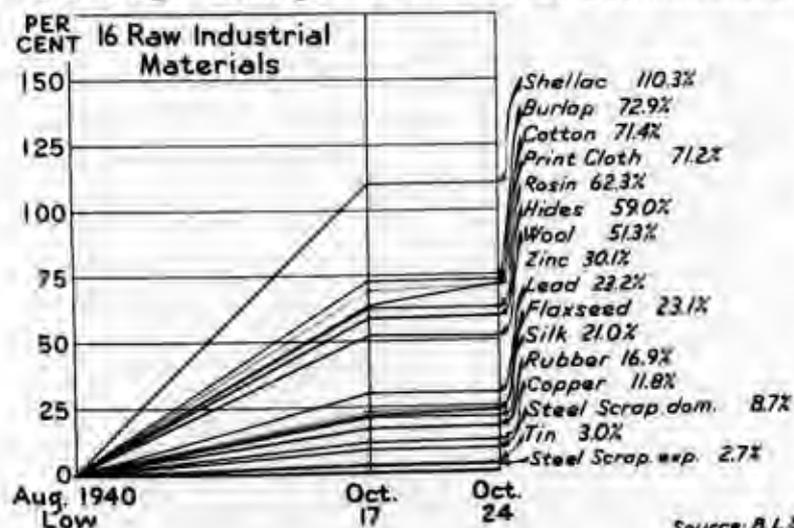
P-228

# MOVEMENT OF BASIC COMMODITY PRICES Raw Industrial Materials and Foodstuffs

AUGUST 1939 = 100



Percentage Change for Individual Commodities. Aug. 1940 Low to Oct. 17 and to Oct. 24, 1941



Source: B. L. S.

238

**THE WHITE HOUSE  
WASHINGTON**

October 30, 1941

MEMORANDUM FOR THE  
SECRETARY OF THE TREASURY:  
FOR YOUR PERSONAL INFORMATION.

F.D.R.

EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
WASHINGTON, D. C.

239

6139 1941

MEMORANDUM FOR THE PRESIDENT:

Subject: The Urgency of Anti-Inflationary Measures at this Time.

The new defense program will have two major financial implications.

(a) Federal expenditures are now running at an annual rate of nearly \$24 billion, and will be at \$30 billion by the end of the fiscal year. Estimates for the fiscal year 1943 are contingent on the new defense program which is not yet determined, but an annual rate of \$42 billion by the end of the next fiscal year seems plausible.

Tax receipts are also increasing because of larger incomes and profits and the higher rates of the Revenue Act of 1941. These tax increases are not fully anti-inflationary in effect because the larger payments next year will to a greater extent be derived from past or current savings than from reductions in current consumption.

The Federal deficit is now running at the annual rate of \$12 billion, a rate which will probably be doubled by the end of the fiscal year 1943. The additional purchasing power thereby created will, however, probably exceed this large increase.

(b) On the other hand, the new defense program requires that non-defense production, especially construction and equipment, be curtailed drastically. Capital outlays of business, government, and consumers may be cut by \$8 billion during calendar 1942. Such contraction will be a powerful anti-inflationary force.

Considering all factors involved, it appears likely that a substantial increase in consumers purchasing power will take place during the next twelve months. Hence a growing total demand will bid up the prices of products whose supply is restricted. Unless effective anti-inflationary measures are adopted, prices must be expected to resume their rise after the present lull. Such measures should include price controls as well as absorption of part of the newly created purchasing power.

The recent plan for an extended Social Security program calls for a heavy increase in pay roll taxes starting January 1, 1942. It

- 2 -

may absorb an additional \$2 billion of purchasing power in the first year of operation. The advantages of the plan are that it combines immediate absorption of mass purchasing power with an expansion of social security; that the additional pay roll taxes can be collected with the existing machinery; and that better conditions for most worker families under the defense program enables them to pay increased social security taxes without undue hardship. The disadvantages are that the tax burden will likewise fall on worker families which do not benefit by defense spending, and that higher wages may be demanded because of increased Social Security deductions.

I believe that the advantages of the plan far outweigh the disadvantages. There is practically no other measure available that can be applied quickly enough. Other measures will be needed in the next fiscal year, but they require more time for preparation. I shall submit further recommendations in the near future which you may wish to incorporate in the Budget Message.

In order to forestall an imminent inflationary development it is of great import that an extended Social Security plan be enacted which incorporates increased pay roll taxes to begin on January 1, 1942.

*Wm. L. F. Smith*  
Director

C  
O  
P  
Y

THE WHITE HOUSE

Washington

October 30, 1941

MEMORANDUM FOR THE

SECRETARY OF THE TREASURY:

FOR YOUR PERSONAL INFORMATION.

F.D.R.

## EXECUTIVE OFFICE OF THE PRESIDENT

## Bureau of the Budget

October 29, 1941

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(Signed) HAROLD D. SMITH

Director

October 29, 1941  
4:45 p.m.

HMJr: Hello.

Operator: Miss Tully.

HMJr: Hello.

Grace  
Tully: Hello.

HMJr: Hello, Grace.

T: Hello, Mr. Secretary, how are you?

HMJr: Alive.

T: Just about, you mean?

HMJr: Yeah. I've just been through a tough meeting.

T: Oh, dear. Mr. Secretary, on that Soong thing, the President understood that the request was going to come through you that Soong wanted to see him, and somebody said that you were going to speak to the President and the President said you hadn't spoken to him. Do you know anything about it?

HMJr: (Laughs) That's what's known as "Sing a Soong of Six-pence."

T: (Laughs)

HMJr: Well, yes. This is what happened, and I didn't call you because I thought it was childish....

T: Uh huh.

HMJr: ....and I just - I only call you on important things. Now, this is what happened. See if I can remember it, see?

T: Yes.

HMJr: Soong came in to see me and said that he'd gotten word that the President said he should see me -

come to see me - when he wanted to see the President. Well, I asked and then - I don't know - it came partly through Tommy Corcoran and partly through Lauch Currie.

T: Uh huh.

HMJr: Well, I asked Lauch Currie about it, and Lauch Currie told me that he had tried to make appointments for Soong, I think, through General Watson.....

T: Yeah.

HMJr: .....but had not met with any success.

T: Uh huh.

HMJr: But he felt that the President did not want to see Soong.....

T: Uh huh.

HMJr: .....so I did not contact.....

T: No, the President said he'd be glad to see him, but he thought that that was the way it should come through. In other words, that the request should come through you like requests for the diplomatic through the State Department, it should come through you for him.

HMJr: Well, that's all right with me, Grace; but I just thought I was doing you a kindness by not calling you.

T: Uh huh.

HMJr: Now, see if we have it straight. In other words, the President considers that Soong, so to speak, is accredited to me?

T: Well, that's the way I understand it. (Laughs)

HMJr: And when Soong wants to see the President, I'm to bring him over? Is that it?

T: Well, to request the appointment, I take it. I suppose that's the way it goes.

HMJr: All right.

T: If you think it's important that the President see him or you think that he has important business to take up with the President, the request should come through you to the President.

HMJr: All right, then, I'll tell you what I'll do. It will make life very much simpler. I'll send for Soong tomorrow and ask him what he wants to see the President about.

T: Uh huh.

HMJr: Is that right?

T: Well, I guess so; I don't know. (Laughs)

HMJr: Well, that's all right.

T: But, say, if you're going to make the request, I suppose you should know.

HMJr: Yeah. Well, I - he was very vague and I'll send for him tomorrow and ask him. If I think it's important, I'll call you up.

T: All right, fine.

HMJr: How's that?

T: Yeah, that's all right.

HMJr: What else?

T: That's all, sir. That's all I know at the moment.

HMJr: Are you all going up Friday night?

T: Maybe in the daytime.

HMJr: Maybe in the daytime?

T: I've not decided quite yet, I don't believe.

HMJr: Uh huh. Well, that's interesting.

T: (Laughs)

HMJr: Because that makes a difference as far as I'm concerned.

T: Oh, does it?

HMJr: Well, I'll find out through - I mean, if you do hear, if you'd let me know.

T: All right, fine. I think it'll probably be a day trip, but when I know definitely I'll call you and let you know.

HMJr: I might even want a ride.

T: Uh huh.

HMJr: Well, thank you.

T: All right, fine, Mr. Secretary.

HMJr: All right.

T: Good-bye.

STRICTLY CONFIDENTIAL

Secretary Morgenthau

October 29, 1941.

A. H. Foley, Jr.

This is intended as a progress report only to show you how Mr. O'Connell is progressing in connection with your suggestion that he canvass the situation as regards speculative activities in connection with the various commodity markets, with particular reference to the possibility of curbing or eliminating speculation by means of a tax on profits similar to the one provided in the Silver Purchase Act of 1934. A good deal of additional work is necessary before anything concrete can be laid before you. The problem is not simple and we have only a very limited knowledge of this specialized and admittedly complicated subject.

As you know, that Act levied a 50 per cent tax on profits realized from the transfer of any interest in silver bullion, with an exemption for producers of silver and for legitimate hedging transactions. I am informed that there is now practically no speculation in silver but that this cannot be attributed entirely to the tax on its transfer. The nationalization of silver and the fixing of its price by the Government was probably the biggest single factor in eliminating the speculator. You will recall that a major reason for the tax in question was to prevent traders from obtaining high profits as a result of the increase in silver prices where the increase was due to direct Government action. In this sense it was in the nature of a windfall tax or an unjust enrichment tax.

Although the situations are not in all respects comparable, there is no doubt that speculative influences have resulted in at least a part of the rapid rise that has taken place in the prices of farm products.

Secretary Morgenthau,

2.

This is so both as regards spot and future transactions. Undoubtedly a tax could be levied on profits realized from trading in farm commodities, following the general line of approach followed in the Silver Purchase Act of 1934 (the tax was in the nature of a Stamp Tax, and stamps had to be affixed to each memorandum evidencing a transaction). In so doing, it would be entirely possible to exempt producers from the tax as well as to make provision for the exemption of hedging operations. Whether a stiff tax on transactions in the futures markets not classified as legitimate hedges would operate to prevent or make too difficult legitimate hedging operations is a question which I am not prepared to answer at this time.

Furthermore, I am informed that at the present time there is reason to believe that spot transactions of a speculative nature are at least as important an inflationary force as are operations in futures. This being so, use of the tax device would probably not be effective unless made applicable to spot as well as future trades. However, there would seem to be no reason why the tax could not be levied on all transactions, with provision for a remission of tax on a showing that the transaction was legitimate and of a class exempted by the legislation. This too requires additional exploration.

Mr. O'Connell has discussed the matter with the people in the Bureau responsible for operations under the Silver Purchase Act of 1934, and with the people in SEC who are watching prices in the commodities markets for Leon Henderson. Both are to supply him with additional factual information on the subject within the next day or so. He has also been in contact with Mr. Daggett of George Haas' shop on the same subject, but has not contacted any of the people in Agriculture. Subject to your approval he does not

Secretary Morgenthau,

3.

intend doing the latter, at least until he has exhausted other sources of information on the subject, inasmuch as he wishes to avoid having premature word get abroad about what you have in mind.

Incidentally, it is interesting to recall that from 1914 to 1938 a Stamp Tax was levied on all sales of produce for future delivery. The tax varied from 1 cent per \$100 of value to 5 cents (the latter from 1932 to 1934). There is no indication that the tax was intended to affect trading in futures, though the increase to 5 cents in 1932 may have been intended to curb short selling at the depth of the depression. In any event the tax was repealed in 1938.

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

JJO'C. Jr/Law  
10-29-41

October 29, 1941.

Memorandum

To: The Director of the Mint.

From: The Secretary of the Treasury.

In accordance with the request in your memorandum of October 26th, 1941, authorization is hereby given for the striking of metals or other materials, with coinage dies, as may be considered necessary to facilitate experiments which are now in progress at the Philadelphia Mint, to determine whether substitutes can be found for nickel and copper in minor coins to relieve the shortage of those metals in the present emergency.

15 2/10/41

EJW

Given to Mr. Hoover for Committee  
10/29/41



TREASURY DEPARTMENT  
WASHINGTON

OFFICE OF  
DIRECTOR OF THE MINT  
IN RESPONSE TO THE DIRECTOR

October 28, 1941.

MEMORANDUM

TO: The Honorable, The Secretary of the Treasury.

FROM: The Director of the Mint.

Referring to the experiments now in progress at the Philadelphia Mint in quest of substitutions for the nickel and copper used in minor coin:

Your authority is requested for the striking, with coinage dies, of metals or other materials used in experimentation as may be necessary to determine whether they can be adapted to coinage purposes.

A record of all pieces struck will be kept and they will be destroyed after having served their purpose.

While your letter of October 21, 1941 to Mr. Nelson of the Office of Production Management served to indicate to me your desire that these experiments be made, I request as a protection to us in the Mint this specific authority from you regarding the use of dies.

Mint Regulations read as follows:

"No coin or resemblance thereof of any kind shall be made in any other metal or alloy, or of different weight and fineness than that in which the coin is authorized to be issued; \* \* \* \* \* Violation of this section will be followed by dismissal from the mint service, and is punishable under the laws of the United States."

\* \* \* \* \*

"Changes or modifications may not be put into effect until approved by the Secretary of the Treasury. \* \* \* \* \*"

*Walter Taylor Ross*

WTR/eh

October 29, 1941

Dear Eleanor:

I am sending you herewith some additional up-to-date information on the cost of living which you may want to use in your broadcast.

Sincerely yours,

(Signed) Henry

Mrs. Franklin D. Roosevelt,  
The White House.

By Messenger 5:45 *Lincoln*

*n.m.c.*

Food costs in September 14 percent over last year

When the housewife of a moderate-income family prepares a menu for her family's dinner today she must spend 14 percent more money, on an average, than she did a year ago. This is the average increase indicated by retail price data as of mid-September, collected by the Bureau of Labor Statistics from 51 large cities. In many cities the increase in food costs is even greater, running to over 19 percent in Kansas City, Jackson, Mobile, and Portland. In preparing an ordinary meal consisting, for example, of ham and eggs, potatoes, white bread, butter, coffee, and milk, this "average" housewife finds that she must pay the grocer the following prices in comparison to what she paid a year ago:

	Sept. 1940 (cents)	Sept. 1941 (cents)	Increase (percent)
Ham (lb.)	25.4	34.2	35
Eggs (doz.)	37.2	46.9	26
white bread (lb.)	8.1	8.5	5
Butter (lb.)	34.3	43.5	27
Potatoes (15 lbs.)	28.8	32.8	14
Coffee (lb.)	20.8	25.7	24
Milk (qt.)	12.3	13.9	13

In addition to these standard items in her menu, she must also pay much more for her cooking ingredients and for other staple food items. The following is a comparison of the price she must pay for a number of such items, as compared with last year:

	Sept. 1940 (cents)	Sept. 1941 (cents)	Increase (percent)
Sugar (10 lbs.)	51.0	60.0	18
Flour (10 lbs.)	40.1	47.5	18
Lard (lb.)	9.3	14.6	57
Evaporated milk (14½ oz. can)	7.0	8.4	20
Cheese (lb.)	25.7	32.7	27
Onions (lb.)	3.6	4.2	17
Salmon, red (16 oz. can)	25.9	33.7	30
Corn (no. 2 can)	10.5	11.8	12

The larger part of these increases has occurred since last February. In the case of eggs, in fact, the increase since February has been even greater than the increase since last September. The following are particularly outstanding:

	Percent increase since	
	September 1940	February 1941
Eggs	26	56
Lard	57	52
Ham	35	25
Salmon	30	26
Coffee	24	24
Sugar	18	16

#### Food costs continue to rise in October

Less complete data covering 15 staple foods in 15 cities, as reported by the Bureau of Labor Statistics, show a further rise in food costs since mid-September. Of the 15 foods for which price data were collected, the only ones which declined between the middle of September and the middle of October were round steak, pork chops, and cabbage, while butter held unchanged. The remaining 14 foods out of the 15 increased in price, oranges leading with an advance of 7 percent.

From the standpoint of children's health, it is unfortunate that milk prices continue to advance. On top of the 13 percent increase in milk prices between September 1940 and September 1941, as reported in 51 large cities, the data collected from 15 cities show a further advance in October averaging about 1.7 percent. Furthermore, additional mark-ups in milk prices are being made, or are contemplated, in various cities. In New York City, for example, the price of home-delivered milk was raised last Saturday (October 25) to 17 cents a quart. This is a peak since January 1921, and is close to the all-time high of 18 cents which prevailed for 3-month periods in 1919 and 1920.

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

October 27, 1941

TREASURY DEPARTMENT

256

INTER OFFICE COMMUNICATION

DATE October 29, 1941

TO Secretary Morgenthau  
FROM V. F. Coe *VF*

Some time ago when you heard about a critical report on defense production prepared by Robert Nathan of Stacy May's Bureau in OPM, you asked me to try and get it. Here it is together with a reply to it prepared by Army Ordnance and Nathan's comments on the reply.

No doubt you now have much better and more complete figures on defense production and will not find any new figures in these documents. Nevertheless, they are worth reading because they give a good sense of the curious relationship between OPM and the Army, and of the shortcomings of the Army's organization for production.

These documents are only lent to us. When they have served your purpose, they are to be returned to:

Mr. R. R. Nathan,  
Bureau of Research and Statistics,  
Office of Production Management,  
Raleigh Hotel

*Note. Documents ret'd to  
Mr Coe 11/25/41.*

OCT 30 1941

My dear Mr. Secretary:

On October 14 I wrote to you asking whether there was any hope that the Army would take over three groups of British supply contracts aggregating \$114 million. If you now have any further information on this subject, or if you have made any decisions upon the transfers, I should be very glad to have you write me.

Sincerely yours,

(Signed) H. Herganthes, Jr.

Secretary of the Treasury

The Honorable,  
The Secretary of War.

HDW:EH:bvl  
10-29-41

By Messenger

Blackwell

10-29-41

9:10 am

The White House has file  
200 C

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

258

DATE October 29, 1941

TO Secretary Morgenthau

FROM Mr. White VFC

Subject: England - Food Supplies and Racketeering

1. Evening Standard article of October 11, 1941 claims to substantiate charges of large-scale food racketeering made by same paper late in September; alleges that black market has been supplied by racketeers who have purchased food supplies from Ministry of Food. Says all alleged racketeers have been tried in police courts, and that this is inconsistent with Lord Woolton's promises to show no mercy to such racketeers.

Daily Mail reports new type of highwayman buying goods from drivers of lorries carrying food and merchandise.

2. Alderman in Manchester charges that lack of cold storage and transport facilities are making necessary the destruction of thousands of pounds of food in that city.

3. Ministry of Food promises:

- (a) substantial increases of domestic sugar and fat rations in mid-November, and
- (b) greatly increased allocations of essential foods to canteens, British Restaurants, and other establishments serving meals to industrial workers, with priorities for those serving heavier industries.

(From the London press, Oct. 1-13, 1941 - clippings from Casaday)

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

259

DATE October 29, 1941.

TO Secretary Morgenthau  
FROM H. D. White

The following quotations may interest you. They are culled from a letter reported by the F.B.I. (in a communication to S. Klaus) to have been written by a Swedish banker who recently traveled in Germany and Switzerland. The letter the F.B.I. refers to is dated June 8, 1941.

1. "According to German opinion, gold will continue to be used as a common cover."
2. "The German military officials emphasize the importance of the soldiers having plenty of money to spend -- otherwise they would be less willing to fight."
3. "Japanese observers in France consider that 90 - 95 percent of the French people are decided opponents to Darlan and that the youth are 100 percent against him."

TREASURY DEPARTMENT

260

INTER OFFICE COMMUNICATION

DATE October 29, 1941

TO Secretary Morgenthau

FROM Mr. White

Mr. Gromyko of the Soviet Embassy called on me this afternoon.

1. I asked Mr. Gromyko if he had received any communication from his Government regarding our previously expressed question as to whether or not the Soviet Government would undertake to sell as much gold to the United States as it sells to England. Mr. Gromyko replied that he had received no advice on this question, but would take it up again.

2. Mr. Gromyko stated that the financial position of his Government is "difficult". Of the \$50 million advanced by Jones, all but \$3 million have been spent. Of the \$30 million against gold shipments, all has been spent. The Soviet Government is beginning to ship the \$30 million of gold.

OCT 28 1941

My dear Mr. Charles d'Affaires:

I wish to refer to the agreement dated August 15, 1941 relative to the purchase of 301,000 fine troy ounces of gold by the Secretary of the Treasury from the Government of the Union of Soviet Socialist Republics, against which an advance of \$10,000,000 was made on August 16, 1941.

I take pleasure in enclosing for your information two copies of the assay report of the United States Mint at San Francisco giving an analysis of the gold which arrived on the SS DNEPROSTROY and deposited by your Government on October 20 for the account of the Secretary of the Treasury.

You will observe from the enclosed report that the shipment, after melting and upon assay, was determined to contain 156,539.363 fine troy ounces of gold and to have a value of \$5,548,877.70. After the deduction of the amount of \$14,030.79, representing the Mint charges of \$156.60 plus the 1/4% handling charge of \$13,872.19, the net value of the gold was \$5,534,846.91. Of this amount of gold the following has been applied by the Treasury against the amount of gold agreed to be purchased by the Secretary of the Treasury under the agreement of August 15, 1941:

<u>Number of Fine Troy Ounces</u>	<u>Value of Gold</u>	<u>Melting Charge</u>	<u>Handling Charge</u>	<u>Net Value of Gold</u>
139,591.114	\$4,884,288.99	\$139.60	\$12,210.72	\$4,871,938.67

The remainder of the gold has been applied against the agreement of October 10, 1941 as indicated below. This agreement covered the purchase of 903,000 fine troy ounces of gold by the Secretary of the Treasury from the Government of the Union of Soviet Socialist Republics against which an advance of \$30,000,000 was made on October 11, 1941.

<u>Number of Fine Troy Ounces</u>	<u>Value of Gold</u>	<u>Melting Charge</u>	<u>Handling Charge</u>	<u>Net Value of Gold</u>
18,988.249	\$664,588.71	\$19.00	\$1,661.47	\$662,908.24

The Treasury has also applied against the advance of \$30,000,000 made on October 11, 1941 the amount of \$508,361.40 representing the difference between the net value of the 301,000 fine troy ounces of gold delivered under the agreement of August 15, 1941 and the advance made under that agreement.

Sincerely yours,

(Signed) W. Torgerson, Jr.

Secretary of the Treasury.

Mr. Andrei A. Gromyko,  
Charge d'Affaires ad interim,  
Union of Soviet Socialist Republics.

Enclosures.

UNITED STATES MINT  
SAN FRANCISCO, CAL.

BULLION DEPOSIT - MEMO REPORT

Form 42B

Date: Oct. 20, 1941  
by: FEDERAL RESERVE BANK OF SAN FRANCISCO  
FEDERAL RESERVE BANK OF NEW YORK  
SECRETARY OF THE TREASURY, SPECIAL AGENT.

Memo Required: 6  
by Depositor  
Other Data

Silver Price  
or Class: F Gold

SOURCE DATA  
RUSSIA  
State  
County  
Mine

(Wt. chg. on tot. wt.)

PAGE	Description of Deposit	Assay Number	WEIGHTS		ASSAY CERTIFICATE			Refining chg.-etc. per oz.	FINE GOLD		UNCLES SILVER	
			Before Melt	Alter Melt	Gold	Silver	Base		Ounces	Dec	Ounces	Dec
20	1-4	6578	7522.47	7447.24	999.9	(000.1)						
20	5-8	79	7704.02	7525.19	999.9	(000.1)			7446.495			
20	9-12	80	7643.24	7853.14	999.9	(000.1)			7524.437			
20	13-16	81	7575.66	7540.83	999.9	(000.1)			7852.354			
20	17-20	82	7563.39	7561.58	999.9	(000.1)			7540.075			
20	21-24	83	7649.70	7625.90	999.9	(000.1)			7560.823			
20	25-28	84	7514.13	7272.28	999.9	(000.1)			7625.137			
20	29-32	85	7608.74	7557.86	999.9	(000.1)			7271.552			
20	33-36	86	7667.14	7615.72	999.9	(000.1)			7557.204			
20	37-40	87	7482.53	7600.01	999.9	(000.1)			7614.958			
10	41-42	6588	3749.65	3995.44	999.9	(000.1)			7599.249			
									3995.040			

PAID BY CHECK  
IF AS NOTED

NOTE - THIS REPORT IS FOR THE INFORMATION OF THE DEPOSITOR AND IS OF NO OTHER VALUE.

Total

Total

VALUES		CHARGES				Total
GOLD	SILVER	Mailing	Refining	Handling		
\$	\$	\$	\$	\$	\$	\$
		Bars				
		Cash				
		Check				
						NET VALUE

UNITED STATES MINT  
SAN FRANCISCO, CAL.

BULLION DEPOSIT - MEMO REPORT

5782  
OCT. 20, 1941  
FEDERAL RESERVE BANK OF SAN FRANCISCO  
ACCT.: FEDERAL RESERVE BANK OF SAN FRANCISCO  
Ch.: SECRETARY OF THE TREASURY, SPECIAL AGENT

Memo Registered to Depositor  
Silver Price F G  
Mint Form 400  
SOURCE DATA  
State ALABAMA  
County  
Mint

Box No.	Boxes	Assay Location	GOLD		ASSAY CERTIFICATE FIMETERS			Melting Charges Per Oz.	FINE GOLD		Total
			Weight	Purity	Gold	Silver	Barium		Ounces	Grains	
14	1-4	8989	7650.73	7477.23	999.9	(000.1)			7476.482		
14	5-8	90	7697.70	7521.16	999.9	(000.1)			7580.401		
14	9-12	91	7630.39	7326.53	999.9	(000.1)			7508.779		
14	13-16	92	7547.20	7167.87	999.9	(000.1)			7167.153		
14	17-20	93	7513.92	7472.61	999.8	(000.2)			7471.115		
14	21-24	94	7500.86	7443.77	999.8	(000.2)			7482.273		
14	25-28	95	7535.80	7516.40	999.9	(000.1)			7513.648		
14	29-32	96	7454.06	7626.56	999.8	(000.2)			7625.034		
14	33-36	97	7493.71	7611.36	999.8	(000.2)			7609.837		
14	37-40	98	7627.89	7594.01	999.9	(000.1)			7593.250		
14	41-42	8599	3705.45	3924.56	999.9	(000.1)			3924.167		
			158,561.38	158,558.25					158,539.36	Total	

PAID BY CHECK  
PT AS NOTED

NOTE - THIS REPORT IS FOR THE INFORMATION  
OF THE DEPOSITOR AND IS OF NO OTHER VALUE.

VALUES		CHARGES			Total
GOLD	SILVER	Melting	Refining	Handling	
5,548,877.70	£	158.60	£	13,872.19	£
					5,534,846.91
					NET VALUE

TREASURY DEPARTMENT

265

INTER-OFFICE COMMUNICATION

DATE October 29, 1941

TO Miss Chancey  
FROM Mr. Dietrich

I believe that Mr. D. W. Bell spoke to the Secretary about the application of the amounts mentioned at the time that the Secretary signed the letter referred to.



## TREASURY DEPARTMENT

266

## INTER-OFFICE COMMUNICATION

DATE October 29, 1941

TO Secretary Morgenthau  
FROM Mr. Dietrich

With reference to the letter of October 29, 1941, to Mr. Gromyko, Russian Charge d'Affaires ad interim, regarding the gold received on the SS DNEPROSTROY which was delivered to the San Francisco Mint on October 20, I called Mr. Gromyko and explained to him that the Treasury was applying enough gold from this shipment to liquidate the purchase of 301,000 fine troy ounces of gold purchased under the agreement of August 15, 1941. I also told Mr. Gromyko that the balance of the gold was being applied against the gold purchased under the agreement of October 10 and that the amount of approximately \$500,000, representing the difference between the net value of the 301,000 fine troy ounces of gold delivered under the agreement of August 15 and the advance made under that agreement was being applied against the advance made under the agreement of October 10.

Mr. Gromyko said that he understood the method of application of the various amounts and further added that all gold shipped by the Soviet was to be applied against our agreements.



*Russell*

267

THE WHITE HOUSE  
WASHINGTON

October 29, 1941

MEMORANDUM FOR SECRETARY MORGENTHAU:

What do you think of this? The President will rewrite the language in the first person. I will call you as soon as the SPAB meeting is over this afternoon.

I am going to try to arrange a conference between you, Hull and the President at the earliest possible moment to get final approval on this because I think it is very urgent that this be settled promptly.

HARRY L. HOPKINS

MEMORANDUM

October 29, 1941

The President has seen the Protocol of the Conference held in Moscow and discussed the data contained therein with American members of the Mission. He has approved all of the items of military equipment and munitions and has directed that the utmost expedition be used to provide, so far as possible, the raw materials. He has ordered that delivery begin at once and be maintained in the greatest volume permitted by transportation facilities. In order to remove any financial obstacles, the President has also directed that arrangements be effected immediately whereby shipments up to the value of one billion dollars may be made under the Lease-Lend Act.

It is his proposal, subject to the approval of the Government of the U.S.S.R., that no interest is to be charged on the indebtedness incurred as the result of these shipments and that the payments on such indebtedness by the Government of the U.S.S.R. are to begin only five years after the conclusion of the war and are to be completed over a period of ten years thereafter. The President hopes that the Soviet Government on its part will agree to make special efforts to sell to the United States such commodities and materials as may be available to it and of which the United States may be in urgent need, the proceeds of such sales to the Government of the United States to be credited to the account of the Soviet Government

October 29, 1941

Mr. Jones

Mr. Dietrich

With reference to cable No. 483 dated October 20 from Chungking, "For Treasury from Cochran", in paragraph numbered two, the last bank listed is "Chinese Banking Corporation". As the Treasury is unable to locate a bank by that name, will you please have your Sudo Department check the cable to see if the inclusion of the "Chinese Banking Corporation" is correct. If the cable was received in this manner, will you please cable for a confirmation of the "Chinese Banking Corporation."



TREASURY DEPARTMENT

270

United States Coast Guard  
Washington

29 October, 1941.  
(2:30 a.m. C.C.T.)

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

In reference to Treasury radio of October 18th relative to U. S. dollar remittance to Shanghai by Williston, New York, CHENWEI now is in Hanking, returning the end of the week. I will call any additional information at that time. In the meantime, did your investigation reveal that the Sun Lee Company, Shanghai, was in fact the agent of Williston?

(signed) NICHOLSON

NOTE: The underlined garble may be the word "accountant."

Received 6:31 a.m.  
1 November, 1941

Copy 11-1-41.

## TREASURY DEPARTMENT

271

## INTER-OFFICE COMMUNICATION

DATE October 29, 1941

TO Secretary Morgenthau

FROM Mr. Districh

## CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 17,000
Purchased from commercial concerns	£124,000

Of the latter amount, £100,000 were said to represent the proceeds of machinery exports.

Open market sterling remained at 4.03-1/2, and there were no reported transactions.

The Canadian dollar discount narrowed still further to close at 10-5/8%. A week ago, that currency was quoted at 11-1/8%.

The Argentine free peso advanced to a final quotation of .2378, as compared with .2370 last night.

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

Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4625
Venezuelan bolivar	.2630
Cuban peso	1/8% discount

There were no gold transactions consummated by us today.

No new gold engagements were reported.

We were informed that the Bombay gold price on October 25 was equivalent to \$34.06, or 2¢ higher than the quotation of October 18. It was reported that, during the week ended October 25, the quotation touched a low of \$34.00, at which point some gold was purchased in Bombay for export. Silver was priced at the equivalent of 44.78¢ on October 25, representing a gain of 5/16¢ over the previous week.

In London, both spot and forward silver remained at 23-1/2d, equivalent to 42.57¢.

- 2 -

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 no silver purchases today.

CONFIDENTIAL



273

BRITISH EMBASSY,  
WASHINGTON, D.C.

October 29th, 1941.

PERSONAL AND  
SECRET

Dear Mr. Secretary,

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

Believe me,  
Dear Mr. Secretary,  
Very sincerely yours,

*Harfax*

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

271

TELEGRAM FROM LONDON DATED OCTOBER 28TH, 1941

A homeward bound Gibraltar convoy was attacked for the third time since the night of 23rd. by U-boats, 1 small ship being torpedoed, making a total of 4 ships lost.

North-bound East coast convoy was twice bombed during daylight 27th by enemy aircraft. 1 small Dutch ship and 1 medium sized British ship were sunk.

5000 to 7000 tons of rubber recently arrived at Casablanca from Indo China en route for Versailles. If this arrives in France it will make good 1/3 of the present estimated German deficiency for 1942. A further 6000 tons is probably being carried in a French convoy which sailed from Madagascar for France on October 24th.

Eight of 23rd/24th 94 tons of H.B. and 8000 incendiaries were dropped on Kiel, 31 tons of H.B. on Brest.

Day of 24th, during offensive operations over Northern France and Dutch coast 7 enemy fighters were destroyed for the loss of 1 of ours. A 7000-ton merchant ship was damaged off the south coast of Norway. Benghazi and Berna were bombed.

During daylight 27th our fighters shot down 2 Do. 17's. 2 Blenheims missing from daylight low altitude attack on shipping off Dutch coast. 2 enemy fighters destroyed 5 probably and 3 damaged. In addition 2 He. 59's destroyed on sea at Ostend. 11 of our fighters missing 1 pilot saved.

-2-

During attack on Hamburg night 26th/27th large fires were started in dock area of BLOHM-AND-VOSS Shipyard.

RUSSIA, Leningrad sector - Russian counter attack and a lessening of German pressure are reported.

KALININ Sector - The Germans are still making little progress.

MOSCOW Sector - Further slight German progress is reported.

DNIEL Sector - The German advance has been held up and German armoured formations are said to be short of petrol.

ROSSOV Sector - There is no change in the situation; strong Russian resistance is continuing.

RESTRICTED

276

MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, October 29, 1941

TENTATIVE LESSONS BULLETIN  
No. 167  
MID 461

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

ANTIAIRCRAFT IN THE GERMAN  
ARMORED DIVISION

SOURCE

This bulletin is based upon reports submitted on August 15, 1941, by an American official observer in London. The information contained in the reports was secured from a British official source.

CONTENTS

1. ORGANIZATION AND EQUIPMENT
2. TACTICS

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ANTIAIRCRAFT IN THE GERMAN  
ARMORED DIVISION

I. ORGANIZATION AND EQUIPMENT

a. General

It is a frequently repeated axiom in the German Army that every combatant unit is responsible for its own antiaircraft defense against low-flying aircraft. Every man armed with a rifle is trained to use it against such aerial targets, the belief being that concentrated fire by rifles and machine guns is very effective against this form of attack.

The machine guns principally used are the dual-purpose 7.9-mm.\* and the superheavy, 20-mm., antitank-antiaircraft machine gun.

b. Motorized Antiaircraft Battalions

Motorized antiaircraft battalions of the Army form part of the infantry arm, and one such battalion is probably included in the organization of the normal type armored divisions. There is also in the GHQ pool an unknown number of motorized antiaircraft battalions, companies of which may be allotted down to corps and divisions, according to tactical requirements.

Motorized antiaircraft battalions are equipped with the following weapons:

20-mm. antitank-antiaircraft superheavy machine guns;  
4-barrelled 20-mm. superheavy machine guns;  
37-mm. dual-purpose antitank-antiaircraft guns.

The total number of guns in a motorized antiaircraft battalion is believed to be 36, but the number of each caliber issued is not known and may vary.

Recent information indicates that the guns of the motorized antiaircraft battalions are being placed upon self-propelled mounts - either the universal semi-tracked carrier or a tank chassis. During the operations on the Western Front it is believed that motorized antiaircraft battalions were equipped only with 20-mm., superheavy machine guns. The tendency in the German Army, therefore, is to increase both the caliber and the mobility of their antiaircraft weapons.

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\*The 7.9-mm. machine gun is frequently referred to as the M.G. 34 with antiaircraft mountings.

c. German Air Force Antiaircraft Units

In addition to the motorized antiaircraft battalions of the Army, each armored division is probably allotted a German Air Force battalion of mixed antiaircraft weapons and possibly a light antiaircraft battalion also.

The organization of these units is as follows:

(1) Mixed Battalion

Three heavy batteries, each composed of

Four 88-mm. guns,  
Two 20-mm. machine guns;

Two light batteries, each composed of

Twelve 20-mm. machine guns,  
Four 23.58-in. searchlights.

(2) Light Antiaircraft Battalion

Three light batteries, each composed of

Twelve 20-mm. guns;

One battery, composed of

Nine 37-mm. guns;

One searchlight battery, composed of

Sixteen 23.58-in. searchlights.

It must be emphasized, however, that the German doctrine of antiaircraft defense of ground forces is based on flexibility. The allotment of German Air Force antiaircraft units to an armored division might be greatly increased if circumstances required it.

d. Armored Column

(1) Defense Against Low-Flying Attack

German training manuals hold that, for defense against low-flying and dive-bombing attack, armored columns must march in extended order and must use their rifles, machine guns, and superheavy machine guns.

Light antiaircraft artillery may also be distributed throughout the column in batteries or even as single guns.

The light four-wheeled armored car, of which there are 50 in an armored division, mounts one superheavy 20-mm. machine gun and one 7.9-mm. machine gun on a dual-purpose mounting. With these guns it can put up effective fire against low-flying aircraft.

The main armament of tanks is useless for all practical purposes as a defense against low-flying aircraft.

(2) Defense Against High-Altitude Bombing

It is held in German training manuals that the speed of armored columns makes it impossible for antiaircraft batteries to leapfrog. Antiaircraft batteries of 88-mm. antitank-antiaircraft guns are, however, employed to defend assembly areas, entrucking and detrucking points, bridges, defiles, etc., against high-altitude bombing.

3. TACTICS

a. General

German armored divisions on the move are trained to keep a considerable distance between separate units and groups, and where possible the division generally marches in several columns, along parallel roads. It is possible that the majority of antiaircraft guns will be found well forward in the columns and, naturally, all defiles, bridges, and stopping places will be well defended by antiaircraft units. After two hours, the columns usually halt for a 20-minute rest; after four or five hours' movement, they ordinarily halt for at least three hours.

In the event of air attack, the column continues its march and machine gun crews open fire. If the air attack proves to be of such weight that casualties to truck-carried troops will be severe, the column halts and the troops take cover. The drivers of the vehicles, however, remain with their vehicles. In open country the tank columns deploy in open formation, usually V-shaped, when air attack threatens. At night vehicles take refuge under cover.

German tanks which have been examined so far have not been equipped with any form of antiaircraft defense, and there has been no increase in the thickness of armor plate on turret lids for the purpose of keeping out cannon shell. The elevation of the tank's machine guns is not sufficient to allow them to attack low-flying aircraft. It should be remembered, however, that each of the 50 light scout cars in a division carries a 20-mm. antitank-antiaircraft heavy machine gun

co-axially mounted with a 7.9-mm. machine gun.

It is noteworthy that the diaries of German officers captured in the Middle East make constant mention of aircraft attacks on German vehicles. There is no doubt that these attacks are not only distasteful to the German tank crews but also tend to lower their morale considerably.

b. Conclusions

- (1) Low-level flying attacks against German armored and motorized divisions while they are on the move will meet with very considerable opposition from machine guns, 20-mm. heavy machine guns, and the 37-mm. light antiaircraft gun.
- (2) Higher-level bombing attacks will be fired at by 88-mm. antitank-antiaircraft guns.
- (3) German tanks are incapable of using their own armament effectively against low-flying attacks.
- (4) German tanks are probably isolated from antiaircraft defense from the moment they move forward to the attack, whether they are attacking on the move or from selected positions. Their distance of isolation may not be more than 500 yards.

At Capuzzo, however, German tanks took into the attack a small number of 88-mm. antitank-antiaircraft guns on mobile mounts. These were employed as antitank guns.

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281

G-2/2657-220; No. 531 M.I.D., W.D. 11:00 A.M., October 29, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Bad weather and heavy roads still impede military operations.

Fighting continues on the Moscow front.

Germans claim to be continuing their advance in the Donets basin. There is heavy fighting in progress for Rostov.

The German High Command claims to have broken the defenses on the Perekop peninsula and gained a bridgehead on the mainland (Crimea).

Air: Germany reported effective bombings of objectives in both the Leningrad and Moscow areas during last night.

II. Western Theater.

Air: The British Air Ministry announced that bombers braved bad weather last night to attack targets in south and southwest Germany. The Cherbourg docks were also attacked. Daylight raids were made on airdromes in northern France. German activity was over southwestern Britain yesterday.

III. Middle Eastern Theater.

Air: Italian aircraft raided Malta, while the British operated against points in Sicily and Benghazi.

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