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February 25, 1942
9:56 a.m.

HMJr: Hello.

Operator: Mr. Swope.

HMJr: Good morning, Mr. Swope.

Gerard Swope: Good morning.

HMJr: How are you?

S: Very well. Have you got a cold?

HMJr: I don't think so.

S: Your voice sounded hoarse.

HMJr: Mr. Swope, I just wanted to tell you - I don't think we crossed paths - that I called up President Conant last night to ask him for suggestions for people to head up both Aniline Dye and Schering.

S: Yes.

HMJr: I don't - and to my amazement, he told me that Bullitt had been to see him twice and that he'd given Bullitt a list.

S: Yes.

HMJr: But he didn't have it at his home, so he said he'd call me in the morning.

S: Oh, yes.

HMJr: But I was amazed to find that Bullitt had been in contact with him.

S: Well, and I also had, as I thought I told you, but have surely told Foley.....

HMJr: Yes.

S: .....that two weeks ago I spoke to Dr. Compton and asked him to get in touch with Conant, and

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HMJr: But I was amazed to find that Bullitt had been in contact with him.

S: Well, and I also had, as I thought I told you, but have surely told Foley.....

HMJr: Yes.

S: .....that two weeks ago I spoke to Dr. Compton and asked him to get in touch with Conant, and he sent me such a list, and I have it here; but after you went along on the path of getting Belknap, I didn't present it. I didn't have a chance, as a matter of fact. But I have it, and will be glad to bring it in any time you want to see it.

HMJr: Well, sometime this morning I'd like to see it.

S: All right, sir. Whenever you're ready, you let me know.

HMJr: And - you got my memo on Russia?

S: Oh, certainly. And I've been following it with Mack, and he's now in session with Stettinius. And I also got your letter to Stettinius yesterday.

HMJr: Well, that was all right. Don't you think so?

S: Yes.

HMJr: I keep informing Stettinius.

S: Yes. Oh, yes. But, of course, I think, as a matter of fact, Mack is doing everything possible. It's right up to bat and Nelson, as you know, and there's nothing we can do until we do get priorities and until they arrange - well, I'll talk to you when I see you.

HMJr: Okay.

S: Yeah. Whenever you're ready.

HMJr: Thank you.

February 25, 1942

President Conant called me and made the following suggestions:

He suggested President Halback who, he says, is the sales agent for General Dye Stuffs. Then he suggested Marion B. Fulsom of Eastman Kodak, and I said, "He's out. He's the man who said we have enough aluminum." He suggested Mr. Barrett, Vice President of Union Carbide. Then he said there is a man he's done business with and who has been checked by FBI -- a Mr. Thomas of Thomas and Hochwalt, a subsidiary of Monsanto. He says he is a very able chemist, executive, etc.

Altogether, I thought his suggestions were perfectly terrible.

General Sleycotoff

es. Halback

mixed with aniline dye

~~Eastman Kodak~~

~~Trees~~

~~Marian B. Fulsom~~

Barrett V.P.

Union Carbide

~~Mansonto~~

Thomas ~~#~~
Thomas & Hochwalt

February 25, 1942
10:00 a.m.

TAX-EXEMPT SECURITIES

Present: Mr. Stonier
Mr. Burgess
Mr. Tarleau
Mr. Blough
Mr. Paul
Mr. Eccles
Mr. Bell
Mr. Viner

H.M.JR: The reason I called this thing is, we have got to make up our minds at this meeting this morning - the door is locked. You fellows can't get out - how we are going to recommend to Congress that we are going to treat the expenses of banks, the question of deducting income from taxables from non-taxables. I think what I am going to do is ask one of our men to state the case the way they would do it, if they were doing it on a - how should I say - purely theoretical basis, would that be a good way?

MR. TARLEAU: That is right.

H.M.JR: And then you people and anybody else who wants to can say why you think it would be good or bad and what it would do to the banks, also anything else that happens to come to your head.

Mr. Eccles has some very definite views on this thing, and I thought as between the Federal Reserve system and the Treasury and the American Bankers, if we could settle this thing this morning, at least you would know where you stand, because I am in this position that I have got to move now.

MR. BURGESS: That is right.

H.M.JR: Paul, who do you want to state this?

MR. PAUL: All right, you state it, Tommy. You have been working on it the longest.

H.M.JR: State it just as though - I mean, if you were a professor of taxation and I asked you to make a recommendation on this thing irrespective of anything else, how you think it should be done, you see.

MR. TARLEAU: Yes, sir.

MR. BELL: To a class of students. (Laughter)

H.M.JR: I hope they can qualify.

MR. BURGESS: We will try.

H.M.JR: Is this all right with you, Marriner?

MR. ECCLES: That is O.K. I have heard Tommy before, but I am glad to hear him again.

H.M.JR: We will stay here until the thing is settled one way or the other. With you people, I will try to make up my mind.

MR. TARLEAU: At the--

H.M.JR: I would like to say I think if it could be kept quiet until Tuesday, I would appreciate it. I mean, what we are about to talk about.

MR. BURGESS: All right. The City Bank will do no trading in these bonds until Tuesday.

H.M.JR: Well, that I wasn't thinking of. I wouldn't consult you on that, but I was just thinking of your - how many members have you got?

MR. BURGESS: No, we haven't done any trading since--

H.M.JR: No, I wouldn't insult you by saying that, but I was thinking if you could keep it--

MR. BURGESS: Of course, we are not in the position - since we are representing the bankers, we are contributing what we know about the bankers reaction and our intelligence.

H.M.JR: That is right. Is that all right with you, Stonier?

MR. STONIER: Yes. You understand, of course, we can't speak officially for the Association this morning?

H.M.JR: I am not asking you to. If you had to speak officially, you would have to consult them.

MR. STONIER: That is right.

H.M.JR: So if you are down here as two individuals, then you don't have to report, is that right?

MR. STONIER: That is right.

MR. BURGESS: That is right.

H.M.JR: That makes that clear. All right, go ahead, Professor Tarleau.

MR. TARLEAU: Well, at the present time the banks are allowed to reduce their taxable earnings by the expenses that are attributable to their tax-exempt earnings and that is the situation that confronts us, which we are trying to rectify by seeing to it that their taxable earnings are reduced only by the expenses that may fairly be attributable to those taxable earnings, and it is the formula which will see to it that there is a fair allocation of the expenses of the bank between its taxable and it tax-exempt earnings that we have been working on. In 1934 the Congress introduced a - well, let's go back. The Ways and Means Committee inserted into the revenue law a provision denying to all taxpayers expenses in connection with their tax-exempt earnings, denying them a deduction against their taxable earnings for the expenses of their tax-exempt earnings. That passed the House. It went into the Senate, and while that provision was before the Senate Finance Committee, Senator Reid of Pennsylvania, with the concurrence of the banks, as I recollect it, over the opposition of the Treasury representatives, inserted into that section the words, "other than interest." In other words, persons having tax-exempt income and taxable income are denied the expenses of the tax-exempt income against the taxable income, except in the case of interest. The interest case was excluded and that is why we have the situation today of persons having tax-exempt interest allowed to charge the expenses of the tax-exempt interest against their taxable income. We have always considered that an undesirable amendment that was made in the Senate, and our big problem has been to determine a fair formula, to allocate the expenses between the two types of income, so that when we tax taxable income, we are taxing a fair net result. We are not loading it with too much expense or we are not denying it too much expense. The American Bankers Association Tax Committee, as Mr. Stonier knows, has been very much interested in working out this problem with us. I think it was as early as the middle of last year, to my recollection, that Mr. Mylander, of Columbus, Ohio, told me that he would very much - he is very much interested that before we make any technical changes or recommend any technical changes to the Secretary for the Secretary's consideration, that they have an opportunity to discuss those things in advance with us to point out where those technical changes might be deficient in actuality, so that in operation they might not work the way we anticipate it or they might cause such a great burden in the administration of the banks that we ought to discuss them. We have been meeting with them on different things.

This is one of the things that we took up with the

American Bankers Association Tax Committee. They have been working on this formula with us. Now, we told them at the time that these discussions started that of course these were only some of our own technical problems that we hadn't gone to the Secretary with, that we didn't know what the Secretary's attitude was going to be, but we would like to see what could be done in the event that this policy was determined upon. I will say for the Bankers Association Tax Committee that they have worked long and earnestly on the problem. As a matter of fact, they are still working on it.

I just phoned Mr. Needham, who is your Washington representative, and he hopes to have in a few days what the final result of their labors are going to be. That is the complete situation, as I understand it, Mr. Secretary.

MR. PAUL: I think you might point out, Tommy, so that it is perfectly clear in everybody's mind, the expenses we are talking about in actual practice with the banks. I don't know whether that is clear to everybody. Of course, we are talking about tax-exempt departments or some of the departments that might be specifically allocable as in the New York banks to do that kind of work, but banks all over the country, as Marriner has pointed out, have a different problem. There the problem relates to the expense of getting the money which is invested in tax-exempts. I think that ought to be very clear.

In other words, it isn't only a problem connected with the expense of maintaining a portfolio.

H.M.JR: It is all expenses. I mean, they charge up all their expenses against their taxables.

MR. PAUL: That is right.

MR. BLOUGH: They now charge up all their expenses and, as I understand, the way in which this formula would work is something like this, that such departments as the trust department or foreign exchange or other service departments in which the expenses can be readily charged against the income from the department, there would be such a direct charge, so there would be no allocation of such expense between tax-exempt and taxable income. Then there remain two general types of expense. One is the expense of investing the money, and the other is the expense of getting the money.

Now, to the extent that the expense of investing the money is already allocable - I mean, actually accountable and allocated, it would be allocated against either taxable or tax-exempt as the case may be. As for the expense of getting the money, part of that should be allocable to tax exempt income and part to taxable income in that the purpose of getting the money of course was to invest it and make an income, and part of that income is coming from tax-exempt sources.

Those expenses of getting the money would be allocated between the taxable and the tax-exempt also, so that you would have allocable to the taxable income all of the income which was chargeable to the service departments which produced taxable income and the share of the expenses of getting the money and of investing the money, weighted according to the best information we have as to the relative expenses involved between taxable and tax-exempt.

However, it would be a uniform rule for all banks and probably would not hit every bank right on the nose.

H.M.JR: Can I interrupt you a minute? As I understood it when you explained it to me, you said it wasn't only banks, it would be all corporations, was what you told me. You told me it wouldn't be just singling out banks.

MR. PAUL: No, it applies to all corporations that have tax-exempt interest.

MR. BLOUGH: This peculiar formula would apply particularly to banks, but the charging of expense would apply to everybody.

MR. ECCLES: You would have to get another formula for each other type of corporation. The insurance companies would have to have one, and - in other words, it seems to me that you make a formula to meet the bank situation, that same formula wouldn't meet the situation with other types of companies. In an investment trust or insurance company, you may have to have dozens of different formulas to meet the various problems of different types of investors.

MR. TARLEAU: Yes, we recognize that.

MR. PAUL: Yes, we have that in a great many other connections.

MR. TARLEAU: The simplest thing is to allocate your expenses on a dollar amount. As a rule of thumb, what you could do is to allocate your expenses generally on a dollar amount. We realize that in the case of banks that would be an absurdity. In a great many instances, at least. Consequently, we have been particularly concerned to protect the banks, and see to it that we don't charge too much against tax-exempt income. We have been particularly concerned with a formula to help the banks.

The other corporations that are faced with this problem, allocating on a dollar amount doesn't do them any substantial injustice.

MR. BURGESS: Who is next?

MR. PAUL: I think we should add this, to be perfectly direct and be wholly informative, one of the problems seems to me to be this. There isn't any question in our minds that this is favored treatment for the banks.

Now, it is pretty hard for us to go up and say, "We are going to close special privileges and loopholes out of the tax picture, and leave one in, one conspicuous one in," particularly after the question has been given public attention. In other words, if we don't do this, we are in an embarrassing position of leaving one particular loophole in the tax structure and going after all the others.

(Mr. Viner entered the conference.)

MR. ECCLES: Well, I don't know what you know about this, Randolph.

MR. BURGESS: I have followed it along pretty closely, so I know the general - I have talked with the members of the Committee and some other fellows.

MR. ECCLES: I didn't know these fellows knew anything about it. They haven't talked to me, and I haven't talked to them.

H.M.JR: Well, I think I mentioned it the other day. I said that I had something I wanted to put up to the bankers, and they were going to act as a friendly guinea pig, and I couldn't see six different chairmen of different committees because life was too short, so if I had something, whether it was this or something else, I was going to - so that is the way I want to - and they knew what they were coming down for, so they had plenty of time to prepare themselves.

MR. ECCLES: Well, I went in Randolph's office the other day and spent half or three-quarters of an hour in debating on this--

H.M.JR: This very question?

MR. ECCLES: Oh, yes.

MR. BURGESS: No, this Randolph (Paul), not this one.

MR. ECCLES: Yes, I meant Randolph Paul.

MR. PAUL: As a matter of fact, Marriner, we spent nearly two hours on it.

MR. ECCLES: I wasn't there two hours.

MR. PAUL: You were there more than three quarters of an hour.

MR. ECCLES: Was I? You fellows may have stayed after I left. I possibly may have been there an hour, I don't know.

Anyway, it seems to me that the issue revolves--

H.M.JR: Excuse me. Just so you - I told these men the other day when they called on me, before I settled something affecting the banks, I would give them a hearing, so again that explains it.

MR. BELL: You specifically mentioned this problem.

H.M.JR: Yes. Excuse me. I will not interrupt you again.

MR. ECCLES: The partially tax-exempt securities are exempt in the contract of the bond from the normal tax. That is in the body, of course, of the bond itself. There is no rate specified as to what the normal tax is, and I have said that the normal tax could be changed downward, and you would still be living up to the contract so far as the letter of the contract is concerned, because that is all you are required to do in so far as the bond is concerned, itself. Or just as the normal tax has gone up, and there has been some windfall of profits to holders of partially tax-exempt bonds that were purchased prior to the increase in the normal taxes.

You see, when the normal tax was sixteen percent, they only got the benefit of the sixteen percent. If it went up to twenty, twenty-five - or twenty-four - now, likewise, the tax now has been twenty-four, and bonds have been purchased the last two or three years while that tax rate has been in effect on a basis of that tax exemption.

The Treasury likewise put out some issues, that '60-'65 and one or two other issues were put out to the investor on a basis of twenty-four percent. Now you don't propose, of course - and you made that very definite in your press conference - to change that rate, to change that benefit?

H.M.JR: I didn't say that.

MR. BELL: Yes.

H.M.JR: What, the twenty-four?

MR. PAUL: Yes. You said that you wouldn't indirectly by reducing the normal tax from twenty-four down, do what you couldn't do directly.

H.M.JR: Because it may be quibbling. It was Sullivan who said it, I didn't say it.

MR. PAUL: Oh, I beg your pardon, it is true. You just made the direct and indirect statement, and Sullivan explained it in detail.

H.M.JR: That is right.

MR. BURGESS: It was a pretty broad statement.

H.M.JR: It was a broad statement I made.

MR. ECCLES: "I feel there is a contract standing between the Federal Government and the holder of Federal tax-exempts, and I don't intend to directly or indirectly break the contract or circumvent it. Is that flat enough?"

H.M.JR: Is that right?

MR. ECCLES: Then Sullivan came in with this particular aspect that I am talking about, this twenty-four percent tax.

Now, this other feature that Paul and Tarleau are talking about is a provision in the statute put in in '34 permitting the application of this tax-exempt interest as now permitted, which of course you first deduct - they used the taxable interest against the expense - no, use the taxable expense--

H.M.JR: Marriner, you separate the two things, don't you, the normal tax and the expense thing?

MR. ECCLES: Yes, I am separating. But it has this effect, however, that up to the present time any holder of the bond or any purchaser of the bond has figured that they got the full benefit of the twenty-four percent and its application, see, on earnings, to the extent that you take out of the statute the provision that you propose to modify. Just to that extent it reduces this twenty-four percent benefit.

The formula could be sufficiently drastic that it might cut the benefit from twenty-four to twelve in so far as its application is concerned, and it has seemed to me that it is merely an indirect way of reducing the twenty-four percent. At least it has - the twenty-four percent up to the present time has been figured as fully tax-exempt, that portion of it, and to the extent that that tax-exempt interest can't continue to be applied against expenses as it has been applied, the effect will be that you don't get the full benefit of twenty-four percent.

Now, I have - it would seem to me that that is getting contrary to what the Secretary said, at least what was thought that he said, and that is that he didn't intend to directly or indirectly break that contract or circumvent it.

Now - and later on, when these boys asked him with reference to Glass - Glass tried in 1919 to devise a formula for the purpose of circumventing it in effect. That is what it would have done, the formula they proposed, would have circumvented or would have indirectly had the effect of reducing the full benefit of the tax-exempt interest, and they asked you at that time if you expected to apply what they called the "old Glass theory," and you told them that you thought you had gone far enough, and you said that you were opposed. Then you said, "Let me go over this once more." You said, "You recognize that a contract exists between the Federal Government and the men and women who bought securities. We don't propose by direction or indirection to tax them on this income as long as these securities are outstanding." You said, "Does that cover the waterfront?"

Now, the thing that I am - the impression I got, see - and if I got that impression, as close as I ought to be to the situation, I don't wonder that the market generally and the bankers generally got the same impression. That was - most people don't know of that provision of 1934 that - a great many investors don't think about it, don't know very much about how this interest is applied except that it - they get the full benefit of the twenty-four percent, which is the normal tax; that is, a taxable security as compared with a - a partially tax-exempt security, see, that they figure the difference in investment value on a basis of a twenty-four percent exemption, and when we were pricing, when we first priced the taxable securities, we took into account in the pricing of them the full twenty-four percent benefit.

H.M.JR: But you remember last year papers and financing writers and everybody said that everybody was figuring on a thirty percent normal tax.

MR. ECCLES: Well, that of course - but they didn't get that, and they have no reason to get it because you have issued no - you have issued no partially tax-exempt securities.

H.M.JR: Do you go so far in your feeling that you think we have got to freeze the twenty-four percent normal?

MR. ECCLES: Well, I think that you can't reduce it. I don't think you have to freeze it. I would say that if it were possible to reduce corporation taxes down to fifteen percent - but I don't think that you can - as long as you have got a surtax on corporations - you see last year we put a six percent surtax on. I don't think as long as you have got a surtax on, which was put on after the normal tax, that it would be good faith to reduce the normal tax, but if you eliminated the surtax, and then you likewise - it became possible to reduce taxes beyond that, then I don't think you are bound at all to keep the twenty-four percent, but I certainly would think that you were bound to keep the twenty-four percent as long as you keep the surtax which was put on after.

Now, it seems to me that anything that is done to disturb the benefit of the twenty-four percent which holders of these securities, purchasers of these securities, thought they were getting when the Government was issuing securities during the past two or three years, is, in effect, giving them less than they thought they were contracting for and it likewise - institutions, banks in particular, because I think they have been the biggest investors - the insurance companies have been sellers of these partially tax-exempt securities because they didn't need them. Their formula that applied to them was such that it was in their interests to buy the taxable securities. They got a better net yield than to hold the tax-exempt because they couldn't use the tax-exempt.

Banks, on the other hand, purchased tax-exempts and sold taxables, a lot of them.

H.M.JR: Well, could I interrupt you? I take it from what you say here your position hasn't changed any since I last saw you.

MR. ECCLES: No, I--

H.M.JR: So I mean I take it our people--

MR. ECCLES: I don't imagine theirs has either.

H.M.JR: Let me just ask - I understand Viner has a little different view, and I wondered whether he wanted to state his view. I haven't heard his. I have heard yours.

MR. VINER: I think that the issue turns on this. If you have tax exemption for a certain kind of income, does that mean, or ought it to mean, that you deduct the gross income from the tax-exempt source from the total net income in order to find a taxable income. Now, that is the position of the banks, as I understand it. That is what you want to do. I don't think in logic it is correct. What you ought to deduct is the net income from the tax-exempt source from the total net income in order to find the taxable net income. But I would go at that, if possible - there may be some difficulties - by introducing into the income tax law a general provision bearing on all kinds of income that no expenses shall be deductible from income from - from taxable income which are incurred in order to acquire or manage or handle sources of tax-exempt income.

Now, the only difficulty I see, aside from the fact--

MR. PAUL: We have that now, Jack.

MR. VINER: Well, just a general provision.

MR. TARLEAU: We have that.

MR. PAUL: We have that as to taxable--

MR. VINER: No, you don't have a general provision of that sort.

MR. PAUL: Yes, we have a provision applying to interest.

MR. VINER: I don't mean applying to interest. I mean, put into the tax law a general provision that no expenditures incurred in connection with the acquisition, management, handling of tax-exempt income shall be deductible from income for tax purposes.

MR. BLOUGH: We propose to go somewhat further than that. I don't know if you were here during that explanation.

MR. PAUL: Well, I was talking to Jack about it.

MR. BLOUGH: Do you include the getting of the money as well as the invested money?

MR. VINER: Why, sure.

MR. BLOUGH: It wasn't in your statement.

MR. VINER: The acquisition from the source. The acquisition, management, handling of the source of tax-exempt income. That takes care of it. But then when I say I don't think you have gone that far because - I wouldn't mention banks. That makes it unnecessary to mention banks.

MR. TARLEAU: We are not going to.

MR. VINER: I didn't know that. But then that extends to such things as interest on a mortgage for a house you occupy.

MR. TARLEAU: Yes. Well, as you know, we have been working on that. We have been working on that problem as well. If that will make it any - I don't know whether it will make it any sweeter than Mr. Eccles' position. He feels the same way about it.

MR. VINER: I see a difficulty I would like some light on myself in handling it that way. Where a source of income is only partially tax exempt, then you need to have a more complicated provision, but where a source is only partially tax exempt--

MR. TARLEAU: We can consider they are two taxes. One is exempt and the other is fully subject to tax. You are quite right, and I can assure you we have been thinking along those lines.

MR. PAUL: I don't think there is any difference between--

MR. BLOUGH: The purpose of the formula was not to be a substitute in the statute for a general provision but to make it easier on the banks than some interpretations of the general provision might make it. Isn't that--

MR. TARLEAU: In other words, it is - all we are doing, as far as the banks are concerned, is working out a formula which we might either put in legislative regulations or we might, if the banks felt it necessary, put it in the statute itself as an interpretation of what the general rule means so far as it affects the banks.

MR. VINER: But you would mention banks? You see, I would like to--

MR. TARLEAU: No. We don't necessarily - we haven't--

MR. VINER: I hadn't understood that.

MR. TARLEAU: We wanted to have a general formula. Now, how would that general formula affect the banks? Now, the banks were in a peculiarly technical position with respect to this, and we wanted to work out a methodology for applying this general formula to the banks, get a bank formula, in other words.

MR. PAUL: In other words, the banks would be stuck by a dollar formula basis. In other words, we are trying to help the banks in so far as we can.

MR. VINER: Well, would the bank spokesmen say that in other fields than banks we ought also to exempt - to deduct gross income from the exempt source from net income for tax purposes or does that apply only to the banks?

MR. TARLEAU: Well, I asked Mr. Eccles that question. I don't know whether he has formulated an opinion on it.

MR. ECCLES: What was that questionagain?

MR. VINER: Well, would you extend to other instituions than banks the principle that when there is a tax-exempt source you ought to deduct from total net income to get taxable net income, the gross income from the exempt source?

MR. ECCLES: I wouldn't make any exception with banks. I don't think that--

MR. VINER: So you would extend that to others? Why should you deduct gross income from net income in order to get taxable income?

MR. ECCLES: I argue why have tax exemptions at all.

MR. VINER: No, but when you have it.

MR. ECCLES: Well, my point on this whole thing is this, that you have a tax-exempt or partially tax-exempt security that you have been selling since 1934 and that tax-exempt security was measured by the deduction, see. The way that you could apply this interest that you collected is what I mean.

Now, if you change the application of it as provided in the act of 1934, see, then it seems to me the thing that the bank or any investor is interested in is whether or not his net revenue is affected by any change you make, and it seems to me that you might just as well eliminate the tax exemption altogether. Of course, it costs them more than it would the former way, but the principle is the same, and I am not arguing in favor of a tax-exempt security. All I am saying is that you have issued tax-exempt securities on the basis of an existing statute or formula, that investors have bought these securities expecting that that was the way they could apply the benefit. Now we come along and we change the rules.

MR. VINER: Well, supposing I were to ask you a question.

MR. PAUL: I would like to reply to that, too.

MR. VINER: Supposing it cost ninety cents on the dollar to collect a dollar interest on a tax-exempt bond, how much would you deduct - would you tax tax exempt, a dollar or the ten cents?

In other words, would you allow that ninety cents to be deducted from the other income?

MR. ECCLES: What I would do is to take all of the income - that is what you do now, see. I would take all of the income--

MR. VINER: Gross?

MR. ECCLES: Yes, I would take the gross income and continue to give the full benefit to the tax exemptions that has been given to it because that is the conditions under which you have issued these securities.

MR. VINER: All right, now what would you do on the expenses?

MR. ECCLES: I would continue to apply them like they have been applied.

MR. VINER: Deduct all the expenses?

MR. ECCLES: Yes.

MR. VINER: Well, you want that--

MR. PAUL: Marriner, it seems to me--

MR. ECCLES: That is the way it has been done since '34, and we have been selling bonds on that provision and that is why the bonds sold at the prices they have been selling. That is one way we were able to price bonds as we were able to price them, is because of these conditions.

MR. VINER: Do you think it was wrong to use this formula then?

MR. ECCLES: Well, I have thought the tax-exempt feature has always been wrong.

MR. VINER: But given the tax-exempt. You see, what I would like to know is whether you approve of the principle that is being followed now--

MR. ECCLES: I approve of it as much as I approve of the tax-exempt. It doesn't make any difference, it is the net result the investor figures. I don't see any distinction. It is all part of the picture and the minute you change it so that the net return is reduced, you might just as well do it by reducing the tax-exempt feature.

MR. PAUL: That is very different though, Marriner.

MR. ECCLES: It isn't any different in the effect in so far as the investor is concerned.

MR. PAUL: All right, but as far as the effect on the final investor is concerned, you might just as well say that because we have these tax-exempts outstanding we can never change the statute that deals or controls the ultimate incidence of the tax on the banks.

MR. ECCLES: Or anybody else.

MR. PAUL: On anybody. You can't change the provision in the statute according to your argument, which has nothing to do with the normal tax esemption which was given in the bond by contract by the Federal Government.

MR. ECCLES: Well, the contract doesn't give any right. All the contract does is--

MR. PAUL: Well, we mustn't mix that question up with this because that is a wholly different question. We can exempt from normal tax. We are doing some, and as you people said, we could whittle down that deduction by changing the rate. We are leaning over backward. We don't propose to do that job indirectly in so far as our contractual provision is concerned, but when you come to the expense of a bank or any other deduction, you are dealing with a wholly different matter as to which you have no contract, and all you are doing is changing a provision of the statute. Now, everybody knows - you have no contract on the--

MR. PAUL: Invested interest provision in the exemptions.

MR. ECCLES: But you have no contract when it comes to the normal tax rate either.

MR. PAUL: We have a contract and we are interpreting it liberally in favor of the tax-exempts.

MR. ECCLES: I say, but you don't have a contract.

MR. PAUL: We have a contract to exempt from normal tax.

MR. ECCLES: But you have no contract with reference to the rate.

MR. PAUL: Well, I know we haven't but it would seem to me to be rather sharp practice to make a contract and refer to normal tax and then one of the parties to the contract later says, "We mean something else by normal tax than what was in effect at the time"--

MR. VINER: Or if you change it in order to go back against it.

MR. PAUL: Yes, that would be sharp practice.

MR. VINER: I would say you could defend a change if you could convince everybody that the change did not have this as its major objective.

MR. PAUL: Well, that is a different matter. I agree with you there.

MR. TARLEAU: Certainly, in other words, if we were so fortunate as to be able to reduce all of our taxes so that we don't have to have a surtax and we could even go down and reduce the normal tax, well of course, there would be no objection to reducing the normal tax under those circumstances.

MR. ECCLES: Nobody would object to reducing taxes.

MR. TARLEAU: No, of course not. The only objection that I think a bond holder could legitimately complain about is just to defeat his expectations of a normal tax-exemption, to translate normal tax into surtax and that is one of the things that the Secretary mentioned himself not to do.

MR. PAUL: And the Secretary--

MR. ECCLES: Of course you could in effect completely nullify the whole twenty-four percent rate.

MR. VINER: On the other hand in theory you could use that provision and interpret it the way you want to interpret it so that you would get something like--

MR. ECCLES: Full twenty-four.

MR. VINER: You could get something like eighty percent net income on your investment.

MR. ECCLES: You would get the full twenty-four - no, you would get the full twenty-four percent benefit.

MR. VINER: You get more than that if you have a big - if the net income is a small part of the gross income. You can throw all that gross income as a deduction against the rest of your taxable operations.

MR. ECCLES: Well, of course if you had--

MR. VINER: I think I could construct an investment corporation which would operate on that principle and would earn--

MR. PAUL: That wouldn't make any taxable income.

MR. BLOUGH: Is he entitled to continue to have that loophole because he expected it when he bought it?

MR. VINER: He didn't expect it. He didn't foresee it. It developed through circumstance.

MR. PAUL: Yes, he foresaw it.

MR. VINER: But he didn't realize its full possibilities until he started working on it.

MR. ECCLES: It was in the Revenue Act of '34.

MR. VINER: I would want to see some banker showing me that at the time he bought these securities he said,"Look at all I can do with that in order to escape income tax."

MR. BURGESS: I will show you that and I will show you the bonds on our books.

MR. ECCLES: Sure, I will show any bank in the United States that did that. I don't think you will find an exception that hasn't figured just that, and that is why it--

MR. PAUL: Why not hear from the bankers here?

MR. ECCLES: That is why those bonds sold like they did.

MR. VINER: Did they tell the Treasury then of the possibilities they saw?

MR. ECCLES: No, but the Treasury was pricing it on the market and the market was based on the benefit.

MR. BURGESS: That is what you sold it for.

MR. ECCLES: Why sure.

MR. VINER: Of course they would be--they still would be worth now what they paid for them, wouldn't they, or very nearly?

MR. BURGESS: No.

MR. ECCLES: Oh, they wouldn't. They have already gone off five points since this thing started to be disucssed.

MR. VINER: But I mean what did they pay for them originally?

MR. ECCLES: I don't know what they paid because they have been traded in. The point is that the present holders in a great many instances aren't the original holders at all. True, I think it is true, that those bought in the beginning, in '34 and '35 and '36 and have just sat and held what they bought. They have still got a premium.

MR. VINER: That doesn't matter if they have been trading in and out, as long as they have substantially the same kinds of securities they had then, they haven't lost and most of them are there. There has been no switch in the country, major switch.

MR. ECCLES: They have increased very substantially their holdings. They are much more than they were.

MR. VINER: All the better. I don't think they can show a loss.

MR. ECCLES: No, I don't think they would show a capital loss.

MR. BLOUGH: Is this distinguishable from the S.E.C. death sentence and a million other changes that have been made which have changed people's expectations and cost them money?

MR. ECCLES: Randolph, I have been doing all the talking here. I don't know what your point is. Maybe I am sitting alone.

H.M.JR: He certainly isn't going to throw you down. (Laughter)

MR. ECCLES: I don't know why.

H.M.JR: Marriner, most likely had the surprise of his life this morning.

MR. ECCLES: Why?

H.M.JR: I imagine so, on your--

MR. ECCLES: Who had the surprise, you say?

H.M.JR: Randolph, a pleasant surprise, that you were on his side.

MR. ECCLES: Well, it would be rather unusual. (Laughter)

H.M.JR: Could I make a little statement before you speak, Randolph?

MR. BURGESS: Yes.

H.M.JR: If you don't mind, I would like to say two things on my philosophy, on how I am approaching this tax bill. One thing is this, we have got to raise every dollar we can on just as equitable a basis as we can, trying to hit everybody based on ability to pay. I feel that - my position is that the only way that I can raise this vast sum is through taxes; and, if we try to be fair to everybody and unfair to nobody, as far as possible, I have always felt since I have been in the Treasury and before, that I have got only one thing and that is my word, because they have often asked, "What is the Government credit?" and I say, "The Government credit is something." When you have it, you want to take awful good care of it; and once you lose it, it is awful difficult to get it back. It is an illusory thing which you cultivate over a period of years. When I came here in November '33, I paid, I think, two and a quarter percent for one year money and now I can get one year money for very, very little. So I mean - why didn't I have to pay two and a quarter percent for the first money - I think it was eleven months that I borrowed. Was it eleven or nine?

MR. BELL: Eleven or thirteen.

H.M.JR: And why can I borrow that now for a half of one percent? I mean, you can't explain it, but it all ties up with confidence in the Treasury and also in me, so I am very conscious of the statement I made, and it wasn't lightly made. I meant every word I said, that I wasn't by direction or indirection going to circumvent.

How can we fight the two things together so I can keep my word that I don't want to tax the holders of Federal securities by direction or indirection and at the same time still not treat the banks differently than we would ninety-nine other kinds of institutions, corporations or individuals? Now, that is the problem, you see.

MR. BURGESS: Well, you really stated the case better than I can in a way. Now, first as to your first point, I don't think the banks are going to object to paying more taxes. I recognize they haven't paid much taxes and they have got to pay more taxes. I think, in figuring, that one always has to remember that they have paid a certain tax at source. That is, they have bought these securities and when they have bought them, they have bought a security plus a tax-exemption.

H.M.JR: A security?

MR. BURGESS: Plus a tax-exemption. That is what they have bought. That is what you have sold them. You have said, "Here is a security with an exemption from normal taxes." That is just as though you had written a perspectus under the S.E.C. and said, "Here is what it is," and normal tax exemption meant a certain thing when you sold it and that good faith is an essential thing. Now, I don't believe a bank squawks at the seven percent surtax. Did you have any squawks on that?

MR. TARLEAU: No sir.

MR. BURGESS: And I assume that you are going to raise that. If I were doing it I would make the total normal and surtax forty percent. I might make it more than that, I don't know but I would try and make it a good one.

H.M.JR: They didn't squawk on what?

MR. BURGESS: On the seven percent surtax that they had no exemption from and that they are paying this year because that was beyond the bond. That is all right. I don't think they are going to squawk when you raise that. I think inevitably, just in the nature of the case, they are going to pay more taxes this year. In the first place, as I figure it, by

June of '43 the banks will have twice as many Government securities as they have now. Their portfolios will be doubled and those will be taxable securities. There is no way on earth they can avoid paying taxes on those.

A second point has been that banks have had losses to charge off. Now, the banks took a hell of a licking in the '30's.

H.M.JR: So they tell me.

MR. BURGESS: And they are still charging it off. Their capital was reduced by a billion seven hundred million dollars for six billion nine down to very close to five billion dollars. Their capital is still twelve percent under '29. Their deposits and assets are seventeen percent higher. Now, on top of that they have got to pile twenty million dollars more of Government securities, so they are genuinely concerned about their capital position. They have got to make some additions to capital as they go along, but I haven't figured in detail, but I think they will be paying a good chunk of the added interest in to taxes. They ought to save enough so they can make some addition each year to their capital. That seems to me the broad picture. You are just as concerned about the soundness of the capital position--

MR. PAUL: Absolutely.

MR. BURGESS: ... as anybody. We are all in that same boat. I think we ought not to pay big dividends. I think some banks are paying too big dividends, and that they ought to conserve the position and in the report we are working on I think we will suggest that, if the report meets with the approval of you gentlemen. I think in this particular proposal that you have stated the case yourself, that there is one thing that is more valuable than any detail, and that is the word of the Treasury, their good faith. I have talked to a good many bank fellows about this since it came up, and I am perfectly sure that if you do this, which for the average bank destroys half the value of the tax exemption, that they will not think it is good faith. They will think it is--

H.M.JR: And they will do what, because we are talking about two separate things?

MR. BURGESS: If you do this allocation business.

H.M.JR: Of expenses?

MR. BURGESS: Yes. It has the effect of destroying for the banks half the value of the tax exemption. The effect is practically identical to reducing the normal tax to twelve percent and making all surtax above that.

MR. VINER: It depends on the formula, wouldn't it?

MR. TARLEAU: Yes, and the formula hasn't been completely agreed upon.

MR. BURGESS: Well, the formula that you told me about, that would take away about half of the average value of the tax exemption.

MR. ECCLES: Instead of being twenty-four, it would be equivalent to twelve percent.

MR. BELL: Nine something. Somebody figured it out.

MR. BURGESS: That is to my mind doing indirectly exactly what you said you wouldn't do.

MR. PAUL: That isn't what Mr. Sullivan said at this conference, and I have examined the stenographic text of that, and while I don't deny that the impression may have been receive--

MR. BURGESS: It certainly was.

MR. PAUL: ... I am absolutely unable to see any basis for it textually in what was said. The first question was, did the Secretary have any intention of indirectly reaching some of the partially exempt Federal securities by lowering the normal tax?

MR. BURGESS: Then read the answer.

MR. PAUL: No, Mr. Sullivan answered that question. "Very specifically, we have not considered lowering the normal tax," and he gave the reason, "because we do not wish to attempt to do by indirection what we think we cannot openly accomplish directly."

Now, then the other point that came up, and here is the exact thing that the reporter said, he asked whether it was intended to resort "to the old Glass scheme of using tax exempt income as a basis to put taxable income in a higher bracket." And then Mr. Morgenthau said, "I think we have gone around the thing pretty much." He said, "I am opposed. Let me go over it once more. I recognize a contract exists between the Federal Government and the men or women who have bought our securities, and we don't propose by direction or indirection to tax them on this income as long as these issues are outstanding."

MR. BURGESS: A very broad statement.

MR. PAUL: Those questions - those answers must be taken in relation to the question.

MR. ECCLES: If he had said, "We don't propose to do direct by reducing the normal tax," that is one thing, but when he said, "We don't propose to do by direction or indirection," and then he says, "Does that not cover the waterfront." In other words, the impression that everybody got was that this tax - twenty-four percent normal tax benefit as now applied would not be disturbed. What you propose to do means that that twenty-four percent tax will not be a twenty-four - I mean twenty-four percent exemption will not be twenty-four. It might be fifteen or it might be twelve, depending upon what formula you have put into the statute, and it is doing indirectly - and it will so be interpreted.

MR. VINER: It would still be twenty-four percent of the net income, and I presume that was what was meant by income when it was used.

MR. PAUL: They are related to the twenty-four--

MR. BURGESS: Henry, I can only tell you what the bankers will think about this. Ninety percent of the bankers will interpret this as Marriner says, and I don't think you can afford to do that. It is just another way of doing indirectly what you are not going to do directly.

MR. PAUL: Of course that means that we can't change a single provision of the statute which would have any effect upon the twenty-four percent tax.

MR. VINER: What if that statement had not been made?

MR. BURGESS: I think the Secretary would feel the same way about it. He has sold these bonds with a twenty-four percent exemption, and what that meant when they were bought and people have bought them and paid money for them on that basis and bought them at a low rate, and they have bought them in the past year and two years.

MR. BELL: How about when the - those that are outstanding that were purchased when the rate was down to thirteen percent?

MR. BURGESS: Well, that is as you say something of a windfall, but a lot of them have changed hands at twenty-four percent.

MR. ECCLES: They went up to a premium and people bought them at a premium. True, somebody sold them and got the profit. They bought them on a thirteen basis and if the basis went up to twenty-four percent, then the bonds went up, because there was a windfall, but those that held them - the insurance companies were the biggest beneficiaries of that, because they sold a lot of these tax-exempt securities and bought taxable securities.

MR. BELL: We have still got a sizeable chunk of tax-exempts there.

MR. ECCLES: Yes, that is right.

MR. PAUL: I must be stupid about this, but I don't see how anybody that bought anything on the strength of a provision in the statute has any vested rights.

MR. BELL: Any more than I have a vested right under fifteen hundred.

MR. PAUL: Yes, or the rates of 1928 or anything like that. We are all stuck.

MR. ECCLES: Well, Randolph, I don't see much distinction in changing the normal rate and doing what you propose, because, after all, it is the net investment value of the security that interests the investor, and whatever you do, either directly by changing the normal tax or indirectly by doing what is proposed to be done, affects the value of that security, the investment value to the holder.

MR. PAUL: Well, I am interested in what income I have after taxes, but I can't say anything if they double the tax rate on me.

MR. ECCLES: No, of course you can't, but you don't buy a security based upon the statute.

MR. PAUL: I do a whole lot of things based on the statute.

MR. ECCLES: Now, if Congress changed the statute, that is another thing, but if the Treasury goes ahead and takes the initiative, takes the position of favoring it, recommending it, when they have likewise got the advantage of a market situation that existed under a condition that prevailed in a contract, it is quite another thing.

MR. TARLEAU: You know, Mr. Eccles, this provision will not only affect partially tax-exempt Federal securities, but will also affect wholly tax-exempt state securities. This isn't a provision that either in an attempt or in result is merely going to effect a reduction of the advantage of the exemption from normal tax. In other words, it is really in a different--

MR. ECCLES: You didn't sell the state securities. You didn't--

MR. TARLEAU: I know, but the state securities now have that same benefit.

MR. ECCLES: That is right, but the Federal Government, the Treasury, the Secretary, has a very different obligation toward those.

MR. TARLEAU: All right, let's pursue that a step further. You think, therefore, it would be justifiable for us to change Section 24 and say that so far as the state securities are concerned, you can't deduct the expenses of the state securities from your taxable income, but leave the tax - Feds out?

MR. ECCLES: You don't need to pay any attention to that section, it would seem to me. If Congress passes a statute which says that it eliminates the tax-exempt feature of state securities, then that particular provision of the statute would have no application. All you do is eliminate the tax-exempt feature as it is proposed. You recommend that state and municipals no longer have any tax benefit. Now, you are going to recommend that. The Secretary has taken a position on that. If that provision is passed, then this Section 24--

MR. TARLEAU: Is nugatory.

MR. ECCLES: ... is nugatory, that is right.

MR. TARLEAU: Of course you are taking, Mr. Eccles, an awfully broad position, and Mr. Burgess is taking an extremely broad position, that we can't do anything in the statute which will have the net effect of reducing the yield to the present holders of these partially tax-exempt securities, a statute that is admittedly imperfect.

MR. VINER: Except raising the surtax.

MR. ECCLES: I don't think you can.

MR. TARLEAU: With a statute that is as admittedly imperfect as this, they come in day after day asking for amendments to perfect it in your favor, and things that we have done as Charlie will tell you. To say that our hands are tied, however, on all the imperfections--

MR. BURGESS: This is just a little administrative change, Tarleau, after all. This does cut off for most of the banks just about half of the value of the tax exemption. Now, that is a major change.

MR. ECCLES: That is a major thing.

MR. TARLEAU: I can see that.

MR. BURGESS: As far as the equity goes, I don't think you can devise any formula - I don't want to place the debate on this point.

MR. TARLEAU: I really wish you wouldn't because they are still studying it, but that isn't your point. Even if we had a perfectly satisfactory one.

MR. BURGESS: That isn't the point, no.

MR. VINER: What would you do in a case of this sort, if it existed? There is an invested trust that has a portfolio of non-governmental securities. In addition to that, it borrows five million dollars or fifty million dollars from the banks at two percent to invest in tax-exempt two and a quarter. The rates don't matter. It deducts all that two percent interest from its total taxable income. Now, an investment trust on that basis would be making, I think, something like - oh, I don't know what the figure would be, but anyway it is certainly over fifty or sixty percent net income on that transaction.

MR. ECCLES: That is all right. Anybody that will borrow that much money to make money and take that risk on the assumption of a short-time loan which they would get from a bank - you don't have to buy Governments to get fifty or sixty percent on capital.

MR. BURGESS: I wish somebody would.

MR. TARLEAU: That one we have got covered. We deny the interest which is used to characterize exempt securities.

MR. VINER: Including for banks?

MR. TARLEAU: Yes, for everybody.

MR. VINER: You mean you limit the deduction by banks--

MR. TARLEAU: Section 23 says that all interest paid or accrued within the taxable year on indebtedness except on - is allowed as a deduction - except on indebtedness incurred or continued to purchase obligations, the interest on which is wholly exempt from taxes.

MR. VINER: But what do banks do on their savings deposits?

MR. ECCLES: That isn't a question of borrowing, because it is subject to immediate withdrawal.

MR. VINER: You mean savings deposits of banks isn't borrowing from its depositors?

H.M.JR: No more than they are in a commercial.

MR. VINER: Oh, sure they are, but no interest.

(Discussion off the record.)

H.M.JR: This is my decision. I feel this way. I compared this thing, and Paul tells me, though I have never read a law book, that I have got good precedent for what I am saying from the Chief Justice. After all, common law is built up through years of interpretation that the pople have placed on it, and I have made a statement and the financial community has given my statement an interpretation. My technical people feel that they have placed an incorrect interpretation on what I said, and I agree with them as to that, but that doesn't change the fact that the banking and financial community have given my statement a certain kind of interpretation. By having interpreted it in that way, I am going to abide by their interpretation.

MR. BURGESS: I think you are very wise.

MR. ECCLES: I think it will cost the Treasury less--

MR. VINER: Mr. Secretary, I think that is a little too far. Why don't you agree rather to abide by what they regard as a fair treatment and let them propose to you a fair treatment. Don't you take the onus of depriving the Government of revenue which it may be entitled to. Let them take it.

H.M.JR: Who?

MR. VINER: The bankers. Let them propose to you what they think is a fair treatment. In other words, let them - in the light of your commitments, such as they are, let them propose to you what they think is fair.

H.M.JR: Well, haven't they said that?

MR. VINER: Well, let them do it in writing. I think this is pretty extreme.

H.M.JR: Oh, I don't do business that way, Jake.

MR. BURGESS: There is nobody in the bankers as a group - we are just two individual fellows. For us to make a tax recommendation would take a month. It would take as long as it would for you people to make one.

H.M.JR: Let me tell you a story on that. When I was handling Allied purchases for the President, I told Knudsen that the English were to have three thousand planes a month and never got them. Knudsen called me up and said, "Henry, I wish you would write me a letter on that." So I said, "Bill, I never write letters." He said, "Well, I would like to have a letter from you anyway. Write me a letter on something else." (Laughter.)

MR. BURGESS: We will write you a letter on something else.

H.M.JR: No, I will tell you, Jake, it all gets down to word of mouth.

MR. VINER: Well, I think they are being unreasonable in holding you to as rigid an interpretation as that. I do think that it would have taken great pains to be fair to them in the light of all the things, and that the thing ought to have been gone at very carefully, and if possible to have obtained their approval to what you were doing, but to say that this is frozen that way, because of that interpretation of that, I think they are asking too much, and I would use a stronger term.

H.M.JR: Well, you may be right, but at the beginning you weren't here. I asked them if they wouldn't refrain from talking about this until after Tuesday, and they said they wouldn't, that they were not here officially, so they couldn't tell me, even if they agreed or disagreed, that they couldn't give me the word of the ABA. So we would have to make the thing public, and I would have to say, "What do you want?" and they would have to go back and the whole thing would be thrashed out, not only in the ABA, but in the press, and I don't want that. I am not afraid of - I don't know what the public will do about the banks getting this special privilege. I don't know what they will do.

MR. VINER: I wasn't thinking of that. I was thinking of what was right, what would be reasonable in the light of all the factors.

H.M.JR: Well, here I have got the chairman of the Federal Reserve Board interpreting my remarks one way.

MR. ECCLES: McKee and Ransom do likewise.

H.M.JR: McKee feels very violent on the question of my word. I want them to continue to feel that my word is final. If I say to them, "Please do this or please do that," that they don't come back and say, "I have got to have a letter on it." We do business over the telephone every day. I mean, I am not just - you are looking after my interests, for which I thank you. I mean, your suggestion is only in my interests, but I do business with them in the millions every day, and it is never questioned. Now, they feel that - McKee, and I take it Ransom, feel that my word has got to be better than Ivory soap. There can't even be six-tenths of a doubt. As long as they take that position, and as long as the bankers take that position and again being very frank and having the biggest financial program facing me that has ever faced any finance officer in the world, I can't at the inception of this program have the Federal Reserve Board and the banking fraternity saying, "Well, you said this, but this is our interpretation." Now, also in fairness to them and to me, I am not going to do anything about it, but that doesn't mean that other people who may not say, "Well, Morgenthau be damned. He may have said that, but we still think that we should do so and so." And you (Burgess) appreciate that. Now, I am not in any way going to do anything about that, but the Congressman from Oklahoma, Josh Lee, may get up and say, "To hell with Morgenthau. That is his thing, but I am not going to let--"

MR. PAUL: I think--

H.M.JR: ...."the banks get away with this." As I say, as far as I am concerned the thing is closed, but I want you to know and feel all right about it, Marriner, that if - I am using Josh Lee as an illustration.

MR. ECCLES: Well, I made that statement a while ago that if Congress proposes it that is entirely a different matter, that isn't the Treasury.

H.M.JR: Or Congressman Ford of California may get up and say, "That is very nice. Morgenthau sold out to the banks and we are surprised, and so forth and so on, but I am not going to stand for it, and I am going to introduce so and so."

MR. ECCLES: Well, I have no brief to offer for the banks. I would like to make just a brief statement of my position. I have no brief to offer for the banks. I am a public servant, and I have never, as Randy will, I think, verify, been considered pro-banker. I know what their problem was, and I have tried to be fair, but I have felt in a good many instances that they have been narrow, they have been unreasonable, and they haven't been fair. I mean, I have - and I have had plenty of disagreement with them. Now, this situation here--

H.M.JR: And expect to have some more?

MR. BURGESS: This is the first time, I think, in this office, that Marriner and I have ever agreed about anything.

MR. ECCLES: I think this in the interest of the Treasury and the interest of the Government, pure and simple and not the banks. That is what I think about it. I think that for this reason, that what the Treasury would collect out of this change here would be paid for a good many times over in the question of a lost faith, and in the question of what they may have to pay from here out. The Government is asking these banks today, and we have got to continue to ask them, to do more and more and more public service in the distribution of Defense Savings Bonds, and possibly in the distribution of other securities without compensation. Now, we want their complete and full cooperation and support. Now, we - you can argue technically that what we are doing here, that we are subsidizing, and if we are going to subsidize them, let's go to Congress and get an appropriation and subsidize them. You can't do that, that isn't practical, and they are not going to look upon this as a subsidy and neither should the Treasury look upon it as a subsidy. It is something that exists. You are not going to disturb it and you want to maintain a good relationship. You want to maintain the faith and confidence in what they have understood to be the Treasury's position, and I think that the Treasury stands to benefit immeasurably over that approach to the problem as compared with what would be the case if you take the other approach, so that my position is - I take it, because I feel that it is in the dollar interest of the Treasury and the Government. That is the way I feel, and I feel about it very sincerely.

MR. PAUL: Well, I am just afraid we are going to lose a great many dollars. The president of the "X" oil company is going to come in here and say, "We didn't buy a lot of bonds, but we made a lot of contracts on the basis of twenty-seven and a half percent exemption."

MR. ECCLES: All right, but the Secretary of the Treasury didn't make some commitment and they haven't got a big financing. It is a very different picture. I will go with you and help you close all of those loopholes. I would go right to the bat on every one of them.

H.M.JR: I expect you to.

MR. STONIER: Over twenty-one years the association has been on record against tax-exempt securities and that is their position today.

MR. ECCLES: This thing will work itself out in a few years.

H.M.JR: Does that include state and municipals?

MR. STONIER: Yes.

MR. BURGESS: That isn't saying they have come out in favor of taxing present outstandings.

MR. STONIER: No.

MR. BURGESS: They have never done that.

H.M.JR: Well, the whole thing, gentlemen, gets down - I mean, everything else we are talking about, as far as I am concerned, is just as insignificant - it is a question of the interpretation of my word, and I am simply deciding it on that, and if we have to lose some revenue, well, that is that, but on the other hand at this stage of the game--

MR. PAUL: We will put the revenue on somebody else. That is what we will have to do.

H.M.JR: But in this stage of the game my word has got to be better than Caesar's wife.

MR. ECCLES: Put it on the surtax.

MR. BELL: How about the amortization?

MR. TARLEAU: Well, I asked Mr. Burgess about amortization, and he feels, and I don't quite understand why, but I know that he has the feeling that that is in a somewhat different realm from the problem that we are discussing.

MR. BURGESS: Well, I think it is possible in that to cut it more at a given point. If you say on any securities purchased here after you pay taxes on the yield rate, not on the coupon, I think you can - I think that has an element of fairness in it.

MR. BELL: What about securities they hold?

H.M.JR: Explain that to me, I don't understand that.

MR. TARLEAU: Today, Mr. Secretary, if a person buys at a premium a tax-exempt bond, let's say it is a ten year bond, and pays three percent interest, and he buys it at a hundred and ten, in effect he is getting an effective yield of two percent on that bond. What we do today is, he reports tax-exempt income of three percent, upon which we get no tax, of course, it being tax-exempt, and at the end of the period he gets a ten dollar loss which he charges against his ordinary income. In other words, they are taking premium losses on tax-exempt securities and deducting those premium losses from ordinary income. Now, we went up to Congress last year and said, "We don't see why a premium which was paid for the privilege of getting a certain yield on a tax-exempt bond should be considered a loss and chargeable against ordinary income." We went up there last year and tried to get that through the Congress.

MR. ECCLES: You mean to amortize the premium over the life of the bond.

MR. TARLEAU: Yes.

MR. ECCLES: As required by the Comptroller's office in examinations.

MR. TARLEAU: That is correct.

MR. ECCLES: I certainly think that should be done.

MR. TARLEAU: Now, I asked Mr. Burgess while you were holding your consultation whether he though asking them to be denied those premium losses, whether that would be a violation of the spirit of your utterance of today; and, as I understand, it was not.

MR. BURGESS: I think it is partly in the way you do it, but I think it is in a different category from this other.

H.M.JR: How would you suggest doing it?

MR. BURGESS: Well, I--

MR. TARLEAU: We have been working on that and the bankers too.

MR. BURGESS: I am on the spot because these fellows have been working for a long time with the bankers committee on the thing, and I understand they have worked out something new on it that I don't know about.

H.M.JR: Well, irrespective--

MR. BURGESS: I think the general principle is that the fellow who has bought a thing under one understanding ought not to have that understanding changed, but the fellow that comes in and buys the thing now, a new issue or even in the market, can be subject to a different rule.

MR. PAUL: But the man who bought that only bought the deduction privilege. He bought something he is clearly not entitled to. He bought the right to change - to charge capital losses against a certain type of income. We could deny the whole capital loss, as we once did. Surely, a man has no--

MR. BURGESS: I think there you have had more changes in the law, and there is a little less--

MR. ECCLES: What has been done on that, Henry, is that the Federal Reserve and the Comptroller's office and the FDIC and in all their examinations have made these banks amortize each year. For instance, if they pay a hundred and five or a hundred and ten for a bond, that between now and the maturity of that bond they have got to charge down a percentage of that premium down to par each year and they have been making them charge that as an expense, which had the effect of reducing the interest benefit they were getting. That is just plain common ordinary good sense accounting, conservative accounting. Now, the income tax - the Bureau of Internal Revenue, however, have said that you can't charge to expenses this amortization of this premium, see, that you have got to wait until the bond is paid, and then if you have paid a hundred and five and it is paid at par you take a five point loss in the year in which it is paid, you see. Now, I have always felt that the Comptroller and the Federal Reserve, the FDIC, were right, and the Bureau of Internal Revenue should amend the law - so that it would dove-tail with the practice that has been in effect indefinitely by those three examination agencies, and that is just good and proper accounting, and I would be for that without any equivocation or question at all, because it has been what we have made them do. They have treated it for their - they have never shown it as earnings. It isn't in the earnings picture now. They have charged it out and it doesn't show in earnings, and I would, therefore, have the law changed if need be to comply with the practice which is good sound accounting practice.

MR. PAUL: Well, let's be pretty clear about this. If this is expense, does that mean that that particular item of expense gets deducted every year in accordance with the other formula we have discussed?

MR. ECCLES: It is a part of interest.

MR. BLOUGH: Will the premium on tax-exempt securities be deductible, the amortized premium, be deductible against tax-exempt interest?

MR. BELL: They put it on the books at the effective rate.

MR. ECCLES: That is all, you just put it on the books at the effective rate.

MR. BLOUGH: It is then deducted against--

MR. ECCLES: That is right, but if you don't--

MR. PAUL: In other words, I want to be clear that that reduces the non-taxable income, and that they are not getting in the total effect spread over the years the same as they would if they waited for the payment of the bond and took a capital loss.

MR. ECCLES: Well, I would figure that if a bond paid two and a half percent and it was a ten year bond and the premium was five points that the debt -- you would take a half of one percent - you would amortize that five point premium over the ten years so that you have really got an amortization of one half of one percent. Now, the net income on that bond is two percent, and not two and a half.

MR. BLOUGH: And would go into the income statement as two percent.

MR. ECCLES: That is right.

MR. PAUL. And in effect it would mean that that particular amortization would not be an expense allocable to taxable income?

MR. ECCLES: Well, I would offset that against the interest.

MR.VINER: Well, it would be an expense. No, taxable, you are right.

MR. ECCLES: I would offset that against the interest because that is what it is. After all, what that bond is really yielding is two percent and not two and a half percent.

MR. PAUL: Then you wouldn't limit that to bonds newly issued? That is, you would apply it to all.

MR. ECCLES: I wouldn't. I would cover the whole field.

(The Secretary left the conference temporarily.)

MR. TARLEAU: Now that the Secretary is out, you know what we are proposed to do - now, he isn't here, so he isn't committing himself to anything. Now, what we propose to do and we have been working with your committee, we want to be fair. I mean, this is before he sees it so he isn't committing himself. He hasn't even seen this thing. What we were proposing to do is to have a cut-off date to allow you the premium losses for the amount of premium that accrued up to the cut-off date and we were working on a fair cut-off date, and a fair way of allocating the premium over the balance of the period so that we have some - we take into consideration the fact that you had acquired some of these securities with the idea of getting these premium losses. We don't think that you should continue to have them, but we don't want to penalize you for the premiums that you should have allocated - premium amounts you should have allocated in the past. Well, that is the principle we are working on. Now, if you feel that that violates the Secretary's word, you had better tell us.

MR. ECCLES: I don't think that anything - this has no relationship at all.

MR. VINER: That doesn't go as far as--

MR. TARLEAU: That doesn't go as far as Mr. Burgess says, and - I mean, it doesn't give you as much relief as you suggested, but it isn't as severe as Mr. Eccles suggested.

MR. BELL: In other words, you are putting them in to the position today or when this bill goes into effect just as though this whole thing had been in effect at the beginning of their purchases.

MR. TARLEAU: Precisely. If they bought at a hundred and ten a ten year bond with five years to run, we give them a five dollar premium loss at the end.

MR. ECCLES: They take the five point premium now, and amortize the balance?

MR. TARLEAU: That is right.

MR. ECCLES: Well, they certainly couldn't complain at that. In other words, if they bought it at a hundred and ten, five years ago, and it is now down to a hundred and five - you see, if they had followed this five years ago, you let them take that five now and adjust--

MR. VINER: Not now.

MR. BLOUGH: Take five years from now--

(Discussion off the record.)

MR. ECCLES: The examiners have made these banks go ahead and take these losses every year so that what they will really have instead of waiting until the end of the period to take this ten point premium or five point premium, they have actually taken it for their accounting purposes--

MR. BELL: Yes, but they haven't taken it out of their--

MR. VINER: Not for tax purposes.

MR. BELL: They have kept two sets of books.

MR. BLOUGH: There have been bankers who have gone around and told other bankers to buy these security premiums because they could get this deduction and add it to their income. Now they say, "Well--

(Discussion off the record.)

(The Secretary returned to the conference.)

H.M.JR: Well, did you get fixed up on your coupons?

MR. BURGESS: I think so. They have practically agreed with the committee on the procedure, so I think it is all right.

MR. PAUL: Burgess agrees that that problem has nothing to do with your statement.

H.M.JR: That is that.

MR. PAUL: It can be taken on its own merits.

H.M.JR: Well, if you gentlemen wouldn't mind keeping this until after I testify Tuesday--

MR. BURGESS: All right, sir.

H.M.JR: ....and I appreciate your coming down.

MR. BURGESS. I may say on what we discussed last time we have gone ahead and drawn a rough draft report just to start thinking, and I have given Dan a copy.

H.M.JR: Good.

MR. BURGESS: I appreciate very much the nice hearing you have given us.

cc - Mr. Foley

February 25, 1942
12:06 p.m.

HMJr: Hello.

Secretary Knox: Henry.

HMJr: Yes.

K: I just got a telegram from Tolan, who's the Chairman of the House Committee investigating national defense migration.

HMJr: Yes.

K: And this is the - I'll read part of it to you:

"We urge" - it's addressed to me. I don't know why. He ought to have sent it to you, I guess.

"We urge the immediate establishment of a regional alien property custodian office for the Pacific Coast area. We have learned of numerous sacrifice sales by aliens. This office should have existed before the evacuation of February 15. It must be functioning before additional prohibited areas are evacuated. Many witnesses before this committee have urged this action."

Now, I'm going to send this over - the whole thing over to you, Henry.

HMJr: Will you do that?

K: Yeah.

I think this fellow's judgment is fairly good. He was also the legal adviser of the Naval Affairs Committee in their investigation of Navy work, and he made a pretty fair report on the whole.

HMJr: Yeah.

K: So I think you can put some reliance in his judgment.

HMJr: Well.....

K: And I rather agree with him that some kind of alien property custodian work is necessary out there where we're taking these people out by the collar and throwing them somewhere else.

HMJr: Yeah. Well, I'd like to have it.

K: All right. I'll send it over, and you can have a copy made of it and send it back to me.

HMJr: Thank you.

K: All right, Henry.

HMJr: Good-bye.

K: Good-bye.

February 25, 1942
4:10 p.m.

HMJr: Hello.

Drew Pearson: Mr. Secretary.

HMJr: In person.

P: How are you?

HMJr: Fine.

P: Why, I didn't want to take up your time, but we're going to write that story.

HMJr: Yes.

P: But, look, I find that I don't think we were as far wrong as you think we are.

HMJr: Really?

P: In the first place, we made one mistake. There was no memorandum, you're quite right about that.

HMJr: Yeah.

P: But - that is, you didn't write any memorandum - but there was a memorandum made in the State Department as the result of an oral conversation in which you were present.

HMJr: Yes.

P: They - in which the substance of what we said was, I understand, in that memorandum.

HMJr: Yes.

P: And also I understand that there were some meetings which took place with General Marshall present and General Arnold in the Cabinet room of the White House in which, I understand, you were asked to be arbitrator - or arbiter. It was repeated to me and I'm just - the only reason

I'm telling you this is for my own justification because I like to be a reasonably accurate person.

HMJr: Yeah.

P: But I think I've always told you that what I - my feeling about your record in this is A-1, and we're going to write that just to make sure that there's no misunderstanding.

HMJr: Yeah. Well, perfectly frankly, Drew, I have absolutely no recollection - as I say, I'd bet anybody ten to one that there never was - I never had a chance to cut down any appropriation from a billion and a half to two hundred million, you see.

P: Well, I checked into that, too, and there may be just a difference of recollections; and anyway, we're going to give you the break on it absolutely, and - because over a period of years, you've been a hundred per cent right; but I just - since I cherish your opinion and I like to be fairly accurate, I don't think we're as far out on the main lines of the thing as you thought. In other words, there seems to be a violent difference of opinion from some pretty high people.

HMJr: Well.....

P: But just to keep the record straight, we're going to write a story which I think you'll like very much.

HMJr: Good.

P: And don't - please don't go taking it up with any of my friends in the State Department.

HMJr: Don't what?

P: I say don't ask any of my friends in the State Department, if you don't mind.

HMJr: No. I said if you'd write the story, you know, I wouldn't stir up anything; because you've been more frank than usual with me, and - I mean, telling me - I think I can make pretty good guesses, but.....

P: They've got a memorandum over there, all right.

HMJr: Well - which they wrote.

P: Which they wrote.

HMJr: Yes.

P: Well, I just wanted to - I'll send you this and you can - the record will be straight, all right.

HMJr: You're going to send it over to me.

P: Yeah, I'll send it over.

HMJr: No, it's - but on the other hand, do this for me. The next time you use me - my name - in something, give me a chance to go over it. I still think I'm right, but I'm boxing with a shadow.

P: Well.....(Laughs)

HMJr: I mean, your informants in the Army and the State Department are shadows.....

P: Well.....

HMJr: .....and.....

P: That's to some extent true, but.....

HMJr: I have records, also.

P: Well, as a matter of fact, you look in your records now.

HMJr: Yeah.

P: They suggested that your records would show, and your files, a memorandum in writing on that one billion four hundred million proposal. They said they were sure you must have files on that.

HMJr: No. No, they're wrong.

P: (Laughs) They are? Well.....

HMJr: General Arnold's wrong.

P: Well, in this case, I think you're wrong about the source. But anyway, I will see that that's fixed up, and don't.....

HMJr: Well, as I - let me put it this way. Before I give you any promises, let me see the article. That's fair, isn't it?

P: Before what?

HMJr: Before I give you any promises about stirring up anything, let me see what you're going to write.

P: Well, no. I don't think that's fair. If you want to really go ahead and stir up the animals, you can all you want to.

HMJr: No, I don't want to stir them up. If you tell me you're writing.....

P: I'm not worried about that.

HMJr: No.

P: But - no, I don't think that that is a fair proposition.

HMJr: You don't.

P: If you're worried about - because I'm really not worried about your doing that.

HMJr: Well, it was just that you raised the question, that was all. But it's all in your hands, anyway.

P: Well, I think they'll be fair hands.

HMJr: What?

P: I'll send it to you, and I think they'll be very fair.

HMJr:	Well, I'm willing to take you at your word, so that's that.
P:	All right, swell. I just wanted to check with you on that.
HMJr:	That's that.
P:	All right.
HMJr:	As far as I'm concerned, it's a closed issue.
P:	All right, fine.
HMJr:	Okay.
P:	Good-bye.

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(Trade Mark Registered)

By DREW PEARSON and ROBERT S. ALLEN

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The trouble with Roosevelt is that he hates to fire anyone especially one who has been with him a long time and for whom he has personal affection.

And if there is one great trouble with our national defense today it is that Roosevelt permitted a kindly old gentleman (Claude Swanson) to remain in the office of Secretary of the Navy until he died at the age of 78, and that he permitted the War Department to be bogged down by a Midwest isolationist (Harry Woodring) who did not believe in a strong military machine.

Modern armies and navies are not built up overnight—as Hitler has so amply demonstrated—and it was our failure of a half dozen years ago which brings us such tragic losses now.

Roosevelt, of course, kept his own eye on the Navy. But the Army he allowed to be pulled to pieces in a cat and dog fight between Assistant Secretary of War Louis Johnson, who believed in strong defense, and Secretary of War Woodring, who didn't—all because he was not hard-boiled enough to choose between them.

Fight Over Bombers

To illustrate what this situation meant in present day defense, Assistant Secretary Johnson in 1940 recommended a long-range bomber program costing $1,400,000,000. Long-range bombers are the weapons for which we have the most urgent need today. Twice the President has doubled the bomber program and demanded increased production, despite which we are still woefully behind.

In 1940, however, Secretary of War Woodring flatly opposed Johnson's bomber program. In fact, he opposed it so vigorously that the two men staged a heated personal row in front of the President. Finally, the President asked Secretary of the Treasury Morgenthau to act as arbiter.

By this time, Johnson had upped his demand and wanted the United States to launch a bomber program of $2,400,000,000. However, Morgenthau scaled it down to around $200,000,000, and actually wrote a memo to the State Department suggesting that in view of the conflict between the Secretary of War and the Assistant Secretary, the bomber program should be in other hands—those of the Treasury Department.

At times Woodring and Johnson, with offices down different directions of the War Department corridor, were scarcely on speaking terms. Yet Roosevelt would not intervene.

Thus the Army dragged along during one of the most important periods of our war preparation, even for a year after Hitler invaded Poland.

It was not until the summer of 1940 that the President finally got tough and appointed a new Secretary of War, Henry L. Stimson.

Stimson Housecleans

Mr. Stimson already had carved out a unique place in American history. He had been Secretary of War in the Taft Cabinet. He had been Governor General of the Philippines under Coolidge. And he was Secretary of State under Hoover.

In the latter position he did more than any other man, alive or dead, to block the Japanese in China. He was the only statesman who clearly saw the rampage of conquest on which Japan was bent, and did his best to stop it—and at that time it could have been stopped if Stimson had had the fullest co-operation from every quarter. If there was any one man who did his best to enforce the Kellogg Pact and bring peace to the world, it was Stimson. He came within a hair's breadth of succeeding, but like most far-visioned statesmen, Stimson was ahead of his time.

Today, as Secretary of War, Stimson has done a far better job than most people give him credit for. He was the man who urged the draft act on Roosevelt, even though it came in the middle of an embarrassing presidential campaign. He also has had the wisdom to appoint young, A-1 executives, and to give them full scope. Under him, the Army, which was in the doldrums two years ago, has come forward by leaps and bounds. When Stimson came to office the Army was so short of gunpowder that restrictions were placed on the firing of salutes by some militia units. But today the Army has more powder even than at the end of the last war.

Stimson Can Take It

One of the Merry-Go-Rounders has known Secretary Stimson a long time, dating back to the Coolidge and Hoover administrations. And a few months ago Mr. Stimson remarked to his then military aide, Col. Eugene Regnier:

"What's the matter with Drew these days? Is he getting soft? Or is he getting old? He hasn't criticized us lately. That acid pen of his used to do us a lot of good."

Secretary Stimson, it should be noted, is not getting soft. He is 75 years old, of course, and not as strong as he was. He has to conserve his energy, but he is putting every ounce of it into his tough job as Secretary of War.

Recently Stimson asked a Senate committee not to harass him with questions, that he was worn out, that though he went to bed at 9 o'clock, he couldn't sleep because of worry.

Several times, Mr. Stimson has indicated to the President that it might be best for him to step out in favor of a younger man. He was a little reluctant to take the appointment when it was offered to him in the first place. But the President insisted and Stimson until the end will be a "good soldier."

But much as his wholesome influence will be missed in Washington, we think Mr. Stimson will increase his already great stature if he paves the way for other badly needed Cabinet departures and insists that the President accept his resignation.

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Times Herald
FEB 24 1942

Washington Daily Merry-Go-Round

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February 25, 1942
4:29 p.m.

HMJr: In talking yesterday with Eugene Sloan, I told him to put on this Olin Dows, as Consultant, you see?

Norman Thompson: Yes, sir.

HMJr: Now, since then I've seen this questionnaire from the Byrd Committee, you know, about.....

T: Oh, yes.

HMJr: And they particularly mentioned "art consultants".

T: Yes.

HMJr: So - I don't know whether he's on yet or not.

T: I don't think so.

HMJr: You better find out, because certainly if they're going to do that, he doesn't want to - he didn't care about being put on in the first place.

T: I see.

HMJr: He said he didn't care. He'd rather see what we needed; but certainly, he doesn't want to go through what.....

T: No.

HMJr: .....Melvyn Douglas did.

T: No. Well, I think it would be much better to wait until we get this cleared up, then.

HMJr: I think so.

T: Yeah. Well, I'll.....

HMJr: Find out whether he's been put on.

T: Yes, sir, I will.

HMJr: And then when you have that whole questionnaire about all the questions that they ask.....

T: Yes.

HMJr: .....I want to go over it with you myself.

T: Yes. I'll - I made a note of that, and I'll bring it in.

HMJr: Right.

T: All right, sir.

February 25, 1942
4:45 p.m.

INDIVIDUAL INCOME TAXES

Present: Mr. Blough
Mr. Paul
Mr. Tarleau
Mr. Kades
Mr. Foley
Mr. Kuhn
Mr. White
Mr. Viner
Mr. Haas

H.M.JR: I had a good time this afternoon. I was with the President for about three-quarters of an hour.

MR. PAUL: I am glad you did, because we want to go after you a little bit later.

H.M.JR: No, nobody is going to go after me this afternoon. There is nothing left.

(Mr. Kuhn entered the conference.)

MR. PAUL: We have a date tomorrow.

H.M.JR: You and I at the White House at nine-thirty.

MR. PAUL: At the White House?

H.M.JR: Yes, with the President.

MR. PAUL: Then we must clear one remaining point before then.

H.M.JR: All right, go ahead, what is the point?

MR. PAUL: Well, can I dismiss a couple of other small things?

H.M.JR: No, only what will come up between now and nine-thirty with the President.

MR. PAUL: Well, that will leave you (Kades) out then.

(Mr. Kades left the conference.)

H.M.JR: I had a couple of wild ideas on the war, and he liked them, so I feel very much set up. I told him - I sent word, "I have got a couple of wild ideas," and he said, "Come right on over." (Laughter) I never talked taxes.

MR. PAUL: Well, I feel very seriously concerned about this reduction of exemption, and I am going to die awfully hard on your decision. I feel it is so vital that I must press it on you even though you don't feel like talking about it. Since we had our last discussion a couple of days ago, I have talked to several people. I have sold Harry White and Jack Viner.

(The Secretary held a telephone conversation with Senator George's secretary as follows:)

February 25, 1942
4:50 p.m.

HMJr: Hello.

Miss Kennedy: Hello, Mr. Morgenthau.

HMJr: How are you?

K: I'm fine. You have delicious apples.

HMJr: Oh, you still like my apples.

K: I've been waiting to tell you personally.

HMJr: Good. Unfortunately, they're all gone.

K: I know, but they were wonderful. I enjoyed them very much.

HMJr: Well, there'll be more next year.

K: Well, that's fine.

HMJr: So you've got to be good until next year.

K: Oh, must I?

HMJr: Yeah.

K: Well, I will, just before Christmas.

HMJr: (Laughs)

K: (Laughs)

HMJr: This meeting, Miss Kennedy, that I've got - I don't like to push, but we've got to write my statement.

K: Uh huh.

HMJr: And I'm afraid I can't wait until Monday.

K: Well, I tell you. The Senator knows that. I talked with him over the phone yesterday, and I told him how it was, and he told me he would let me know today. I think, Mr. Morgenthau, the Senator has a little cold and he thinks he'd better get over it.

HMJr: Well, he won't feel put out, will he?

K: No, sir. No, sir, he understands it all right, and I think - is Mr. Stam going to be there?

HMJr: Yes.

K: I think the Senator will probably talk with him.

HMJr: Fine.

K: And maybe if he has any ideas, Mr. Stam will know about it.

HMJr: But you'll guarantee he'll not feel put out.

K: No, I told him when I talked with him yesterday that I didn't think it would be possible for you to postpone it on account of this hearing.

HMJr: That's right.

K: That you had to prepare your statement and you had to talk these things over before.

HMJr: Well, ever so much obliged.

K: He understands it.

HMJr: Thank you.

K: All right, sir.

HMJr: Good-bye.

K: Good-bye.

H.M.JR: Well, shall we have Viner and White in?

MR. PAUL: All right. We know how they feel, but you can have them in here. I feel very strongly that we are making a very grave error if we don't reduce those exemptions. I feel we are playing into the hands of the sales tax people, and I think that - therefore, I renewed the attack on Harry White and on Jack - and I didn't renew the attack with Jack. We called him as of the first time. They both, after a long discussion this afternoon, agreed that we should reduce the exemptions.

H.M.JR: Viner is with the Federal Reserve.

MR. PAUL: We got a slight compromise with them. They are willing to reduce the exemptions to twelve hundred and six hundred. They would like not to reduce the dependency credit below three hundred fifty. We had intended three hundred. They are completely in agreement with us up to that point, and I might add that Harry said to say, in his case, "reluctantly in agreement with us."

Now, also I talked with Leon Henderson, who is as strong as anybody could be of the opinion that we ought to reduce the exemptions. I had lunch after our meeting with Marriner Eccles, and I asked for his opinion, and he is very strong. Tommy and Roy are strongly of that opinion. There are several reasons for it. It hurts us from the inflation standpoint, but most important of all, to my mind, is that it hurts us from the strategical angle. It simply gives to the sales tax people - you won't go all the way down the line. You won't broaden the base. If you are not going to do that one way, you will have to do it another way. We will have a sales tax.

(Mr. Haas entered the conference.)

H.M.JR: George, where are you on lowering the exemptions from seven hundred fifty to six hundred and on the married people from fifteen hundred to a thousand? Where do you stand?

MR. HAAS: I am pretty cold on that subject. I mean cold that I haven't--

H.M.JR: I am not asking on joint returns, so you keep your shirt on.

(Mr. White entered the conference.)

MR. HAAS: I am inclined to go ahead, I think, on that.

H.M.JR: Which way?

MR. HAAS: Reduce them, on the theory that you are not hurting - I don't think - the most of the revenue is coming out of those above those income levels. I think that is where I would be - I am scared of inflation.

MR. PAUL: I would like to - if you have any doubts - you do have doubts, but I mean I would like to have Roy give you the actual figures, what it means to one of these small families.

H.M.JR: All right, how much does it mean, Roy?

Before lunch I told Ed Foley I could get all the New Dealers left in Washington in my bathroom. I think my bathroom is too big now.

MR. HAAS: I guess I had the wrong answer.

H.M.JR: No, you are all with them. Everybody is with you. I don't know where Ferdie stands.

MR. PAUL: I put in your word "reluctant," Harry.

MR. WHITE: You told them about the rebate?

MR. PAUL: I haven't told them about that.

H.M.JR: I am going to get Professor Lutz down here from Princeton.

MR. PAUL: Bear in mind, Mr. Secretary, that we all had in mind the coupling with this reduction of a post-war rebate, a term just originated by Mr. Harry White.

MR. WHITE: This is the first time that has been--

MR. PAUL: Oh, no, we had the plan, but we didn't have your vocabulary for it.

MR. WHITE: Well, my acquiescence was coupled with that, that they weren't really to pay anything, but those below the present exemption--

MR. PAUL: Well, we had that anyway, Harry. We didn't have your happy term for it.

H.M.JR: Nuts! (Laughter)

MR. WHITE: It smells--

H.M.JR: Smells of what?

MR. WHITE: I said it smells...

H.M.JR: What have you got?

MR. WHITE: I am going to give him a note, "Say no." (Laughter)

MR. BLOUGH: The schedule we had in mind which would raise three billion dollars would lower the personal exemptions to six hundred, twelve hundred and three hundred, and therefore, in respect to some of these, would lower them a little more than this agreement, because the three hundred and fifty for the dependent instead of three hundred was - Harry and Jake Viner agreed--

H.M.JR: Listen, don't talk in terms like that. What does a family - Donald Duck - give it to me in terms of - well, what they will have to pay.

(Mr. Foley entered the conference.)

H.M.JR: Sit down, Foley.

(Mr. White handed Mr. Foley a note.)

H.M.JR: It is not fair. You can't let Harry White in on that. This is a straight political question for a good New Dealer. Everybody in the room is against me. I will tell you that. Should we lower the exemptions or shouldn't we. I said I don't want to lower them. I have got this whole gang together on it. Straight politics. You and I have got to run for office some day.

MR. WHITE: Let your conscience be your guide.

H.M.JR: What did Harry say?

MR. WHITE: Let your conscience be your guide.

MR. FOLEY: You are making it easy, Harry. (Laughter)

MR. BLOUGH: All right, take a married couple with two children. Under this proposal a person with such a family with nineteen hundred dollars of income will pay one dollar in tax.

H.M.JR: Under the new proposal?

MR. BLOUGH: Under the new proposal. It would be less than that, as a matter of fact, because of the change in that dependent exemption. A family with two dependents again with two thousand dollars of income will pay twelve dollars in tax.

H.M.JR: What?

MR. BLOUGH: Two thousand dollars income, married couple with two dependents, under the proposal, twelve dollars in tax.

H.M.JR: Yes.

MR. WHITE: He doesn't pay it. He deposits twelve dollars.

MR. BLOUGH: As a matter of fact, he would in effect deposit the twelve dollars.

MR. WHITE: Deposit the twelve dollars which he gets later on.

H.M.JR: No one has told me anything about that.

MR. PAUL: That has been in the statement that you read.

H.M.JR: No.

MR. PAUL: Maybe you didn't read that part of it.

H.M.JR: No one read that to me. This is something new as far as I am concerned.

MR. PAUL: It has always been in our plan.

H.M.JR: Look here, let me put it this way. Can't you put it differently, seeing this is a matter of straight politics? Why can't you talk about a person that has got nineteen hundred dollars and he is going to pay how much?

MR. BLOUGH: One dollar.

H.M.JR: Instead of talking about lowering the exemptions from fifteen hundred dollars to a thousand dollars, it is the way you present the thing that is wrong.

MR. PAUL: I think there is very much in that, and I think we presented it too much in terms of fifteen hundred and twelve hundred instead of actual terms in relation to married families with a couple of dependents.

H.M.JR: You have been talking to me about a man that gets eleven dollars a week, and you want to lower that still more and so forth and so on.

MR. PAUL: That was Mr. Sullivan's idea.

H.M.JR: If you talk to me in terms of a married family that has got nineteen hundred dollars and two dependents and they are going to pay eleven dollars worth of tax, that doesn't seem right; but if you talk to me about a married family with two dependents and you are going to lower their exemptions down to a thousand dollars, that sounds terrible.

MR. PAUL: We only said twelve hundred.

H.M.JR: Well, twelve hundred, or from seven hundred fifty to six hundred dollars. Isn't that what you are talking about?

MR. PAUL: Yes. That is single persons.

MR. BLOUGH: If they had no dependents, the nineteen-hundred-dollar family would pay seventy-six dollars full.

MR. PAUL: That is a married couple without any children.

H.M.JR: That still doesn't frighten me. This thing has been very badly presented.

MR. WHITE: Do you object to the term, which I think is essential, before I get out of the bathtub, that that is a deposit, not a payment of taxes?

H.M.JR: Well, no one has explained that to me. Explain that to me, Roy.

MR. BLOUGH: The idea would be this, that the increase in tax which results from lowering the personal exemption, up to a maximum of fifty dollars, the increase in tax at these lower levels of income would be held as a deposit, probably in the form of bonds.

H.M.JR: That is no good. Look, can you present this thing this way? If you want to present it so it is going to taste good politically, and I am serious about this thing, can't you talk about a person is going to pay - a married family, nineteen hundred dollars, two dependents, pays how much?

MR. BLOUGH: Two dependents, pays one dollar. We would give it back to him afterward.

H.M.JR: Then let's put it this way instead of this think of earmarking, because they will take it away from you, that the first fifty dollars that they pay goes into a deposit which will be paid to the man after the war. Don't earmark it. The first fifty dollars that they pay in taxes, that that will go into a - or the first hundred, I don't care.

MR. WHITE: You mean cumulative, if they pay it over a two or three year period or the first hundred dollars of anybody's taxes?

H.M.JR: The first hundred dollars of anybody's taxes will be a deposit with us to be paid when the war is over. Not the increase. You see, Harry, when you talk about increase--

MR. WHITE: Just anybody's tax?

H.M.JR: Anybody's tax. That has got appeal.

MR. PAUL: Anybody's taxes who--

MR. WHITE: How many taxpayers have we got?

H.M.JR: The first fifty dollars.

MR. WHITE: Five million?

H.M.JR: No, no, I wouldn't take everybody's.

MR. WHITE: Oh, you wouldn't?

H.M.JR: I would take up to - anybody's up to five thousand dollars or ten thousand dollars.

MR. BLOUGH: We had a sort of a formula that went up to fifty and then down to twenty-five.

H.M.JR: Now, look, you fellows - you have gotten so complicated you can't do anything simply any more, and if you put this thing off there, you can lop it right off, but if you say, "Anybody who has an income up to five thousand dollars - " include the Congressmen, and then it would be sweeter - "up to ten thousand dollars." Let the first fifty or hundred dollars that they pay in taxes - that that will be set aside and that each year - the first fifty or hundred dollars, that will be set aside as a deposit to be paid back to them after the war.

MR. WHITE: Certainly the first fifty, because that will take care of everybody up to three thousand dollars, won't it, with two dependents?

MR. KUHN: You wouldn't want to make it as high as five thousand, would you?

MR. WHITE: That is quite an idea.

H.M.JR: I have seen what happens. Am I right on the thing? Look, Ed, this is the way you put it up. You and I are the only politicians in the room. They have been talking to me about lowering the exemption of the single man from seven hundred fifty down to - what was it, six hundred?

MR. BLOUGH: Yes.

H.M.JR: How does that look? And on the fifteen hundred dollars down to twelve. And that is the way the thing is presented.

Now, on that basis you and I have got to be against it, haven't we?

MR. FOLEY: Well, that is shifting the expense of war on the fellow down the line pretty far.

H.M.JR: Right. And they go to CIO, and CIO says, "Well, we won't criticize you. We may grumble a little bit, but that is what Washington says." But how about the three or four or five hundred thousand fellows that have been laid off today and Washington won't give them anything, and they say, "Here comes Morgenthau who says he is our friend. We don't get the three hundred million, the twenty-four dollars a week, and on top of that, by God, he lowers it from seven hundred fifty down to the fellow that gets eleven dollars a week, and he makes a speech about,'We haven't done anything yet for the lower third,' and so forth, the old hypocrite."

MR. WHITE: It would be about three hundred million dollars a year you would give back, roughly, at the end of the war. That isn't bad.

MR. PAUL: That is all right.

MR. WHITE: If the war lasts three years, they will get the lower - the lower income groups will get a billion dollars.

MR. PAUL: That is O.K.

H.M.JR: But if they would quit talking about this thing and put it up to me--

MR. FOLEY: What they are going to get back.

MR. WHITE: In absolute amounts instead of percentages.

H.M.JR: No, in terms of not lowering the exemptions but in terms of--

MR. HAAS: Taxes paid.

MR. KUHN: An added deposit, do you mean?

MR. TARLEAU: No, the tax burden on families.

H.M.JR: Talk in terms of thirteen dollars for Donald Duck.

MR. TARLEAU: That is right.

H.M.JR: Well, thirteen dollars for Donald Duck, twenty-five hundred and one dollar.

MR. BLOUGH: He had thirteen. He would now have seventy-one.

H.M.JR: Well, that is all right. Can't you cut the amount of - can't you leave the exemption where it is and cut the credits?

MR. BLOUGH: I don't think so.

H.M.JR: Why not?

MR. PAUL: That doesn't work. You mean the credit for dependents?

H.M.JR: Yes.

MR. PAUL: We tried that out this afternoon, and it doesn't work. That differentiates anyway against married people, which is just the wrong way to do. If anything, we want to differentiate in favor of married people.

MR. HAAS: Yes, that is my argument. (Laughter)

H.M.JR: I mean, can't you put this thing up so it would have some psychological appeal rather than the way it has been put up to me all along?

MR. HAAS: It is a worse psychological appeal this way. In other words, it looks as if you are doing something terrible, and you are not.

H.M.JR: Which?

MR. HAAS: Stating that you are reducing exemptions.

H.M.JR: Well, or putting it from seven hundred fifty down to six hundred. It looks terrible.

MR. HAAS: I know. Couldn't you set it up, Roy, in terms of effective rates? The publicity of it could be termed--

MR. BLOUGH: We always do that. I don't see how you could avoid saying in the statute that personal exemptions are lowered, but you can emphasize how much money--

H.M.JR: Can't I talk in terms of - rather than that, simply say that the family that has been - has a twenty-five hundred dollar income, instead of paying thirteen dollars, they are going to pay seventy-six dollars?

MR. PAUL: Sure, we can put that in your statement.

MR. BLOUGH: Sure. You could say that your rates and exemptions would be ajusted in such a manner that a single person with seven hundred dollars, who has paid nothing under the present law, will pay eight dollars under this law.

MR. PAUL: Temporarily pay.

MR. BLOUGH: Will deposit eight dollars under this, if you wish to have it--

MR. WHITE: Could you follow the Secretary's thought there of - is it possible to have, instead of using percentages at all, to have just an absolute--

H.M.JR: We need a psychologist here.

MR. WHITE: Below a certain rate--

H.M.JR: We have got too God damn many tax experts. There is a political psychology there that is needed.

MR. PAUL: We will welcome the psychologists.

MR. TARLEAU: We will be read for a psychologist pretty soon.

H.M.JR: It is the way you put it up.

MR. PAUL: I think that is true, if you get the opportunity to put it up that way.

MR. BLOUGH: Well, Mr. White makes an interesting suggestion.

H.M.JR: He always does.

MR. WHITE: No, it is the same suggestion that you made.

H.M.JR: Then I dreamt it. (Laughter)

MR. BLOUGH: That we might do this.

MR. WHITE: You must have been walking in your sleep.

MR. BLOUGH: We might forget all about personal exemptions, and then up to, say, two or three thousand dollars just list the amount of tax in the statute, bracket it as we have bracketed it under the short form, and then when you get above two or three thousand dollars, then give a formula for computing the rest of the tax.

H.M.JR: Say that again. On this simplified form you are going to change that?

MR. PAUL: I want to record that I am with you there. I didn't follow that either.

MR. BLOUGH: The idea, as I understood - did I get your idea right?

MR. WHITE: Definitely.

MR. BLOUGH: Instead of saying anything about exemptions and so on, you just put in the law six hundred fifty dollars to six seventy-five, or whatever it is, the tax is such and such an amount, or bracketed by ten dollar rates or put a little totality formula in. In other words, instead of putting in an exemption to be deducted and the tax computed on the balance, put in the law how much the tax is for various incomes.

H.M.JR: Do you want a man with six hundred to pay - how much?

MR. BLOUGH: He would pay zero under this.

H.M.JR: But under the proposal?

MR. BLOUGH: Under the proposal he pays zero.

H.M.JR: When would he begin to pay?

MR. BLOUGH: Under the proposal, at about six hundred thirty dollars.

H.M.JR: And how much would he pay then?

MR. BLOUGH: Then he would begin to pay at a twelve percent rate or something like that.

H.M.JR: What would it be?

MR. BLOUGH: At seven hundred dollars, he would pay eight dollars, and if you deducted that--

H.M.JR: And you fellows really think that that fellow that is getting twelve dollars a week should pay something?

MR. PAUL: Yes, we do.

H.M.JR: Well, why? Not, certainly, on the inflation thing, because there is nobody yet that has shown me a thing to prove that these people are responsible for the inflation. Henderson can't even tell me what the buying habits of a family are, and all the rest of it is just sheer theory. There isn't a person in Washington can tell me what the buying habits of a family are last week or the first week in January.

MR. WHITE: Well, could I answer your question?

H.M.JR: There isn't anybody can tell me what the buying habits of a family are, what they do with their money.

MR. WHITE: I think they have put the wrong foot forward on this. As I see it, the reason why I was willing to go along with it is this, that it isn't that group that affect the inflation. They are only going to get two hundred million dollars from that group in any case, and that is of no significance in the price structure compared with the large magnitudes involved. But by lowering those exemptions and giving those fellows their money back, you make it possible to increase the rate very substantially on the men above present exemptions without making it appear as though you are increasing the rate. That is--

H.M.JR: Well, Harry, if that is what they want to do, then just jump the rates on the higher group.

MR. WHITE: They feel that if they jump the rates on the higher group, they would have to jump the rates to twenty percent.

MR. PAUL: That is right.

MR. WHITE: They would have to start at twenty percent and that looks pretty awful, so instead of doing that, by lowering the exemptions, giving the men money back, it looks like eleven percent.

H.M.JR: If there is any argument I have heard today, the argument you give proves that I am right. In other words, I - let me give you an example. I have got a low-cost apartment house, and I have got to average ten dollars a room. So in order to get the ten dollars a room, because some of them aren't so good, I have got to charge some of the people for the poorer rooms.

I have got to charge some of them twelve dollars a room in order to average ten. I mean, it is--

MR. WHITE: I don't think that is a fair analogy, if I understand it, because in that case you are charging - in their case what they are doing is saying, "We want to soak these people more, charge more."

H.M.JR: Let's make it an average of fifteen dollars a room, and they are rooms which should only be worth ten, which normally you would only get ten dollars for. I have got to charge twelve so we can average fifteen. I can get eighteen for some. Instead of saying, "For the better rooms, I should get twenty for."

MR. WHITE: No, I don't think that is a fair analogy.

H.M.JR: And I keep the poor rooms at ten dollars, because that is all that they are worth.

MR. WHITE: But that isn't what they are doing.

H.M.JR: They are saying in order to get the higher groups to go up to twenty, they want to make the fellow that is getting twelve to fifteen dollars pay a tax.

MR. WHITE: I don't think you are quite fair, Mr. Secretary. They are not lowering the amount that the fellow up above has to pay. He is going to pay the same amount.

MR. BLOUGH: He is going to pay more.

MR. WHITE: Only by lowering exemptions, he doesn't know. He pays only a certain percentage, which is eleven percent, as against twenty. I am simply filing the figures. He pays the same amount of money, but he is paying in one case twenty percent and the other case he pays eleven. They feel it is a whole lot easier to get the eleven percent than the twenty, but he pays the same amount of dollars, and the other fellow gets his money back.

H.M.JR: What is the present basis, seven hundred fifty dollars for a single man?

MR. BLOUGH: Yes.

MR. PAUL: It is fourteen something.

H.M.JR: It is just a little under fifteen dollars. He works six days a week?

MR. BLOUGH: Maybe. He makes more than that if he works six days a week.

H.M.JR: Well, say he works five days a week. That is three dollars a day. You can't tell me that a man - I went up in the country, and I asked them what they paid for the lowest cuts of meat and what they paid for cheese and what they paid - and you can't tell me that a man that is getting three dollars a day should be paying a Federal income tax.

MR. PAUL: Well, we are thinking of it in terms of the more unusual case of the man who is married and has got a couple of dependents and at the present levels of fifteen hundred and two dependents, he doesn't pay any tax until he makes twenty-three hundred dollars.

H.M.JR: O.K., that is just what I am getting to. I am perfectly willing to raise the tax where they can afford to pay it, but I am not willing to put a tax where they can't afford to pay it. I have talked to these people, and you can't tell me that the people in that group can afford - they buy cigarettes and they pay it. If they buy a glass of whiskey, they pay it. If they buy a glass of wine, they pay it. If they buy a radio, they pay it. They pay it all the time in one form and another.

MR. PAUL: Well, they are going to pay it one way or another, I think, now. If we don't take it as income taxes, they are going to get it from them--

H.M.JR: If you tell me that you want to raise it on the married families of fifteen hundred dollars and up, let's raise it, but let's say - what is the present exemption?

MR. PAUL: Fifteen hundred.

H.M.JR: Let's increase it. You have got this simplified thing. Let's just automatically raise it. They don't have to know how we figure it. Let's raise it in there, but also let's say that the first fifty dollars goes into the Treasury for their account to be paid back to them after the war is over. Anybody with an income up to five thousand dollars.

MR. BLOUGH: Well, this fellow with seven hundred fifty dollars, what we would be doing, what we would suggest doing, as I understand it, is that each week his employer would deduct from him twenty-five cents to be deposited with the United States Government, to be paid back to him after the war.

H.M.JR: At seven hundred fifty dollars?

MR. BLOUGH: That is right.

H.M.JR: Twenty-five cents. How much does that amount to?

MR.BLOUGH: About thirteen dollars.

H.M.JR: Well, I don't kick on that.

MR. BLOUGH: Well, that is what we are suggesting.

H.M.JR: But you want to do it with the fellow at six hundred dollars.

MR. BLOUGH: At seven hundred dollars we would be taking fifteen cents a week from him and depositing it in Defense Savings Stamps of the United States Government.

H.M.JR: How low down are you going?

MR. BLOUGH: Well, the way we figured this schedule, he will pay nothing below six hundred and thirty dollars. His earned income credit would raise him up from six hundred to about six thirty.

H.M.JR: You can't keep the books for less than ten cents a week.

MR. WHITE: It isn't that ten cents. If I get the urgency of their point and where they must make their case or fall, it is by tackling that fellow you get much more out of the - from two to eight thousand and up brackets.

H.M.JR: But, Harry, I agree to it. They have given me the new schedule from ten thousand up to five million, and I agree to it, and it goes up to ninety percent.

MR. WHITE: No, I mean in the middle income brackets.

H.M.JR: But I have agreed to all that.

MR. WHITE: Two, three, four, and five.

H.M.JR: I have agreed to that.

MR. WHITE: They say they can't get it.

H.M.JR: Yes they can. They had a schedule yesterday.

MR. PAUL: Yes, that is what starts at twenty percent.

H.M.JR: That isn't true. They can get it. They gave me a schedule yesterday which I approved.

MR. WHITE: What was the schedule you gave me in which you said in one case it would be approximately eleven and beginning at the seven and if you didn't have the lower exemptions, they would have to start at twenty percent to get the same money instead of the eleven percent? To whom did that apply?

MR. BLOUGH: The rates for these - Mr. Paul was working with the schedule before we broke down the lowered two thousand dollars. For not lowering personal exemptions, we could get an average rate of about eleven percent on the first two thousand dollars above the personal exemptions, and if we - that is if we - I am afraid I got mixed up.

MR. WHITE: If you lower the--

MR. BLOUGH: If we lower the personal exemptions we could have a surtax rate of eleven percent, which, plus four normal, is a starting rate of fifteen percent. If we kept the personal exemptions, we would start with a surtax rate of sixteen percent or five percent higher, or a total of twenty. There would be a five percent differential.

Now, we have suggested breaking down the bottom two thousand dollar bracket into five hundred dollar brackets with somewhat lower rates at the very bottom.

H.M.JR: You have got a simplified form.

MR. BLOUGH: But it is about five percent differential between the two schedules.

H.M.JR: Who has got one of these simplified forms, the new form?

MR. BLOUGH: I don't have one with me.

H.M.JR: Send for one, and I will show you what I mean.

MR. WHITE: It seems to me the point he is making, what he is doing is crucial. If it isn't that, then I think the base of their case of lowering the exemption falls because the amount of money they get from these low exemptions is small. It is two hundred million dollars. It certainly has no effect on prices, and any-boy who claims that it does is just being either dis-honest or--

H.M.JR: That is what they have claimed, Harry, right up to today. The whole thing has been a claim that - all of these studies, that the thing has been to take care - that this is where the inflation is, in this lower group.

MR. WHITE: Then there is something funny about this business, and let's run it down.

H.M.JR: That is what has been told to me steadily now.

MR. WHITE: Now, if - when that was presented to me, we agreed that that two hundred was not important and that it was not a significant fact.

MR. PAUL: We didn't put out any inflation argu-ments.

H.M.JR: Oh, excuse me, Randolph.

MR. PAUL: That was Harry.

H.M.JR: With me it has been.

MR. PAUL: It has been for some time with you, that is true.

H.M.JR: Every time you talked to me up until today it has been.

MR. PAUL: I also put it on other grounds.

H.M.JR: Well, the principal thing is that the people say that this is the group and this is the mass purchasing and all of these statistics that this fellow Shoup and Friedman - is that his name? - and all the rest of them, that this is the place, and you can't control inflation unless you do it in there. That is what has been pounded into me.

MR. PAUL: Yes, but the inflation control is not in what we get from the people below - whose personal exemptions are reduced. It is the inflation control higher up that matters.

H.M.JR: That is something different.

MR. WHITE: That is the point. The point they are making is that if they go down and catch two hundred million from these people, which they concede is not - or at least they would concede is not important, it enables them to get almost a billion dollars from the next group which they feel they would not be able to get unless they got the other two hundred million because--

H.M.JR: But, Harry, that doesn't hold water.

MR. WHITE: Well, it holds water only if their other argument holds water. It seems to be reasonable. I don't know. They said this, that if they come before the Hill and don't ask for lower exemptions and the two hundred, they have to, in order to catch that eight hundred million or billion dollars in the next broup, they have to start crack off the bat with a twenty percent tax, whereas if they go on the lower exemptions and take the two hundred million, they can use a fifteen percent figure and get that same money. So they are paying two hundred million as a price of fooling the public, if you like.

H.M.JR: Now, wait a minute. They are saying that by lowering this exemption they get two hundred million there, and then they go on a fifteen percent level from where to where to get the billion? From where to where do you get the billion?

MR. BLOUGH: The other eight hundred million comes all the way up the line, Mr. Secretary, on everybody.

H.M.JR: Then what I say to them is this: When I said I wouldn't go along, where didyou put the two hundred million?

MR. BLOUGH: That two hundred million had to be added on primarily in the brackets between about five and ten thousand, somewhere in that neighborhood.

H.M.JR: Well, do you mean to tell me that the people between five and ten can't stand it a damn sight better than the poor sucker who is getting between ten and fifteen dollars a week, from two and a half to three dollars a day?

MR. WHITE: Sure, but their argument is they can't get the billion.

H.M.JR: Well, they are arguing on theory, Harry. It is purely theoretical.

MR. BLOUGH: Here is the situation, if I may point it out. People at twenty-five hundred dollars certainly are contributing to the inflationary situation.

H.M.JR: Granted.

MR. BLOUGH: Now, under the rate scale, this heavy rate scale that we were talking about here with the present personal exemptions, a married couple with two children at twenty-five hundred dollars would pay twelve dollars, but if we lowered the personal exemptions and

and use those lower rate scales, a family with twenty-five hundred dollars and two dependents would pay seventy-one dollars.

H.M.JR: From what to what?

MR. WHITE: Twelve to seventy-one.

MR. BLOUGH: It jumps from twelve dollars to seventy-one dollars.

MR. WHITE: Well, the Secretary says go ahead and charge them.

MR. HAAS: The Secretary says go ahead and put the rate in which will put it up to seventy-one and politically and otherwise that is better than reducing exemptions.

H.M.JR: Look, the person with twenty-five hundred dollars can go to seventy-one dollars, which is a dollar and a half a week, a damn sight better than the fellow can spare twenty-five cents a week who is getting fifteen dollars.

MR. BLOUGH: But if we are going to do that and we were going to maintain the present type of exemption, that family has a twenty-three hundred dollar exemption. For a twenty-five hundred family to pay seventy-one dollars they would have to pay a thirty-five percent rate on the two hundred dollars over twenty-three hundred.

H.M.JR: But that is the way you present it. What he is paying is seventy -- how much dollars?

MR. PAUL: Seventy-one.

MR. BLOUGH: He would be paying seventy-one on the lower exemptions.

H.M.JR: Seventy-one on what?

MR. BLOUGH: On twenty-five.

H.M.JR: What percentage is that?

MR. BLOUGH It is two and eight-tenths percent.

H.M.JR: It isn't seventy-five dollars on two hundred. It is three percent on twenty-three hundred.

MR. WHITE: Your criticism is based on the fact that they are presenting their tax program in the most unfavorable light.

H.M.JR: That is an understatement. Harry, if I say three percent on twenty-five hundred, you say, "What the hell." If I say seventy-five dollars on two hundred, you say, "What the hell!"

MR. PAUL: You are talking about effective rates.

H.M.JR: I don't think it is fair to talk anything else.

MR. BLOUGH: It is hard to draw a statute in effective rates.

H.M.JR: I can't help it. Up until today everybody has talked to me about inflation and so forth and I haven't been able to get it through my head, and I will never get it through my head that a fellow that has got two and a half to three dollars a week has got anything left over today for luxuries and I have been told that this is the group. Now, if you talk to me that you want to raise the fellow from a half of one percent to three percent that is getting twenty-five hundred dollars, I say, "Go ahead," and I can go to the country on that. I can go to the country on that. There is nothing the matter with that. Or if you say to me that the fellow who is getting - beginning with seven hundred fifty dollars a year should contribute a twenty-five cent savings stamp, I will do that, but I can't go below that, not in the condition - not with conditions the way they are.

MR. BLOUGH: The Canadians have a scheme which I am afraid to present, but--

H.M.JR: I think it is very unfair when you talk about thirty-five percent on two hundred dollars when it is really two point eight on twenty-five hundred dollars.

MR. BLOUGH: What the Canadians do is this, and I hesitate to present it, but they worked that plan this way. They say they will exclude seven hundred fifty dollars. Anybody that gets - or whatever theirs happens to be lower than that. They will exclude that income and anybody that gets that amount or lower doesn't pay any tax, but anybody that gets more than that gets the tax computed on their whole income without the exemption.

H.M.JR: Well, that is the language I can understand. I can understand that language and I think that that sounds fair.

MR. BLOUGH: It gets awfully abrupt on the people over that. They come into it very suddenly and very toughly.

H.M.JR: Well, you never told me that before, Roy. I would take that. Exclude the fellows under seven hundred fifty dollars and then from seven hundred fifty dollars up, an effective rate. That is what the Canadians do?

MR. BLOUGH: What they do is this. They say, "We won't in any way reduce your income by taxes below seven hundred fifty dollars," or whatever their exemption happens to be, but that there will be no exemption for anybody above that.

MR. TARLEAU: In effect it denies personal exemption and credit for dependents.

MR. BLOUGH: Yes, it does.

MR. WHITE: Which is a lot more sensible, I think.

MR. TARLEAU. I certainly don't.

MR. BLOUGH: It is very tough on the married couple with children.

MR. PAUL: It ruins the married couple.

H.M.JR: Well, don't ruin them. Make it fair.

MR. WHITE: Why should it? You allow them a minimum exemption and let it go at that.

MR. TARLEAU: But they don't.

MR. BLOUGH: When you get your married couple with children exemption and then the first dollar above that, you see, they have the whole tax on three thousand dollars.

MR. WHITE: You mean a married man with seven children who gets twenty-five hundred pays the same tax as would a single man with twenty-five hundred, is that it?

MR. BLOUGH: That is it. There is your trouble.

H.M.JR: This is what I am trying to get. Here you have got your simplified form. You arrived at this thing through the present method, but why can't you simply forget everything and do the way the Canadians do and say that over seven hundred fifty dollars a person pays - he doesn't pay anything, and supposing that person paid twenty-five cents a week. That is a quarter of fifty-two. That is thirteen dollars. Is that right? I am just using that as an argument. And then at seven seventy-five, let's say he pays fifteen dollars and at eight hundred he pays twenty dollars, and at nine hundred he pays twenty-five dollars. Just do it automatically, and don't go through all these computations. I mean, just figure out how much you need and forget all your computations and everything that you have ever done before and just have a table like this. I mean, the kind of table that you would make out, what you think is fair.

MR. BLOUGH: The Germans do that in their tax and they have a different rate schedule for married people and single people and married people with two dependents, and so on.

MR. WHITE: It is a whole lot easier to find the column in which you belong than it is to understand the law.

MR. HAAS: That is right.

H.M.JR: Well, here is your table. Here is your table of the married person and then if you have got - where is the married person on this thing?

MR. TARLEAU: Second column.

MR. BLOUGH: The "B" column.

H.M.JR: Well, the married person doesn't start until he gets up to twenty-two-where does he start?

MR. BLOUGH: He should start at fifteen hundred.

H.M.JR: He pays sixty-three dollars. What?

MR. TARLEAU: No, that is "A" column. He pays one dollar at fifteen hundred.

H.M.JR: Why can't you take this thing and forget all your exemptions and normal tax, your surtax and everything else, and you can say to me that a married person making fifteen hundred dollars should pay not one dollar but should pay five dollars; fifteen-fifty, not two dollars but ten dollars.

MR. WHITE: I am all for that.

MR. HAAS: What would you do with dependents?

MR WHITE: Have another column. If you have got four children, you look into the four children column.

MR. HAAS: That is good.

H.M.JR: Yes, and take care of the married person. If he has four children, take care of him.

MR. WHITE: It would be very easy.

H.M.JR: Here it is.

MR WHITE: Don't have it the other way at all, not even in the legislation. Have a schedule in the legislation.

MR. BLOUGH: But Harry, the schedule would be a half mile long.

H.M.JR: Why would it be any longer than this?

MR. BLOUGH: That only goes to three thousand dollars. You would splice it in above that, is that it?

H.M.JR: Well, I would go to a maximum of five thousand and I would stop it and then go back to the old system.

MR. FOLEY: That would take care of your point, Randolph, because the people below five thousand dollars don't hold bonds.

MR. WHITE: In fact, if you go below thirty-five - anybody above thirty-five hundred, it doesn't matter what you do with him, I mean as far as the kind of schedule.

H.M.JR: And then if you take this thing, then you take this thing just the way it is and you don't go below seven fifty. I mean, I have no objection. I think a person with seven hundred fifty can set aside twenty-five cents a week, and from there on up.

MR. BLOUGH: You are willing to go below fifteen hundred to twelve?

H.M.JR: For the married person?

MR. BLOUGH: Yes.

H.M.JR: Well, you wouldn't do that in this thing.

MR. BLOUGH: Oh, you wouldn't. You were troubled with the seventy-five. I was wondering whether you were also troubled with the fifteen hundred.

H.M.JR: You mean the married couple who has got an income of a hundred dollars a month, that that--

MR. WHITE: That is twenty-five dollars a week.

H.M.JR: Without any dependents?

MR. WHITE: Twenty-five dollars a week.

H.M.JR: For two people?

MR. BLOUGH That anybody who gets more than that would be subject to tax. Even under this proposal a person who made twenty-five dollars a week would pay no tax, but he would begin paying a little if he made more than that.

MR. WHITE: Married man, you mean?

MR. BLOUGH: Yes.

MR. PAUL: In other words, what Roy is asking is, if you stick at seven fifty and hold that exemption will you reduce the fifteen hundred one to twelve?

MR. HAAS: Your fifteen is just twice the seven fifty. That was the theory of that.

H.M.JR: Well, that was the President, just twice. He had a rule of thumb one day.

Well, I would want to think about it. If I could convince you fellows that you should sit down and forget all your exemptions and everything else and start with seven hundred fifty or twenty-five cents a week and work up there - now, whether it is fifteen hundred or twelve hundred, I would be willing to argue about that, and the same thing on that basis, and have this thing - a schedule so that a person would start at twenty-five cents a week, the fellow with twelve hundred dollars, and from there up, and then depending upon the number of dependents. Have a table like that up to either three thousand or five thousand dollars. At five thousand dollars a table wouldn't be any longer than (indicating).

MR. BLOUGH: That is right, in twenty-five dollar blocks.

H.M.JR: It wouldn't be any longer than that.

MR. WHITE: And just remember to the man reading it, it is very simple because he only looks at one column.

H.M.JR: And then he does the thing - are you going to have that twenty-five cents withheld at the source?

MR. PAUL That is part of our program, yes.

H.M.JR: You will have that twenty-five cents withheld at the source and the man has his book. That is another thing. He has his book and that stamp is put into his book. Have you thought of that? By his employer. Then if he goes from one job to another he takes his book with him. What?

MR. BLOUGH: Well, the details of the system would have to be worked out.

H.M.JR: Well, I mean that would be a good way. And he has his book and then when he has got fifty dollars worth of stamps he turns that in and the first fifty dollars that any of these people pay, I would say up to five thousand dollars, that first fifty dollars is saved for them by the Government.

MR. WHITE: That sounds all right.

MR. KUHN: Randolph, would that avert the sales tax?

MR. PAUL: Well, anything will avert the sales tax strategically which increases the number of so-called taxpayers.

H.M.JR: This will do it.

MR. PAUL: Yes.

MR. KUHN: My feeling is that it musn't be wrapped up too much or else the fact that you have increased the number won't be put across and we will have a sales tax loaded on the fellow who makes twelve dollars a week, and you will be worse off.

MR. WHITE: Ferdie, I think you have got to fight that sales tax independent of anything else.

H.M.JR: That is what I think. Ferdie, again, there has been too much smoke here of sales tax, what are we going to do to fight the sales tax, trying to do something to fight it when, as Harry says, you have got to fight it on its own merits.

MR. KUHN: Yes, you will have to do that.

MR. BLOUGH: I am concerned with this. I think the country wants more people paying taxes.

H.M.JR: Well, this will do it.

MR. HAAS: Aren't those people paying about twenty percent taxes now?

H.M.JR: How much would this add?

MR. BLOUGH: If it was brought down to twelve hundred and left the single tax the same?

H.M.JR: Column B, the seven hundred fifty doesn't begin to pay a tax until - well, seven hundred fifty to fifteen hundred.

MR. TARLEAU: That is right, the married person doesn't pay a tax until he is over fifteen hundred dollars. That is column B, Mr. Secretary.

H.M.JR: Well, I wouldn't object so much to lowering the married person if you fellows wanted to, to twelvehundred dollars, providing you only started them with twenty-five cents a week.

MR. BLOUGH: It doesn't start at that now.

H.M.JR: But I mean, start at twenty-five cents a week.

MR. WHITE: Why not have another tax schedule just like that of the man who gets from one dollar to fifteen dollars a week, the taxes he pays in indirect taxes? You could make a pretty good compilation of what he pays in taxes indirectly and it will look very, very imposing. Why leave it to their imagination? Spell it out in a table, estimates of what the low income man pays in taxes to his Federal Government.

MR. KUHN: The sales tax people would pretend that he doesn't pay anything.

MR. WHITE: Well, they can't pretend it in the face of a schedule.

MR. KUHN: I know it.

MR. FOLEY: I think it sounds all right.

MR. PAUL: What do you think, Tom?

MR. TARLEAU: I don't like to see the spread between the married and the single person go down as much as that. That is a matter of judgment.

MR. PAUL: I would almost stick at the fifteen hundred.

MR. TARLEAU: Rather than do what the Secretary suggested, if it was up to me, if I was Secretary, I would hold the line at our present exemptions and get it out of the present system. I would stick--

MR. WHITE: I think you have got hold of something on this table.

H.M.JR: I like the table idea, fellows. I am not arguing for twelve hundred dollars. If you fellows want to insist - but I am saying that the man at seven hundred fifty dollars, single man, should pay twenty five cents a week or fourteen dollars a year, and we will start at that basis.

MR. TARLEAU: Well, we could do that. The table, of course, ought to be adjusted as our rates go up.

H.M.JR: But don't do it on your exemptions and all the rest. Just do it automatically.

MR. TARLEAU: You can't do that, Mr. Secretary.

H.M.JR: Oh, yes you can, you can do a lot of things.

MR. WHITE: You can do it on the low income brackets. However, I don't know why a married man should get twice as much exemption as a single man. Can't two persons live cheaper than one?

MR. TARLEAU: No, sir. I know damn well you can't.

MR. HAAS: I think you put a penalty on it, too.

MR. TARLEAU: You are damn right. I know exactly what happened to me.

H.M.JR: Don't tell me that up to three thousand or five thousand you can't have a straight table.

MR. TARLEAU: Oh yes, certainly.

MR. PAUL: We have got the table now.

MR. TARLEAU: But the table is an alternative to figuring the tax the regular way.

H.M.JR: But you can have a table and throw in the ash can all of this exemption stuff and everything else.

MR. PAUL: That is what we can't do. We can make a table on the basis just as we did now, make a table with the exemptions in.

H.M.JR: Well now, where do we stand? We stand as of tonight, we are going to start at seven hundred fifty dollars and have the fellow pay a minimum of twenty-five cents a week. Is that right?

MR. BLOUGH: Well, at the present time he wouldn't pay a minimum of twenty-five cents a week under our heavy schedule until he got to about eight hundred fifty to - between eight hundred fifty and nine hundred dollars.

H.M.JR: Well, I am perfectly willing to have him pay twenty-five cents a week.

MR. PAUL: Well, that is what he would pay if you reduced the exemptions.

MR. KUHN: What would you do when you get to three thousand or five thousand or whatever the top level of that table is? Would you abolish all personal exemptions and stop computing the tax only on dependents?

MR. PAUL: When you get to the top of the table?

MR. KUHN: Yes. What do you do?

H.M.JR: Don't be so rigid, Tarleau, on this thing. You can throw your exemptions out on this lower stuff.

MR. TARLEAU: Mr. Secretary, could I just say one thing?

H.M.JR: You can say two.

MR. TARLEAU: Two, that is fine. Let me say one thing. That table that you have before you--

H.M.JR: I know how it is computed.

MR. TARLEAU: That is on gross income, you see, we don't give him any deductions. That is on gross income.

Now, there are some people who don't want to have their taxes figured on gross income, but want it figured on net income.

H.M.JR: Well, they can do it that way.

MR. TARLEAU: How are we going to compute it on those people? That is my only question.

H.M.JR: My answer is, you don't have a gross or net. You just have one. Don't give them a choice. Just have one. That is the easiest thing in the world.

MR. BLOUGH: That can be done.

H.M.JR: "Here is your income, ladies and gentlemen, for single and married people up to five thousand dollars."

MR. HAAS: The splice is the only problem then.

MR. KUHN: That is what I am thinking of. Do you--

MR. HAAS: That can be worked out.

H.M.JR: Of course.

MR. BLOUGH: On the lowered personal exemptions--

H.M.JR: I have got to go home. Where do we stand now? I am willing to increase the taxes more than you are, from seven hundred fifty up, which will more than make up the difference.

MR. PAUL: The difficulty that we are in there is the differentiation between married and unmarried people, and I would prefer to stand on the present. I am perfectly willing to make a table like this, an optional table.

H.M.JR: But on the fifteen hundred you would rather leave it at fifteen hundred.

MR. PAUL: I would rather leave it at fifteen hundred and I do not want to disturb the present relationship between single and married people.

H.M.JR: All right then, you put it on fifteen hundred and then we will go back to where we were yesterday, that you have got to increase it from fifteen hundred up and you have got to increase it from seven hundred fifty up to make up the difference.

MR. TARLEAU: All right. I think that is the best determination we could make.

MR. BLOUGH: This means then we will have a starting rate which will in effect be somewhere in the neighborhood of what, twenty-five percent?

MR. WHITE: But it will be in terms of--

MR. BLOUGH: You can't keep the newspapers from putting it in that way, Mr. Secretary.

H.M.JR: Give it to me in my statement on the effective rate.

MR. BLOUGH: We will do that, but the newspapers will recompute it.

H.M.JR: When you talk about two percent on twenty-five hundred, that desn't sound bad.

MR. TARLEAU: Then we are going back to our submission of yesterday?

H.M.JR: Yes.

MR. TARLEAU: All right. I think that is the best way out of it.

H.M.JR: My God, don't tell me I have my way and a headache?

MR. TARLEAU: Gee, I think it is pretty brutal to give you this at the end of the day--

MR. PAUL: We have got to have a consolidated administration front on this thing.

H.M.JR: Well, I like Henderson - and the fifty dollars, that is new today.

MR. WHITE: Well, that is fifty dollars - they had another wrinkle.

H.M.JR: But that is new. Everything up to fifty dollars - how far up?

MR. PAUL: Well, we won't have that now.

H.M.JR: Sure.

MR. HAAS: Sure.

MR. WHITE: Fifty dollars - when he gets fifty dollars worth of stamps, he gets something which is--

MR. BLOUGH: That will lower the taxes on some people.

H.M.JR: Well, it is good psychology.

MR. WHITE: You mean the permanent taxes?

MR. BLOUGH: Yes.

MR. WHITE: Yes. He gets - well, it will cost somewhere in the neighborhood of--

H.M.JR: What, the first fifty dollars?

MR. KUHN: No, it would lower taxes. I don't agree it is good psychology. I think it is lousy psychology.

MR. WHITE: The rebate on this new schedule, when a man pays up to fifty dollars he gets a bond or something.

MR. PAUL: I don't understand, Harry.

H.M.JR: I am willing to have the fellow with seven hundred fifty pay fourteen dollars a year, and now he pays nothing.

MR. PAUL: Well, I am completely opposed, if I understand Harry's last point. If we are going to have any rebates at all. I don't see why somebody's taxes should be lowered right after the - in the first tax bill after we get into a war.

H.M.JR: Well, they wouldn't be. Whose taxes are going to be lowered?

MR. KUHM: Everybody who gets it back.

MR. BLOUGH: Practically everybody right down at the bottom, those who would pay less than fifty dollars, would have their taxes lowered.

H.M.JR: Well, it is out of his pocket.

MR. PAUL: But it is out of his pocket under the present tax system.

MR. BLOUGH: You see, we are bringing in no new people under the new tax bill.

H.M.JR: But he has got to put that much out. The only difference is that the first fifty dollars we give back to him.

MR. BLOUGH: And under the present law he wouldn't get it back.

H.M.JR: And under the proposed law, he will.

MR. WHITE: Well, step it up. That is all right.

MR. BLOUGH: Then you would get too much difference between the fellow at eight hundred and the fellow at seven hundred.

MR. TARLEAU: Why couldn't you take the Secretary's suggestion if we are going to have to do that, and put to their account the increases proposed by the present bill, fifty dollars, but not in excess of the increase as proposed by the present bill. Work a schedule out that way. In other words, the additional burden that is put on by the present law.

MR. PAUL: Nobody's taxes should be lowered, that is certain.

MR. TARLEAU: The additional taxes--

H.M.JR: See if I understand what you mean. You mean that he doesn't get fifty dollars back except on the increases.

MR. TARLEAU: That is right.

MR. KUHN: And that it shouldn't go up too high on the scale, Mr. Secretary.

H.M.JR: You can't put that in the table.

MR. TARLEAU: I think we can. Let's take a crack at it and see.

H.M.JR: Take a crack at it.

MR. PAUL: I just don't like it.

H.M.JR: Well, I am not pushing for that, Randolph.

MR. PAUL: Well, I will settle it with Harry.

H.M.JR: I am not pushing for it.

MR. PAUL: I don't see any reason why a person beginning at fifteen hundred or beginning at seven hundred and fifty will be getting, if he has two children - I don't see why he should pay less taxes. He is able to pay more taxes.

H.M.JR: I agree with you.

MR. WHITE: My only thought was that there - if there was some doubt of your being able to get that, put it up still higher, but give him a rebate. There is where you can meet your inflation argument. There is where you can hit it. If you don't think you are getting enough to meet the inflation argument, then tax him more, but give him the first fifty back. If you think you are getting enough--

MR. PAUL: Well, all right, we will see if we can develop a scheme that will involve the rebate of some of the increased taxes.

MR. KUHN: For the low income people, Randolph? For the very low?

MR. PAUL: In other words, we will try to take some of the sting out of that twenty percent.

MR. TARLEAU: That is what I think. We will have to work that schedule out.

H.M.JR: Well, don't let's settle on it, because personally I have been opposed to that right along because I want enough people on a voluntary basis to make their contribution through Defense Bonds, through the Payroll Deduction Plan. We are moving too fast. To me it is very, very important whether we give it back to them or not. I have been opposed to it right along, as you know. Let's go before the President tomorrow, if this is agreeable to you, and we are going to increase the taxes from seven hundred fifty up, beginning at seven hundred fifty.

MR. PAUL: Yes, on the basis of the present exemption.

H.M.JR: But we are going to increase those quite heavily.

MR. PAUL: Very heavily.

H.M.JR: Very heavily. And don't let's say anything to him about the rebate, because I want to think about that some more.

MR. PAUL: All right.

H.M.JR: And you are opposed to it anyway. Is that right?

MR. PAUL: Yes, I am pretty much opposed to it.

H.M.JR: Well, now on this other thing, I am perfectly willing to argue on the question of - when it comes down to inflation, about the fellow to six hundred and seven hundred and fifty, I would like to talk to Mr. Leon Henderson, because he has nothing to back up his arguments with. He can't produce anything.

MR. KUHN: I think he might be satisfied with that.

MR. HAAS: He might be satisfied with this.

H.M.JR: He can't produce anything. You have checked now for two days.

MR. HAAS: Well, I am going to get some figures for you tomorrow or Friday.

MR. PAUL: Henderson's argument is not inflation.

H.M.JR: What is it?

MR. PAUL: The strategic sales argument.

MR. HAAS: I think this would satisfy Henderson.

H.M.JR: Is there anything in town?

MR. HAAS: There is. You had the right hunch. The woman in Agriculture is now over at OPA, and she is going to have some estimates tomorrow afternoon or Friday, and I will have them.

MR. WHITE: The CIO has just made a study. Did they send you a copy of it?

H.M.JR: Yes, but it is only up to November. Look, you can't - I am not going to let - I will talk for myself. I am not going to let Henderson give me that. This is very much in the room. While I was waiting for the President, somebody was waiting to see him after the meeting this morning with the labor people, and they said half the time that he met with the labor leaders this morning was devoted to a criticism of Henderson.

MR. PAUL: Well, don't let's mistake Henderson's point. He is not basing his argument very much on inflation. He is talking about trying to save us from the sales tax. His argument is largely strategic.

H.M.JR: Well, if that is what his argument is - if we are now off the inflation basis, then what is going to save us from the sales tax - there is only one person can save us from the sales tax, and that is if Mr. Roosevelt makes up his mind to make a real fight on it. Nobody else can save us.

MR. WHITE: It reminds me of Hitler adopting Nazism to avoid Communism.

MR. PAUL: That is what you would call a false analogy, Harry.

H.M.JR: Are you too unhappy the way it is this minute?

MR. PAUL: No - well, I don't think it is the right decision.

H.M.JR: But are you as unhappy as you were?

MR. PAUL: Oh, no. For instance, I don't feel about this as I would feel about the abandonment of the excess profits tax.

H.M.JR: But I mean, you are not too unhappy about it?

MR. PAUL: Well, I don't know what too unhappy is.

H.M.JR: Well, the point is--

MR. PAUL: I am willing to--

H.M.JR: Randolph, let's put it this way--

MR. PAUL: ... to be a Lieutenant going up there on this plan.

H.M.JR: As far as I am concerned, nobody has told me anything in argument that we should do this - I mean, has convinced me that we should do this thing to kill the sales tax, because I just don't think it is going to happen. That is number one. Number two, the argument of inflation doesn't hold water. Number three, I just can't from a social standpoint, as a human being, go up there and recommend that these taxes should go on somebody who is earning less than fifteen dollars a week. I just can't do it. Now, you haven't heard one murmur out of me when it gets up to the higher taxes, have you?

MR. PAUL: No, and you don't hear any personal murmurs out of me on the higher taxes.

H.M.JR: And on all these other things, when it comes to affect me, my eyes are shut, but when it comes - I just can't do it.

MR. PAUL: Well, anyway, I want you to understand this, that I have felt, and surely you agree about this - you said so - that the thing hadn't been adequately presented to you, and I wasn't going to let you make up your mind until it was.

H.M.JR: That is right.

MR. PAUL: And I am never going to let you make up your mind without--

H.M.JR: Well, frankly, due to - maybe I didn't give it the time, but every time I have heard it, and I have heard it for a month now, it has always been on the inflationary argument.

MR. PAUL: Well, we did hear an awful lot about that.

H.M.JR: Roy, is that fair or unfair?

MR. BLOUGH: That is fair, and I agree with you that there is nothing inflationary between seven hundred and fifty and six hundred dollars, but I think there is a lot that is inflationary between a married couple with three dependents getting twenty-seven hundred dollars and a married couple with three dependents getting twenty-one hundred dollars.

H.M.JR: I agree with you.

MR. BLOUGH: But, you are not doing anything about it.

H.M.JR: You will if you do what I ask you to do. If you will throw away your rules and just take out a pencil and write out a table.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 25, 1942

TO Secretary Morgenthau

FROM Mr. Foley and Mr. Paul

The attached letters to the Secretary of State notify him that, beginning July 1, 1942, the Treasury Department will not grant tax exemptions to diplomatic or consular officers or to foreign governments, unless such exemptions are specifically provided for by statute or by treaty.

For many years foreign diplomats and members of their households have been held exempt from all Federal taxes, direct or indirect. Foreign governments and their nondiplomatic representatives acting in their official capacity have been held exempt from direct taxes.

The question has arisen by reason of a letter from the Secretary of State, asking whether the Grand Duchess of Luxemburg will be subject to Federal income taxes on her private investment income. The proposed reply holds that she will be taxable on this income because there is no statute or treaty exempting her from taxation. Hereafter, ambassadors, ministers, consuls, and all representatives of foreign governments will be treated like the Grand Duchess of Luxemburg, unless there is a treaty or statutory exemption from the particular tax involved.

Because of the long-standing Treasury practice exempting the private income and business transactions of diplomatic representatives from Federal taxation, as well as exempting all activities of foreign governments from taxation, the Secretary of State may be disconcerted by the new rulings.

There is time between now and July 1, 1942 for legislation if this is deemed advisable. It should be pointed out, however, that the ruling relating to income taxes is effective for taxable years after December 31, 1941, but the ruling as to excise taxes is held in abeyance until July 1, 1942, in order to avoid confusion during the interim.

RST
F.N.F.L.

COPY

GC:I:RCF
A-332913

Feb. 27, 1942

My dear Mr. Secretary:

Further reference is made to letter signed by Under Secretary Welles dated June 3, 1941 (symbols Le 811.5123/), enclosing copy of your letter dated February 4, 1941, addressed to this Department and copy of note from the Minister of Luxemburg inquiring whether Her Royal Highness the Grand Duchess of Luxemburg is exempt from Federal income tax with respect to income from American securities which are her personal property. The letter of June 3, 1941 states that the Minister of Luxemburg advises that the Grand Duchess is purchasing a country place in Southern Maryland where she and her family intend to reside, and inquires whether in these circumstances she would be exempt from the payment of Federal income taxes on such income and requests information as to the nature of the reply to be made to the inquiry of the Minister of Luxemburg.

After careful **examination** of the question thus presented and of the related problems heretofore considered, this Department is constrained to adoption of a policy, to be prospectively applied, in accordance with which ambassadors, ministers and other diplomatic personnel shall be exempt from Federal income taxation only to the extent provided by statute or by treaty. There exist no statutory provision and no applicable treaty explicitly exempting from taxation income of the character described in your letter. Since the Grand Duchess, insofar as concerns income from property held by her in her private capacity, would appear to occupy from the standpoint of taxation an analogous status, it follows, pursuant to the indicated policy, that the income derived by her from American securities is subject to Federal income tax.

In the event that further correspondence relative to this matter is necessary, please refer to GC:I:RCF.

Very truly yours,

/sgd/ John L. Sullivan
Acting Secretary of the Treasury

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

RJM/abp 2-6-42

FEB 27 1942

MT:DC

My dear Mr. Secretary:

Further reference is made to your letter of January 5, 1942 (FA), in which you request certain information concerning exemption of foreign diplomatic representatives at Washington and the members of their staffs and households and their families living with them, including clerks and servants who are not American citizens, and also exemption of certain foreign consular officers, from the Federal excise taxes imposed under the provisions of the Internal Revenue Code, as amended by the Revenue Act of 1941.

This Department has examined the tax exempt status of diplomatic and consular officers of foreign governments, and has determined that foreign diplomatic and consular officers should not be granted exemptions from Federal excise taxes, unless such exemptions are specifically provided for by statute or by treaties. The Internal Revenue Code, as amended, does not exempt foreign diplomatic and consular officers from Federal excise taxes of any character. In the absence of treaties, therefore, no exemption from Federal excise taxes may be granted to foreign diplomatic and consular officers. This ruling applies, for example, to the various manufacturers' excise taxes imposed under Chapter 29 of the Internal Revenue Code, as amended, and to the retailers' excise taxes imposed by Chapter 19 of the Internal Revenue Code, as amended, even though the products, the sale of which is taxed, are sold directly or indirectly to diplomatic and consular officers of foreign countries. Similarly, and by way of further illustration, there exists no statutory basis for granting exemptions to diplomatic and consular officers of foreign countries from such taxes as the automobile use, admissions, club dues, transportation, telegraph and telephone taxes. Notwithstanding that enforcement of these taxes may be difficult or impossible in certain cases because of sections 4063 and 4064 of the Revised Statutes, it is held that ambassadors, ministers, their families, staffs, and households, are subject to these taxes.

MT:DC

The Honorable,
The Secretary of State.

You also request information respecting the applicability of Federal excise taxes to consular officers of foreign countries with which there are in force treaties containing provisions relating to the exemption of consular officers from taxation, and also to consular officers of foreign countries with which there are in force treaties involving consular relations which contain most-favored-nation clauses. This Department cannot state a general rule concerning the taxation of such consular officers. Because the exemption of consular officers depends upon treaty provisions, it is essential to know the particular treaty involved and also whether most-favored-nation treatment should be accorded.

With a view to avoiding confusion which may arise by reason of many previous rulings to the contrary, and for the purpose of promoting uniformity and equitable treatment to all persons affected, the conclusions reached herein will not, in accordance with section 3791(b) of the Internal Revenue Code, be applied with respect to transactions occurring prior to July 1, 1942.

For the time being, however, and until July 1, 1942, the position of this Department will continue to be as follows: (1) ambassadors, ministers, their families, staffs, and households, including clerks and servants who are not American citizens, are exempt from (a) such excises as the automobile use, admissions, club dues, transportation, telegraph and telephone taxes, and (b) manufacturers' and retailers' excises, provided they are a party to the transaction with respect to which the excise tax otherwise would be imposed; (2) foreign governments, their agents and officers other than diplomatic representatives, are exempt only with respect to Federal excise taxes the legal incidence of which would fall upon them, such as, for example, the automobile use, transportation, telegraph and telephone taxes, and then only with respect to transactions arising in the performance of their official functions for which payment is made by their foreign government; and (3) consular officers shall be accorded the same exemptions set forth in item (2) above, and in addition such further exemptions as may be prescribed by treaty.

MT:DC

If further correspondence relative to this matter is necessary, kindly refer to IR:MT:ST.

Very truly yours,

(Signed) John L. Sullivan

Acting Secretary of the Treasury.

The Honorable,

The Secretary of State,

Washington, D. C.

Copy attached.

RJB:NEC

February 25, 1942

Dear Mr. Cavanaugh:

I am very glad to reply to your post card of February 21 about my son Henry.

Ever since my son was seventeen, his greatest interest has been in the field of public housing, and his work at Princeton and subsequently has been directed toward a career in this field. His first work after graduating from college was with the National Association of Housing officials, whose purpose it is to train young men to go into the field of public housing. Next he was called to Cleveland by Mr. Ernest Bohn of the Municipal Housing Authority as a research assistant, and served in that capacity until January of this year. In December 1941 he received several offers as the result of his special training, and the position which he finally accepted was the one for which he was best qualified.

On accepting it, he explained that his draft number had not yet been drawn, and that when it came up he would claim no exemption and would not allow exemption to be claimed for him because he was working in defense housing. My son is doing exactly what General Hershey is advising, namely that men of draft age who are doing a useful job should remain in that job until they are called into active service.

You may wish to know that my son Henry has been volunteering his time at night to help on the Cleveland Defense Council in connection with the housing situation. You may also be interested to know that my younger son Robert, who is twenty-two years old, is now on active duty aboard a destroyer.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. L. Cavanaugh,
206 E. 9th Street,
Erie, Pennsylvania.

FK/hkb

206294
Conn. Pa.

Dear Mr Morgenthau:—

It affords me great joy to hear that your son is to "do or die"! for his country. Undoubtedly it took heroic courage in formulating the decision to go "all out" in defense of our land. No doubt he will be exposed to unimaginable dangers on the Cleveland "front".

You & yours are to be congratulated for your (& his) magnificent display of "patriotism"! — Such "courage"! L Cavanaugh.

February 25, 1942.

Dear Steve:

Thank you for your letter of February 24th, informing us that the commemorative service will be held at St. John's Church on March 4th, at 10:30 o'clock. Of course Mrs. Morgenthau and I shall be pleased to attend the service, which is always an inspiring one.

Sincerely,

(Signed) Henry

Mr. Stephen Early,
Secretary to the President,
The White House.

Original file to Miss Macdonald
H.M.C. Photo file
By Messenger Steen 3 40

GEF/dbs

Mrs Klotz

THE WHITE HOUSE
WASHINGTON

February 24, 1942

My dear Mr. Secretary:

In accordance with the annual custom, services will be held in St. John's Church, Lafayette Square, on Wednesday morning, March fourth, at ten thirty o'clock.

The President has asked me to write you and to say that it will please him very much if you and Mrs. Morgenthau can attend. As you will probably remember, the first of these services was held on March 4, 1933, and the President feels that this annual observance is most helpful to all who participate.

Very sincerely yours,

Stephen Early

Stephen Early,
Secretary to the President.

Hon. Henry Morgenthau
The Secretary of the Treasury
2434 Belmont Road

Please reply. Yes we will be very pleased to attend

P. S. For your information, the President's attendance at the services is to be treated as confidential.

February 25, 1942

Mr. Eugene Sloan

The Secretary

I wish you'd give me a report letting me know how the sale of stamps through the newsboys has been going for the last two weeks. I'd like to know whether they've been going up, standing still, or going down; also, whether they've been falling off the way the E bonds have. Also, have you any explanation for the falling off in the sale of our E bonds during the last two or three weeks.

Report submitted
2/25/42 -

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1942

TO Secretary Morgenthau

FROM Mr. Sloan

A check of reports from 140 newspapers in 32 states shows no material change in the sale of Defense Savings Stamps by newspaper carriers.

For the week ending February 7 these 140 newspapers sold 4,562,283 ten-cent stamps; for the week ending February 14, 4,374,421 stamps were sold, a drop of 4 per cent from the previous week (February 7); and for the week ending February 21, 4,575,140 stamps were sold, which represented an increase of .3 per cent over the week ending February 7.

Attached you will find two tables - one showing a break-down of the newspapers by states, and the other showing a break-down of sales by newspapers.

You will note that the Philadelphia Bulletin reports a decrease as follows:

Week ending February 7	-	565,321
Week ending February 14	-	518,458
Week ending February 21	-	467,054

We asked Mr. Howard Stodghill the reasons for this decrease and the following are the reasons he gave:

Generally, stamp sales slackened because of other activities in the sale of bonds and stamps, including expansion of the Payroll Savings Plan, more retail activity, and the fact that many schools were planning to sell stamps.

He also pointed out that there had been a lessening in publicity in Philadelphia and that radio activity had ceased.

Three newspapers have reported in writing that their sales have slackened because of the widespread publicity given to Congressional pensions. Our own mail shows complaints because of OCD activities in the hiring of a dancer and a movie star. These complaints, however, are isolated ones and do not represent a sizeable figure.

SALE OF SERIES E BONDS

Our records for the sale of Series E Bonds for February show:

Week ending February 7	-	$137,000,000
Week ending February 14	-	$97,000,000
Week ending February 21	-	$95,000,000

There is a sharp decline from the first to the second week in February. This decrease is due almost entirely, we believe, to the fact that the first week's sales represented a great number of persons who invested to the limit permitted by the regulations, i.e., a cash outlay of $3,750.

It has been our experience in past years that there is a heavy sale in January and the first week in February, with a sharp drop beginning the second week in February. Last year, for instance, the sales of Series D Bonds in February were as follows:

Week ending February 6	-	$34,000,000
Week ending February 13	-	$19,000,000
Week ending February 20	-	$18,000,000

The proportionate drop this year is about the same as last year.

We, of course, have had numerous complaints from people who say they are not buying and will not buy bonds because of the Congressional pensions, the OCD activities, et cetera; however, sales up to February 21 do not justify us in believing that these complaints have had much definite effect on actual sales.

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SALES BY NEWSPAPER CARRIER BOYS

OF SELECTED PAPERS

Reported as of February 25, 1942

Newspaper	Number of 10¢ stamps sold or equivalent in stamps of higher denominatin and/or bonds 2/7/42	2/14/42	2/21/42
Alabama			
Birmingham News & Age Herald	120,627	123,701	113,694
Arkansas			
Little Rock Arkansas Democrat	11,816	10,073	9,440
California			
Los Angeles Examiner	103,342	75,089	109,358
Los Angeles Times	26,735	101,845	
Colorado			
Colorado Springs Gazette & Telegraph	4,345	7,448	4,008
Connecticut			
New Haven Register	24,906	28,156	
District of Columbia			
Washington News	13,350	12,200	12,000

Newspaper	Number of 10¢ stamps sold or equivalent in stamps of higher denomination and/or bonds 2/7/42	2/14/42	2/21/42
Florida			
Miami Herald	25,599	50,996	
Miami Daily News	30,802	18,975	
Georgia			
Augusta Herald	17,928	14,426	13,621
Macon Telegraph & News	18,829	8,271	14,090
Illinois			
Rock Island Argus (No late reports for Chicago)	11,586	12,259	
Indiana			
Fort Wayne News Sentinel	61,682	30,425	51,451
Indianapolis News	62,292	65,834	54,634
Iowa			
Des Moines Register & Tribune	51,478	49,990	
Kansas			
Wichita Beacon	11,053	11,528	
Wichita Eagle	7,612	8,438	6,278
Kentucky			
Louisville Courier Journal	335,534	233,631	

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Newspapers	Number of 10¢ stamps sold or equivalent to stamps of higher demonination and/or bonds 2/7/42	2/14/42	2/21/42
Louisiana			
Shreveport Journal	4,238	7,118	
Maryland			
Baltimore News Post	114,985	108,993	84,432
Massachusetts			
Worcester Telegram & Gazette	253,515	200,000	
Michigan			
Detroit Times	244,766	236,601	242,534
Detroit News	552,002	611,062	651,000
Minnesota			
St. Paul Dispatch-Pioneer Press	44,684	48,452	
Nebraska			
Omaha World Herald	118,466	112,557	107,204
New Jersey			
Newark Evening News	104,712	101,650	140,062
New York			
Rochester Times Union	168,436	166,808	165,350
North Carolina			
Charlotte News	8,710	11,062	8,583
Ohio			
Akron Beacon Journal	226,943	226,664	233,730
Cleveland Press	643,544	628,157	

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Newspapers	Number of 10¢ stamps sold or equivalent to stamps of higher dedomination and/or bonds 2/7/42	2/14/42	2/21/42
Oklahoma			
Tulsa World & Tribune	27,158	21,260	
Pennsylvania			
Philadelphia Bulletin	565,321	518,458	467,054
Rhode Island			
Providence Journal Bulletin	750,625	267,625	
South Carolina			
Charleston Post News & Courier	21,950	16,742	
Tennessee			
Knoxville News-Sentinel	20,349	15,556	27,127
Texas			
Dallas Times Herald	29,466	30,418	
Vermont			
Burlington Free Press	8,292	13,894	
Virginia			
Roanoke Times & World News	62,000	55,484	60,000

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Number of 10¢ stamps sold or equivalent in stamps of higher denomination and/or bonds

Newspapers	2/7/42	2/14/42	2/21/42
Washington			
Tacoma News Tribune	23,000	37,000	
Wisconsin			
Milwaukee Journal	134,772	127,208	
Milwaukee Sentinel	26,409	26,131	26,372

TOTAL SALES BY NEWSPAPER CARRIER BOYS
FOR WEEKS OF FEBRUARY 7,14 and 21
(Only papers reporting all 3 weeks are included.)

Reported as of February 25, 1942

STATE	NUMBER PAPERS	Feb. 7,1942	Feb.14,1942	Feb.21,1942
Alabama	1	120,627	123,701	113,694
Arkansas	1	2,875	3,504	4,146
California	1	103,342	75,089	109,358
Colorado	2	5,726	8,194	5,632
Connecticut	1	8,080	10,330	8,782
District of Columbia	1	13,350	12,200	12,000
Florida	2	4,179	6,310	5,440
Georgia	2	36,757	22,697	27,711
Illinois	9	111,824	126,145	125,013
Indiana	9	192,269	181,630	174,554
Iowa	4	65,015	58,452	57,563
Kansas	1	7,612	8,438	6,278
Kentucky	3	46,557	24,621	37,091
Maryland	1	114,985	108,993	84,432
Massachusetts	1	7,478	7,313	7,390
Michigan	8	878,112	920,800	964,680
Minnesota	1	2,843	2,304	2,431
Missouri	1	2,590	950	1,547
Montana	1	13,078	15,089	11,687
Nebraska	1	118,466	112,557	107,204
New Jersey	7	200,409	204,772	261,407
New York	22	686,923	642,319	576,646
North Carolina	6	41,164	42,378	54,643
Ohio	17	570,193	557,379	557,881
Pennsylvania	13	973,865	896,667	910,076
South Carolina	1	9,008	5,319	10,840
South Dakota	2	9,695	8,060	7,819
Tennessee	2	33,194	17,640	35,638
Texas	5	19,552	17,608	31,441
Vermont	1	4,955	5,127	5,694
Virginia	3	88,195	78,977	112,299
Wisconsin	10	69,365	68,858	144,123
TOTALS	140	4,562,283	4,374,421 Off 4% from February 7.	4,575,140 Up 3/10% from February 7.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1942

TO Secretary Morgenthau

FROM Mr. Haas

1. Attached to this memorandum are tables showing (1) the number of agents qualified to issue Defense Savings Bonds, Series E, at the close of business on February 21, classified by type of agent, by Federal Reserve Districts, and (2) the number of such agents on selected dates since May 7, 1941.

2. There were 19,994 agents other than post offices qualified to issue Series E savings bonds, on February 21, an increase of 238 since February 14.

3. On February 21, there were 614 corporations qualified to issue Series E savings bonds on payroll allotment plans in accordance with the instructions contained in your telegram of December 27 to the Federal Reserve Banks. This represented an increase of 62 corporations over last week.

Attachments

Number of agents qualified to issue Series E
Savings Bonds, May 7, 1941
to date

Type of agent	1941 May 7	1941 Sept. 30	1942 Jan. 24	1942 Jan. 31	1942 Feb. 7	1942 Feb. 14	1942 Feb. 21
Commercial and savings banks.........	7,676	11,571	14,037	14,097	14,155	14,191	14,222
Building and loan associations.......	739	1,481	2,365	2,434	2,476	2,515	2,541
Credit unions........................	8	389	1,911	2,080	2,229	2,321	2,424
Other corporations 1/................	-	-	240	351	457	552	614
Investment industry..................	-	-	10	37	48	54	61
All others...........................	7	27	54	99	118	123	132
Total other than post offices....	8,430	13,468	18,617	19,098	19,483	19,756	19,994
Post offices.........................	15,812	16,429	17,140	17,123	17,604	17,604	17,925
Grand total......................	24,242	29,897	35,757	36,221	37,087	37,360	37,919

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

February 24, 1942

1/ In accordance with telegram of December 27, 1941.

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Classification of the number of agents qualified to issue
Series E Savings Bonds, on February 21, 1942

	Banks	Building and loan associations	Credit unions	Other corporations 1/	Investment industry	All others 2/	Total
Corporations and Associations:							
Federal Reserve District of:							
Boston	831	241	216	27	-	13	1,328
New York	1,168	253	394	53	14	52	1,934
Philadelphia	846	107	113	148	-	-	1,214
Cleveland	1,172	378	339	43	7	1	1,940
Richmond	1,024	189	133	27	7	1	1,381
Atlanta	1,024	154	179	23	-	-	1,380
Chicago	2,334	472	237	170	17	17	3,247
St. Louis	1,368	154	66	35	8	2	1,633
Minneapolis	1,283	57	70	3	-	3	1,416
Kansas City	1,766	182	169	14	2	35	2,168
Dallas	856	121	220	53	3	5	1,258
San Francisco	550	233	288	18	3	3	1,095
Sub-total	14,222	2,541	2,424	614	61	132	19,994
Post offices	-	-	-	-	-	-	17,925
Grand total	14,222	2,541	2,424	614	61	132	37,919

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

February 24, 1942

1/ In accordance with telegram of December 27, 1941.
2/ Except post offices.

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Number of agents in Other Corporations and Investment Industry qualified to issue Series E Savings Bonds, by Federal Reserve districts - January 10 to date. 1/

Date	Atlanta	Boston	Chicago	Cleveland	Dallas	Kansas City	Minneapolis	New York	Philadelphia	Richmond	San Francisco	St. Louis	Total
Other Corporations													
Jan. 10	4	-	8	-	-	-	-	-	-	-	-	-	12
17	12	-	27	-	1	-	-	4	65	8	-	1	118
24	15	2	61	22	13	-	1	21	83	15	4	3	240
31	17	14	90	28	27	1	3	32	101	19	8	11	351
Feb. 7	20	19	115	33	42	5	3	41	124	23	14	18	457
14	23	22	151	40	49	9	3	46	135	27	15	32	552
21	23	27	170	43	53	14	3	53	148	27	18	35	614
Investment Industry													
Jan. 24	-	-	5	-	-	2	-	1	-	2	-	-	10
31	-	-	10	3	-	2	-	7	-	6	1	8	37
Feb. 7	-	-	13	6	-	2	-	9	-	7	3	8	48
14	-	-	15	6	3	2	-	10	-	7	3	8	54
21	-	-	17	7	3	2	-	14	-	7	3	8	61

1/ Other Corporations authorized as of December 27, 1941 and Investment Industry as of January 17, 1942.

Daily changes in the stock of Series E savings bonds on hand 1/

(In thousands of pieces)

	Number of pieces sold this day	Number of pieces manufactured this day	Stock on hand at close of day	IBM deliveries this day
Feb. 10	193	705	17,712	2,000
11	159	695	18,248	-
12	220	640	18,668	-
13	144	370	18,894	-
14	87	none-closed	18,807	-
15	none-closed	none-closed	18,807	-
16	363	535	18,979	2,500
17	89	800	19,690	1,000
18	218	800	20,272	1,000
19	160	800	20,912	1,000
20	193	800	21,519	1,000
21	200	none-closed	21,319	-
22	none-closed	none-closed	21,319	-
23	214	800	21,905	-
24	55	800	22,650	1,600

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

February 25, 1942

1/ Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Twenty Business Days of February and January 1942 and December 1941
(February 1-24, January 1-23, December 1-23)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February 1942	January 1942	December 1941	February over January	January over December	February over January	January over December
Series E - Post Offices	$ 76,580	$123,773	$ 69,593	-$ 47,193	$ 54,180	- 38.1%	77.9%
Series E - Banks	272,263	372,680	140,397	- 100,417	232,283	- 26.9	165.4
Series E - Total	348,843	496,452	209,990	- 147,609	286,462	- 29.7	136.4
Series F - Banks	45,065	54,804	20,760	- 9,739	34,044	- 17.8	164.0
Series G - Banks	210,465	215,671	107,198	- 5,206	108,473	- 2.4	101.2
Total	$604,373	$766,928	$337,948	-$162,555	$428,980	- 21.2%	126.9%

Office of the Secretary of the Treasury, Division of Research and Statistics. February 25, 1942.

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.

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UNITED STATES SAVINGS BONDS

Daily Sales - February 1942

On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	$ 8,435	$ 34,150	$ 6,191	$ 19,795	$ 60,136	$ 42,585	$ 6,191	$ 19,795	$ 68,571
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770
4	4,893	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,256
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,176
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
13	2,710	9,026	1,047	4,385	14,458	11,736	1,047	4,385	17,168
14	1,714	5,740	113	1,152	7,005	7,454	113	1,152	8,719
16	5,741	22,405	3,212	13,748	39,365	28,147	3,212	13,748	45,107
17	2,639	4,285	690	3,211	8,187	6,924	690	3,211	10,826
18	2,992	13,911	1,715	14,118	29,745	16,903	1,715	14,118	32,737
19	3,147	9,167	1,401	9,401	19,969	12,313	1,401	9,401	23,115
20	3,231	11,769	1,455	6,138	19,362	14,999	1,455	6,138	22,592
21	3,827	11,733	3,193	7,282	22,208	15,560	3,193	7,282	26,035
23	4,490	12,015	2,703	7,784	22,502	16,504	2,703	7,784	26,991
24	1,642	2,339	1,148	1,623	5,109	3,980	1,148	1,623	6,751
Total	$ 76,580	$272,263	$ 45,065	$210,465	$527,793	$348,843	$ 45,065	$210,465	$604,373

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

February 25, 1942.

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.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1942

TO Secretary Morgenthau

FROM George Buffington GB.

The following list shows "The New Spirit" bookings for the week ending February 22, 1942, and the total to date.

Albany	21
Atlanta	135
Boston	89
Buffalo	55
Charlotte	71
Chicago	113
Cincinnati	98
Cleveland	61
Dallas	84
Denver	29
Des Moines	42
Detroit	91
Indianapolis	46
Kansas City	55
Los Angeles	74
Memphis	52
Milwaukee	53
Minneapolis	59
New Haven	20
New Orleans	53
New York	148
Oklahoma City	53
Omaha	24
Philadelphia	125
Pittsburgh	84
Portland	28
St. Louis	85
Salt Lake City	29
San Francisco	38
Seattle	31
Washington	69
Total	2,015
Total week ending February 15	3,742
Grand total, week ending February 22	5,757

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT

WASHINGTON

February 25, 1942

To: Secretary Morgenthau

From: Eugene W. Sloan EWS 2/25/42

Mr. Buffington has discussed with the Field Director and several members of his staff, including the Payroll Savings Unit, the problem of obtaining a first-hand picture of payroll savings plans from some selected part of the field organization through to a first-hand account in several of the companies operating such plans. He has also discussed the labor situation with Mr. Houghteling and has obtained a picture of the problem from the Division of Research and Statistics through Mr. Tickton. It is generally agreed by all, including the writer, that the city of Chicago will supply most accurately such information.