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December 19, 1942

MEMORANDUM FOR THE SECRETARY:

On Friday, December 18, 1942, following the conference with Senator Downey regarding applications for branches for the Bank of America National Trust and Savings Association, the Secretary requested Mr. Bell and Mr. Delano to remain a few moments for a discussion of the Michigan branch bank situation. Senator Brown had previously mentioned the matter over the telephone to the Secretary, indicating that he was interested in two branches for the Michigan National Bank, and that he thought they should be granted promptly in order that they might become effective before the first of the year. At the Secretary's request, Mr. Delano explained that the Michigan National was a branch system operating in Michigan with its head office at Lansing and branches at Saginaw, Grand Rapids, Flint, Marshall, Port Huron (4) and Battle Creek (2). The system, which is controlled by the Bohn Aluminum interests, has

deposits of something over \$80,000,000 and a capital structure of \$3,000,000. The Bohn interests have been friendly to Senator Brown and the Administration, and vigorously supported the Senator in the recent election.

Mr. Delano further explained that some few weeks previously, the management of the Michigan National had informally approached the Office of the Comptroller of the Currency with a request for two branches, one in Detroit and one in Bay City, both of which were to be consummated by purchase of small existing banks in those areas. Senator Brown, who accompanied the bank's officers at the time of the informal request, had expressed himself as entirely disinterested in regard to the Detroit branch, but hoped that something could be done to pass favorably on the Bay City extension. A review of the matter by the Office of the Comptroller had resulted in a denial of the request for the Detroit branch and a statement that the proposed Bay City branch would be given careful consideration if a formal request were forwarded. Subsequent to this denial as to Detroit, which occurred on November 20, the Senator had approached the Comptroller with a request that both branches be

- 3 -

granted. He requested prompt action because of the impending meeting of the State Legislature and the probability that that body would pass legislation prohibiting any further expansion of existing branch systems.

Mr. Delano then reviewed the reasons for his decision in denying the entry into Detroit and for his opposition to granting the Bay City request. The reasons as briefly summarized follow:

- (1) Very reliable sources clearly indicate that the legislature which is to convene in 1943 will certainly pass legislation prohibiting the action under consideration. To grant a branch expansion of any kind just prior to the almost certain passage of such legislation would be tantamount to thwarting the will of the people of Michigan and would appear to be indefensible from a public relations standpoint.
- (2) The granting of these two applications for the Michigan National, particularly in

the matter of the one for Detroit, might well be construed as inconsistent with our attitude toward further branch expansion of the Bank of America National Trust and Savings Association.

- (3) Certainly as regards Detroit, there is no need of additional banking facilities. The city has twelve (12) banks with over one hundred (100) banking offices. The approval of the application of the Michigan National Bank would be equivalent to the authorizing of a new national bank in Detroit.
- (4) The population of Lansing is about 77,000 and the population of Detroit is approximately 1,600,000. It is contrary to sound banking supervisory policies as well as the theory and function of branch banking to permit a bank located in a place the size of Lansing to establish a branch in a large industrial center. One of the principal justifications

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for branch banking is the extension of banking facilities to those communities which would not otherwise have suitable and adequate facilities to meet the existing needs. It is obvious that the City of Detroit is not in need of such additional banking facilities as would be afforded through the establishing of a branch of a bank situated in a much smaller community, such as Lansing.

- (5) Any further expansion of the Michigan National at this time raises serious questions of technical capitalization factors which could only be resolved by a much larger increase in capital structure than the bank has indicated its willingness to make.

Mr. Bell expressed himself as concurring in the Comptroller's opinion, and after a further brief discussion, it was the Secretary's decision that both branch applications should be denied.

swB

Preston Delano
Preston Delano

MONDAY A.M. RELEASE

12-21

OK
12-19-42
6

All financial records of history have been shattered in the December Victory Fund Drive of the Treasury, which already has enlisted \$10,000,000,000 of borrowed funds in the war effort, or \$1,000,000,000 more than the \$9,000,000,000 mark set at the beginning of the campaign, Secretary Morgenthau announced today. The sights have been raised, he added, in the hope that the borrowing can be increased to \$11,000,000,000 by the end of the month.

While banks were buying their upper limit of \$2,000,000,000 of 7/8% certificates and other investors continued to place funds in all available issues, the \$9,000,000,000 aim was met late last week and the gauge crept up to the \$10,000,000,000 mark soon thereafter.

Although results of the drive are exceeding expectations, Secretary Morgenthau urged redoubled efforts by the Victory Fund organization and heavier purchases by investors, as a means of insuring that the next drive can be postponed until late March or early April. Books are being held open until the close of business December 23 for subscriptions by others than commercial banks to ~~the~~ three issues included in the drive, while sales of tax savings notes and savings bonds will continue. All issues, including Treasury bills, are included in the flotations from which the Treasury hopes to raise the total to \$11,000,000,000 or more in December.

"I am deeply gratified by the superb public response to the monetary needs of our country in this war," Secretary Morgenthau said. "This is the sort of news that Axis leaders dread to hear and that they will not permit their misguided peoples to know. It is the sort of news that inspires our associates of the United Nations. It will reassure all soldiers who are fighting the good fight. The speedy borrowing of the tremendous sum is a reflection of our American determination to win the war and win it quickly.

"Much more than \$10,000,000,000 will be needed, and I urge every American to dig deep into his pockets and buy more of the securities that will remain available until December 23, and the tax notes and savings bonds that will continue to be on sale. The funds are an indispensable means for making available the guns and ships, planes and tanks, with which the armed forces of the United Nations will achieve victory.

"The response by investors has been stimulated in large part by the eager participation in the drive of many thousands of volunteer workers drawn from the banking, securities, insurance and other fields. These workers have well earned the thanks of the nation."

(more)

- 3 -

The extent to which previous records have been exceeded is indicated by comparison with the largest loan heretofore floated, which was the \$6,900,000,000 Fourth Liberty Loan raised in three weeks by the United States Treasury in 1918. Together with tax and other receipts of about \$2,500,000,000, the estimated \$11,000,000,000 of borrowing would draw into the Treasury a total of about \$13,500,000,000 in this single month.

The issues on which subscription books will remain open up to the close of business December 23 for buyers other than commercial banks are Victory two-and-one-half's due December 15, 1968, and callable December 15, 1963; 1-3/4 percent bonds due June 15, 1948, and 7/8 percent certificates of indebtedness due December 1, 1943. Treasury officials also stressed the continuing availability of tax savings notes and savings bonds.

The hope was expressed that Christmas and other bonuses and monetary gifts will be invested in securities of the United States Government.

(Insert formal announcement on bank subscriptions
to and allotments of 7/8 percent certificates.)

(more)

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Figures released by the Treasury show that the drive is successful not only because of the amount involved, but also because of heavy purchases of securities by others than commercial banks. One of the principal aims of the drive was to borrow a large proportion of the funds from nonbanking sources, since that is the soundest and least inflationary method of Treasury borrowing. Of the total sales of \$ _____ to the close of business December 18, about _____ percent was to commercial banks and _____ percent to others.

Funds borrowed to and including December 18 from all sources, on the different issues, are:

(Insert table)

The December drive was opened by President Roosevelt, when he bought the first \$1,000 Victory two-and-one-half from Secretary Morgenthau, and declared that we must make our dollars "fighting dollars" by investing them in Government securities. To the Victory Fund organization was assigned the task of placing with individual investors, business firms, institutions and banks the three series on which books will close December 23 and also tax savings notes and Series F and G savings bonds.

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

2nd 12
Draft

DATE
December 19, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Regarding the distribution of the work I have been doing, I would suggest that you give the following assignments:

Savington Crampton:

- (1) To handle the correspondence that has been coming to me from Miss Chauncey's office, some of it consisting of letters for your signature and a larger number of letters to be written and signed on your behalf.
- (2) To receive visitors sent by your office.
- (3) To continue as executive secretary of the committee that has been working on public information on taxes and inflation.

- 45
- (4) To handle the clearance of speeches with O.W.I. All Treasury speeches by the Secretary, the Under Secretary, Assistant Secretaries and the General Counsel should be referred to Mr. Crampton, who will clear them with Mr. John R. Fleming's office at O.W.I. Mr. Fleming's office, in turn, will refer to Mr. Crampton all Government speeches bearing on Treasury problems; Mr. Crampton will circulate them among the appropriate Treasury officials, and will send their comments or suggestions back to Mr. Fleming.

Peter Odegard:

- (1) To direct the writing of public messages signed by the Secretary in connection with War Bonds. This applies equally to telegrams or letter-messages which go out to individuals or groups over the Secretary's signature. Except for routine telegrams, such as those to factories, the public messages should be submitted to the Secretary before being sent; Mrs. Klotz will help in rush cases where a deadline has to be met.
- (2) To handle all Treasury relations with O.W.I. except in matters of speech clearance.
- (3) To mark passages of O.W.I. Intelligence Reports or other public opinion surveys if he thinks the Secretary would be interested in them.

Harold Mager:

- (1) To prepare the Secretary's public speeches and to assist in the preparation of other formal statements.

~~The best procedure on speeches will be as follows: The Secretary will "talk" his ideas to Mr. Mager, who will discuss the problem with Mr. Gaston and Mr. Odegard and then write a first draft; the first draft will then be shown to the Secretary, to see whether it meets his ideas in a general way; Mr. Mager will then write a second draft, and will circulate it among members of the Secretary's staff for their comments and suggestions. Successive drafts, if necessary, can be worked out in group discussion with the Secretary.~~

- (2) To write or assist in the writing of speeches or articles for other Treasury officials who ask for his help.

Herbert Gaston:

To edit, for style and content, all speeches other than the Secretary's, and to approve them for policy. These speeches shall not be made unless Mr. Gaston approves the manuscript.

J. K.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

December 19, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended December 9, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(Encl.) E. M. B.

inc:12/21/42

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

December 18, 1942

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended December 9, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:imc:12/21/42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended December 9, 1942

**Strictly
Confidential**

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS			CREDITS					DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of		Other Credits (c)	Net Incr. (+) or Decr. (-) in \$ Funds (d)	Total Debits	Gov't Expendi- tures (e)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
Gold					Securities (Official) (b)										
First year of war*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3 (f)	416.6 (f)	449.7	1,095.3 (f)	900.2	195.1 (f)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 20.1
Third year of war*** 1942	1,235.6	904.8	330.8	1,361.5	21.8	5.5	1,334.2	+125.9	18.5	-	18.5	4.4	-	4.4	- 14.1
Sept. 3 - Sept. 30	56.1	37.1	19.0	81.6	-	0.5	81.1	+ 25.5	10.1	-	10.1	0.4	-	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	19.3	59.5	-	-	57.5	+ 10.8	-	-	-	0.3	-	0.3	+ 0.3
Oct. 29 - Dec. 2	39.7	23.2	16.5	77.3	-	-	77.3	+ 37.6	0.1	-	0.1	0.3	-	0.3	+ 0.2
Dec. 3 - Dec. 30															
WEEK ENDED:															
Nov. 18	12.8	6.0	6.8	21.0	-	-	21.0	+ 8.2	0.1	-	0.1	-	-	-	- 0.1
25	8.4	7.4	1.0	23.3	-	-	23.3	+ 14.9	-	-	-	-	-	-	-
Dec. 2	8.4	4.3	4.1	20.4	-	-	20.4	+ 12.0	-	-	-	-	-	-	-
9	7.2	2.7	4.5	13.7	-	-	13.7 (g)	+ 6.5	-	-	-	-	-	-	-

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 33.1 million

*For monthly breakdown see tabulations prior to April 23, 1941

**For monthly breakdown see tabulations prior to October 8, 1941.

***For monthly breakdown see tabulations prior to October 14, 1942.

(See attached sheet for other footnotes)

Transfers from British Purchasing Commission to
Bank of Canada for French Account

Week ended December 9, 1942 \$ -
Cumulative from July 6, 1940 \$ 162.7

million
million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Includes payments for account of French Air Commission and French Purchasing Commission.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) Includes \$3.8 million deposited by British Ministry of Supply
2.9 million to be held for credit of U. S. armed forces abroad
3.0 million proceeds of Australian wool purchased by Defense Supplies Corp.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended December 9, 1942

Strictly
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) Dr \$ Funds	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Funds
First year of war - War period through December, 1940	323.0	16.6	306.4	504.7	412.7	20.9	28.7	32.4	+ 181.7	31.2	3.9	27.3	26.1	30.0	6.1	+ 4.9
Second year of war - 1941	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Third year of war - 1942	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	43.7	-	43.7	65.2	11.0	-	-	54.2	+ 21.5	7.4	5.0	2.4	9.3	-	9.3	+ 1.9
Dec. 3 - Dec. 30																
WEEK ENDED:																
Nov. 18	3.6	-	3.6	14.7	2.8	-	-	11.9	+ 11.1	0.5	-	0.5	0.4	-	0.4	- 0.1
25	12.3	-	12.3	16.4	2.6	-	-	13.8	+ 4.1	0.3	-	0.3	5.5	-	5.5	+ 5.2
Dec. 2	15.3	-	15.3	14.3	2.8	-	-	11.5	- 1.0	5.5	5.0	0.5	2.1	-	2.1	- 3.4
9	11.0(b)	-	11.0	15.1(b)	2.8	-	-	12.3(c)	+ 4.1	0.5	-	0.5	8.3	-	8.3(d)	+ 7.8

Weekly Average of Total Debits Since Outbreak of War

Through December 9, 1942 \$ 8.5 million

For monthly breakdown see tabulations prior to April 23, 1941.

For monthly breakdown see tabulations prior to October 8, 1941.

For monthly breakdown see tabulations prior to October 14, 1942.

(a) Reflects changes in all dollar holdings payable on demand or maturing in one year.

(b) Does not reflect transactions in U. S. Treasury bills.

(c) Includes \$7.8 million deposited by War Supplies, Ltd.

(d) Includes \$8.0 million held for credit of U. S. armed forces abroad.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statement No. 64 - Aircraft Despatched
- for week ended December 15, 1942.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D. C.

December 19, 1942.

STATEMENT NO. 64AIRCRAFT DESPATCHED FROM THE UNITED STATESWEEK ENDED DECEMBER 15, 1942

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DEL'D FOR USE IN CA</u>
<u>Boeing</u>					
Fortress II	U.K.	Canada en route		2	
<u>Consolidated</u>					
Catalina IB	U.K.	Bermuda en route		13	
<u>Douglas</u>					
Boston IIIA	U.K.	Canada en route		4	
<u>Curtiss</u>					
Kittyhawk	Middle East	Port Sudan		14	
<u>Grumman</u>					
Martlet	U.K.	U.K.		10	
<u>Lockheed</u>					
Hudson VI	West Africa	Freetown		5	
Ventura	S. Africa	S. Africa		2	
<u>Glenn Martin</u>					
Baltimore IIIA	Middle East	Middle East		12	
<u>North America</u>					
Harvard II	New Zealand	Wellington		8	
<u>Vultee</u>					
Vengeance	India	Bombay		20	
<u>TOTAL</u>			52	38	

Movement Division
British Air Commission
December 19th, 1942.

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRET
U.S. SECRETCOPY NO. 13OPTEL NO. 438

Information received up to 7 A.M. 19th Dec.

1. NAVAL

One of H.M. destroyers was torpedoed and sunk west of Oran yesterday. Six officers including the Captain and 167 Ratings were rescued. Another of H.M. submarines sank a Southbound ship and possibly a second in Central Med. on 14th.

2. MILITARY

Libya. Advanced U.K. light armoured elements reached Nofilia Area night 16th and were joined there by a brigade of N.Z. Division morning 17th. These units engaged enemy in this area during afternoon and evening when our advanced forces were ten miles West of Nofilia but enemy units in Nofilia and vicinity were still under fire from our troops and appeared to be withdrawing Westwards. Damage and casualties inflicted on enemy in this area and some prisoners taken. Considerable enemy M.T. movement Westwards between Sirte and Buerat.

3. AIR OPERATIONS

Western Front. 18th. 11 enemy aircraft operated over Coastal Districts in Kent and Sussex. One was destroyed by our fighters one of which is missing. At Eastbourne bombs were dropped in the shopping centre. Twenty persons were killed and ten are missing. A Whitley engaged on air Sea-rescue 200 miles West of St. Nazaire was attacked by enemy aircraft. The Whitley damaged two J U 88's and later destroyed one F W 190, a second F W 190 being shot down by a destroyer.

Tunisia. 17th. U.S. bombers attacked Tunis. Bostons bombed an airfield near Tunis, 17th/18th.

Malta. Wellingtons dropped 22 tons of bombs on Tunis and La Goulette. Large fires were started at a fuel storage depot and hits were seen in the docks.

Sicily. 17th/18th. Beaufighters destroyed two J U 52's taking off from Castelvetro and made several hits on seaplanes at Marsala.

Med. 18th. 4 Italian transport S M 82's probably carrying troops, were intercepted in the Sicilian Channel. One was destroyed. The other three were severely damaged by Beaufighters one of which is missing.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 439

Information received up to 7 A.M., 20th December, 1942.

1. NAVAL

It is reported that a Russian Warship has sunk an enemy 8,000 ton transport in the BLACK SEA.

ATTACKS ON SHIPPING. During the week 12th to 18th 13 ships were reported to have been torpedoed - a British tanker (still afloat), a Norwegian tanker, a British and a Belgian ship in convoy in North-Western Approaches, one British and one Dutch ship in the West Atlantic, one British ship (which later arrived in port) in the Azores area; a British ship and a Norwegian tanker in the Indian Ocean, and a British and a Norwegian ship in the South Atlantic. Two other British ships are presumed sunk by submarines, probably in the South Atlantic. In addition, one Norwegian was sunk and 3 British ships were damaged by human torpedoes in ALGIERS Bay, and a French ship was sunk by aircraft near BOUGIE. One British ship, torpedoed in November, has reached port. One United States, 1 Russian, 1 Eirean and 6 British ships previously reported overdue are now presumed lost.

2. MILITARY

LIBYA. Early on 18th NOFILLIA was finally cleared of the enemy. His troops continued to withdraw along the coastal road throughout the day and by afternoon were west of SULTAN. 2nd New Zealand Division continued their advance and by evening were about 25 miles east of SULTAN.

RUSSIA. In the Middle Don area, Russian troops have launched an offensive and occupied the towns of NOYX, NOVAYA, KALITVAAY, KANTEMIOVKA and BOGUHA and the district centers of TALLY, RADCHENSKOE and VOKOVSKAYA. Southwest of STALIN-GRAD, the increased German thrust may have made progress.

BURMA. Our troops have advanced to a point on the KALAPANZIN River 10 $\frac{1}{2}$ miles south of BUTHIDAUNG. They are not repeat not in touch with the Japanese who have withdrawn towards AKYAB.

3. AIR OPERATIONS

WESTERN FRONT. 19th. 6 enemy aircraft crossed the south coast. enemy casualties 3, 1, 2. 19th. 15 aircraft were sent sea mining.

TUNISIA. 17th GABES and SIDI TABET airfield (northwest of TUNIS) were each attacked by 12 United States Bostons at night. 3 Bisleys were destroyed on the ground at CARROBERT.

18th/19th. Wellingtons dropped 20 tons of bombs on the docks at TUNIS and LA GOULETTE with good effect. United States Liberators from LIBYA attacked SOUSSE Harbour starting a large fire.

MALTA. 18th. At about 10 p.m. 40 Junkers 88 made low-level bombing attacks in bright moonlight upon our airfield. One was shot down. At LUQA, 7 Wellingtons were destroyed on the ground and 4 aircraft damaged.

MEDITERRANEAN. 19th. Malta Fighters shot down 5 enemy transport aircraft. One Fighter missing.

TRIPOLITANIA. 18th. Fighter-bombers attacked enemy mechanical transport in the SULTAN area with good results.

Regraded Unclassified

December 21, 1942
9:30 a.m.

GROUP

Present: Mr. Bell
Mr. Buffington
Mr. Odegard
Mr. Sullivan
Mr. Kuhn
Mr. Thompson
Mr. Schwarz
Mr. Blough
Mr. Haas
Mr. Cairns
Mr. Paul
Mr. White

H.M.JR: Norman?

MR. THOMPSON: It might be of interest to know that our staff of administrative men in the field gathering in equipment, have picked up seven thousand four hundred and six pieces - typewriters, adding machines, file cases, and so on.

H.M.JR: Pillow cases? (Laughter)

MR. THOMPSON: File cases. They have a value of two hundred and sixty-nine thousand dollars, turning practically all of it over to the Public Debt and Internal Revenue.

H.M.JR: This is just Treasury?

MR. THOMPSON: Just Treasury. We are surveying all of our field activities to get the maximum use and pick up all surplus equipment.

H.M.JR: Well, speaking on that, the other day the President was going around talking about extra

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Government people. He first said - we were talking about freezing the people in their jobs, and manpower, and so forth - "And then to take Justice, for instance, with Immigration - they have nothing to do, of course." And the Attorney General fell for the bait, and he made a passionate speech about what he was doing.

He said, "Look at Customs."

I said, "I am not going to answer you." The fact was, I didn't know.

He said, "The people used to come in; they would rush down to the docks and examine their baggage - and now what are they doing?"

MR. BELL: Port work, aren't they?

MR. THOMPSON: Yes - the exports. The exports are pretty near taking up as much--

H.M.JR: Does anybody go through Customs, people like that in the various bureaus, to see--

MR. THOMPSON: Yes, they are being checked all the time.

H.M.JR: Whom by?

MR. THOMPSON: Our people are checking all their equipment, and so on.

H.M.JR: When you take the equipment, what about the people who work?

MR. THOMPSON: Mr. Gaston has his people going through and checking.

H.M.JR: Does anybody sort of - as an outsider, so to speak, so somebody doesn't do it to us - catch us?

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MR. THOMPSON: No, we haven't done that recently - kept a close check on that.

H.M.JR: Any Bureau of Efficiency people left who are working, Dan?

MR. THOMPSON: Harold Graves is the only one left around here. But we have some very good men being trained and brought into that.

H.M.JR: All right. Supposing you make a couple of people responsible directly to me and let them start just as soon as possible. Will you do that?

MR. THOMPSON: Yes, sir.

We also have some major space moves in the field in connection with Internal Revenue. The plan will be to move out of Federal buildings the Revenue offices where there isn't sufficient space in the building to expand. Where there is space available by moving out other activities, we will do that. In Boston we are moving the Collector out of the Federal Building into other space; but that is being worked out. We have had meetings with Public Buildings and the Post Office and Internal Revenue. It is going along nicely.

H.M.JR: I still think there should be somebody go through before somebody else does it for us.

MR. THOMPSON: We are going to have to go through the whole Department in our budget operations in fighting the cut because of this salary raise.

H.M.JR: That was the whole - what the President wanted to do was to give them the salary raise and then lay off enough personnel so there would not be any increase in the pay roll. He had the memorandum from the Bureau of the Budget asking for - saying every department should lay off enough people so there would be no increase in the pay roll.

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I said, "That is impossible." Nobody said a word.

I said, "What you should do is hold each head of the department responsible. In some places he can do it; in some he can't. If the head of the department isn't any good, you ought to let him go. But to make an all-out ruling like that is just unfair."

MR. THOMPSON: It is unfair, and goes too far. If we have a forty-eight hour week we will have a twenty-one percent increase.

H.M.JR: I said, "Why don't you start with the Bureau of the Budget; find out what they can do." (Laughter)

(The Secretary held a telephone conversation with Senator Walter George.)

H.M.JR: I think it is worth the effort.

MR. SULLIVAN: You bet.

H.M.JR: Don't anybody breathe this. I think it is worth the effort. I was amazed that the President said he would let me show it to him. We have never done that before.

MR. SULLIVAN: He almost didn't let us see it last year.

H.M.JR: I think it is the right thing to do.

MR. SULLIVAN: I think this is a lot better than if he were up on the Hill and you were going up there. It means more.

MR. ODEGARD: I will say it means more.

H.M.JR: I was amazed that the President said O.K. He said he thought it would be fine.

Roy? Don't you think Roy looks a little airsick?
(Laughter)

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MR. BLOUGH: No, I am thinking of a little agenda I hope you take up with him. I think you ought to go into a good many things he has in his mind, as well as you have on your mind.

H.M.JR: You would go along with us.

MR. BELL: You got yourself into it there. (Laughter)

H.M.JR: At least I could learn my homework on the way down.

MR. BLOUGH: That is what you meant by "airsick" - you know that-- (Laughter)

H.M.JR: We don't tell on each other, do we?(Laughter)

MR. THOMPSON: That is all I have.

MR. BELL: We have had a number of letters from bankers objecting to the advertising that the Farm Credit agencies put out to get loans from them - from the farmers into these credit agencies. Now, it comes from Chester Davis, Federal Reserve Bank, St. Louis. He says that Hemingway is receiving a lot of complaints - and particularly this program that Wickard now is starting - the Food for Freedom. He has put out some sort of a booklet or pamphlet, and in that he says that the Farm Credit and Farm Security are sources of local credit. They have said nothing about the bank credit, and apparently the whole West - the banking areas - are pretty much up in arms. They say they are cooperating with you in your program, and wondered if you wanted to say something to Wickard about it. That is a telegram that came in Saturday from Chester Davis.

H.M.JR: Let me have it. (Telegram handed to the Secretary by Mr. Bell.)

MR. BELL: We have had a number of letters on that and merely referred them to Governor Black, coming from Kansas and Missouri, particularly.

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H.M.JR: I will take care of it.

MR. BELL: The Bank of Morocco asked us to reproduce their Moroccan franc notes. We could not do it; neither could the American Banknote Company. We suggested a new type of currency, and said if they wanted to do that we would give them all the help we could. We suggested they designate somebody in the United States to talk to us about it. They have designated a gentleman by the name of Maurice Boyer, whom we don't like very well, but I guess we will have to talk to him.

H.M.JR: Who is Maurice Boyer?

MR. BELL: I have got several memoranda on him. He is a representative of a bank in Paris and also represents some interests in North Africa. Foreign Funds has quite a bit on him. I don't think that we can do much other than guide the negotiations. The Bureau of Engraving and Printing would take months to reproduce these notes. I think the American Banknote Company really ought to do it.

H.M.JR: Well, I would not fool around with it. If they want it - I mean, if they want new stuff, I would give it to them.

MR. BELL: It would have to be new stuff; we couldn't reproduce the old.

(Mr. Paul entered the conference.)

H.M.JR: Don't let this thing sort of hang fire.

MR. BELL: No, no. I just got this this morning.

Here is a letter that a gentleman wrote me from Minneapolis on the sale of farms, and so forth, in the territory. I don't know whether you would like to have it - it is a manpower problem, rather interesting. (Letter from the Northwest Bancorporation, Minneapolis, dated December 15, handed to the Secretary by Mr. Bell.)

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H.M.JR: Harry?

MR. WHITE: You asked me to inform Phillips about the correction statement.

I did not do so yet because I wanted to raise the question whether it is desirable to do so. I don't think he would like that correction. I think he would prefer to let the matter stand as is.

I think that merely raising the subject with him will merely stir up a hornet's nest. So, if it is all right with you, let's let it ride.

H.M.JR: O.K.

MR. WHITE: You have here a letter from Hull with regard to the financial assistance of the Greek Government.

Bell has seen the Greek minister, and what I suggest is that we prepare a letter raising some further questions as to their financial assistance and then you probably call a meeting, because it states here that the President has decided that some arrangement must be made by which the Greek Government can be kept going.

It is our view they can be kept going without additional assistance, but rather than take that position, draft a letter which will raise further questions.

MR. BELL: Keep 'em rolling. (Laughter)

H.M.JR: O.K.

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H.M.JR: Should you be here today?

MR. SCHWARZ: The doctor said it was all right - that the cold weather would keep down the fever. (Laughter)

H.M.JR: Have you a fever now?

MR. SCHWARZ: No. The New York papers are late on the train, but the plane looks pretty good.

(The Secretary held a telephone conversation with Mr. Doughton.)

MR. PAUL: Is George still down there?

H.M.JR: Yes.

MR. PAUL: He was supposed to be back.

H.M.JR: You told me that he would be back this morning.

MR. PAUL: I said that because he was to be back in two weeks.

H.M.JR: Anyway, I thought it would be good ball. I got the President's enthusiastic approval to discuss this thing with them.

I want to clean up my work by Wednesday noon, if possible, so I think you and this intrepid flyer, Roy Blough - I wish you had seen the color of Roy's complexion when he heard the wind was blowing strong down there in Georgia. I don't know from what direction, over what manure pile. (Laughter)

MR. PAUL: When do you want to leave?

H.M.JR: Right after lunch.

This isn't premeditated, because I was amazed that the President - I have been worrying about this thing, the

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difference between the Treasury and other agencies, and different things, on the theory that we can make progress fastest by getting together "firstest," and the President liked it. So my thought was that if we get the weather report we would leave right after lunch, and you, Roy, and I could talk about it all the way down there.

MR. PAUL: All right, assuming we are able to talk. (Laughter)

H.M.JR: Now, listen, I just want this to be understood. I am now calling for volunteers. Nobody has to go. (Laughter)

MR. PAUL: I didn't say that I didn't want to go.

H.M.JR: Have you had your coffee this morning?

MR. PAUL: I am just replying to your observation about our talking all the way down.

H.M.JR: Have you had your coffee this morning?

MR. PAUL: I have had some.

H.M.JR: Great enthusiasm around here, isn't there? (Laughter)

MR. SCHWARZ: That is all. The New York papers should be here in about half an hour.

H.M.JR: I gave several suggestions yesterday--

MR. SCHWARZ: He checked with me this morning.

H.M.JR:.. about getting this stuff overseas.

MR. SCHWARZ: OWI has sent that out, and Army and Navy.

H.M.JR: Do you know the fellow he mentioned who was in charge of the overseas office in OWI?

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MR. SCHWARZ: Plummer is on the domestic desk; George McMillan, I believe, is on the overseas. I will call him further, but he did send it out.

H.M.JR: Don't call him unnecessarily.

MR. SCHWARZ: I talked with the Army people who take care--

H.M.JR: But the point is, I ought not to have to do this. I sit home and I think about it; nobody thinks about this stuff for me.

MR. SCHWARZ: We reminded them that sometimes it is a special--

H.M.JR: Look, Chick, nothing is done, but in the future let's do something. This was a good story for our Allies and our armed forces, but nobody made any effort to see that it went out.

MR. SCHWARZ: We sent out to the labor press and asked them for help.

H.M.JR: Nobody is sitting back and seeing what is good for overseas that the Treasury does. Nobody has done a damned thing about it.

MR. SCHWARZ: We sent a number of stories to them that they have sent out.

H.M.JR: Here was a particular story, this financial story, that should have gone over. In the future I am sure you will.

MR. SCHWARZ: We will check it.

MR. HAAS: I have nothing.

H.M.JR: I am right, nobody has made a particular effort to get this overseas.

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MR. KUHN: I only know of that one, your Winston-Salem speech, and they were very glad to get that.

H.M.JR: Which I had to ask to be done by the Treasury. Here is another one which should go over.

MR. SCHWARZ: We send them stuff, I would say, about four or five a week.

H.M.JR: Schaeffer said there had been no effort made.

MR. SCHWARZ: I have been sending a lot of it directly. I sent the Winston-Salem speech over.

H.M.JR: After I had asked for it.

MR. SCHWARZ: I believe before.

H.M.JR: Anyway, we always end up the same way, Chick. In the future, will you please do something about it.

MR. SCHWARZ: We will watch them early and often.

H.M.JR: You are not feeling well; I won't start anything.

George?

MR. HAAS: I have nothing, sir.

MR. BLOUGH: Nothing.

H.M.JR: Peter? Where are Harold Graves and Gamble?

MR. ODEGARD: They are on their way back from Chicago.

H.M.JR: When will they get back?

MR. ODEGARD: They should have been back this morning, but I assume the trains are late. They will be back some time this morning, God willing.

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H.M.JR: O.K.

MR. KUHN: I have nothing.

MR. CAIRNS: No^othing.

H.M.JR: If you stay behind a minute - I want to talk to you.

MR. PAUL: Shall I take up--

H.M.JR: No, I mean Huntington. I want to talk to Huntington.

What have you got, Randolph?

MR. PAUL: I have a letter that came to me from Senator Maybank about the twenty-five thousand limitation. I think it is really John's letter.

H.M.JR: I sent it in to Norman Thomps^on and said to find out who it was for.

MR. THOMPSON: It didn't come to me.

H.M.JR: I didn't know whether it went to Paul or Sullivan. Didn't I ask you?

MR. THOMPSON: No.

H.M.JR: Maybe I asked somebody in your office.

MR. PAUL: You asked me to speak to you about a chap named Ellis of the Peabody Coal Company. It is page two of something. I don't know what--

H.M.JR: What?

MR. PAUL: There is another thing you sent me about a Peabody up in Chicago. It is the second page of some sort of a report.

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H.M.JR: He is complaining about - he wanted to pay them war bonds as a bonus of some kind. Isn't that the one?

MR. PAUL: He is complaining that he didn't get proper attention in the Chicago office.

H.M.JR: Is that Sullivan?

MR. SULLIVAN: That is mine. (Second page of mail report handed to Mr. Sullivan by Mr. Paul; also letter from Senator Maybank to the Secretary, dated December 17, 1942.)

H.M.JR: But he wants to do something about Christmas or something. He said that they were understaffed there.

MR. SULLIVAN: The only office that we have had any criticism about is Chicago. I had three others like that. Before this came in I talked with the Commissioner about sending some extra people out there, and I am talking with him again this morning. The other offices are doing very well, but I have had three just like this on that same office.

MR. PAUL: One more thing I want to raise sometime is this matter of extending the time to file corporate returns.

MR. SULLIVAN: We are very strong for that, Mr. Secretary.

H.M.JR: That doesn't have to be - when do you have to let the corporations know? It is the 15th of March, isn't it? Let's postpone that.

MR. SULLIVAN: There isn't anything pressing about it; but along the line of helping business with all they are up against, it is very important that we be realistic about that this year.

H.M.JR: Take it up with me early next week, will you?

MR. SULLIVAN: Yes, sir.

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MR. PAUL: I have an answer to Senator George which we can discuss, I imagine, on the plane.

H.M.JR: Yes.

MR. BUFFINGTON: This is a colored cartoon from the "Tribune." (Cartoon from the "Chicago Tribune" handed to the Secretary.)

H.M.JR: They have been very good, amazingly good.

MR. BUFFINGTON: The Chicago Fed has asked if there would be any objection to writing them a letter in view of their cooperation. They have apparently done a good deal during this Victory Fund Drive.

H.M.JR: Let the Chicago Fed write them a letter.

MR. BUFFINGTON: That is all.

MR. SULLIVAN: If you get to discussing the Victory Tax with Senator George, I think you ought to be brought up to date on the attack the southern churches are making on that.

The General Association of Kentucky Baptists have published this statement, that the Victory Tax Bill must be altered or else we face almost certainly the spectacle of seeing Baptists go to jail in America for their religious beliefs. (Laughter)

The vice president of the Baptist General Convention of Texas says: "It is the first time in the history of America that the churches have been invaded. The provision of the bill is a clear violation of the separation of the church and state and the Bill of Rights. Furthermore it opens our churches to bureaucratic control. This gives the federal government the right to check church finances."

H.M.JR: Don't give it to me; give it to one of my assistants who are going down with me. (Paper entitled "Religious News Dispatches" handed to Mr. Paul.)

MR. PAUL: We have had a lot of this, all because they have to collect the tax on the ministers' salaries at the source.

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MR. SULLIVAN: I have got to do some work in Brooklyn, New York, and I think I will get up there this noon and do it today and tomorrow. As long as you are going to be away, this is as good a time as any.

H.M.JR: Are you going to be here?

MR. BELL: Yes, sir.

H.M.JR: When do we meet, Paul and all of you - are you fellows ready, or aren't you ready?

MR. PAUL: We were to meet at ten, I thought.

H.M.JR: I also understood--

MR. BELL: We were to meet at nine this morning, but everybody was held up.

H.M.JR: Why don't you meet in Bell's office now and give me a breathing spell?

MR. BELL: We have a draft, but it hasn't been gone over. We went over it Saturday afternoon.

H.M.JR: All right, we will meet pretty soon.

December 21, 1942
9:41 a.m.

HMJr: Hello.

Operator: Senator George.

HMJr: Hello.

Senator George: Hello.

HMJr: Henry Morgenthau.

G: Yes, Henry. How are you, sir?

HMJr: Fine. We're kind of freezing up here. It's about zero.

G: Well, it's pretty cold here.

HMJr: Good. Walter, I spoke to the President last night and asked him whether it would be -- can you hear me all right?

G: Yes, I can hear you.

HMJr: I am seeing him Wednesday morning with our suggestions for his Budget Message as it affects taxation, and I asked him whether it would be agreeable to him whether I would see you and Bob Doughton before I saw - submitted my suggestions. Hello?

G: Hello.

HMJr: And the President said he'd be delighted if I would.

G: Good.

HMJr: Now you know I'm starting out this time feeling that if we could sort of come to some kind of agreement beforehand we might save three to four months on the Hill.

G: Yes.

HMJr: Now I know you're down there because I spoke to your secretary, but I could get a plane and come down because I think it's so important I'd like to go over it with you.

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G: What time do you - have you got to submit it, Henry?

HMJr: I have to submit it to him at 9:30 Wednesday morning.

G: This coming Wednesday?

HMJr: Yes, sir.

G: Well, we haven't a field here. I would have to meet you in Atlanta.

HMJr: At Atlanta.

G: Yes.

HMJr: There's nothing at - there's nothing at Macon?

G: Yes, they have a field at Macon.

HMJr: But is it - is it lit up at night?

G: I am not so sure about that.

HMJr: No - would - Atlanta would be the best then, wouldn't it?

G: Yes, I think it would.

HMJr: Well, now, Walter, if - as I say I lay great stress on this to get your ideas because I think it's going to save a lot of headaches and heartaches if I could get your ideas beforehand.

G: Well, I'll be very glad to meet you in Atlanta.

HMJr: Yes. Could you - if I could get away after lunch today, could you do it tonight?

G: Yes, I - I think I can leave here on an afternoon train....

HMJr: Yes.

G:and be in Atlanta tonight, yes.

HMJr: Well, now where would we meet?

G: Well, what time will you get into Atlanta?

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HMJr: Oh, I could get there around six or seven o'clock.

G: Well, I would suggest that either - any one of the hotels.

HMJr: Yes.

G: I usually stop at the Henry Grady Hotel.

HMJr: The Henry what?

G: Henry Grady.

HMJr: Clady?

G: Grady - G-r-a-d-y.

HMJr: Henry Grady.

G: Yes.

HMJr: I see.

G: It's conveniently located.

HMJr: Yes. Well, shall we - a little - or does it - supposing when I find out more about the weather, what would be a good time - what time would you have to know?

G: I would have to know by noontime.

HMJr: By noon?

G: Yes.

HMJr: Is that - by twelve o'clock?

G: Yes.

HMJr: Well, I could call you back between now and noon.

G: All right.

HMJr: I - I'll know then definitely about the - how is the weather down there now?

G: It's cold and windy, very windy.

HMJr: Is the sun shining?

G: Yes, sun is shining but it's very windy.

HMJr: Well, it is - but you've got the sun out?

G: Oh, yes.

HMJr: Well, that's all we need.

G: Yes.

HMJr: I'd bring Paul down with me.

G: Well, supposing you call me.

HMJr: Yes.

G: Now I could come up tomorrow just as well.
I can - I'd like - I think I could go this
afternoon.

HMJr: Hello?

G: Hello.

HMJr: You mean you could go this afternoon?

G: Yes, I think my train would get in there about
seven-thirty.

HMJr: I see. Well, we could....

G: I think by seven-thirty this afternoon.

HMJr: Yeah, we could spend the evening together.

G: Yes.

HMJr: Well, that would be fine. I'll call you between
now and noon.

G: All right.

HMJr: Thank you.

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G: All right.

HMJr: Thank you.

December 21, 1942
9:52 a.m.

HMJr: Hello.

Robert
Doughton: All right, Henry.

HMJr: How are you, Bob?

D: Oh, fine, thank you. How are you?

HMJr: I'm never better.

D: Well....

HMJr: Bob, I have to submit to the President -- this is very, very confidential now, what I'm saying - hello?

D: I understand.

HMJr: Wednesday morning at nine-thirty we're submitting to him our suggestions about how to handle the tax situation for next year in his Budget Message.

D: Yeah.

HMJr: And I got his hearty approval of discussing it with you and Walter George before I saw him.

D: Well....

HMJr: Now I was trying to get you earlier. I suppose you were frozen up the way everybody....

D: I'd like to have not got here at all, because I had to come down on a street car, and I - never got started, and I got - I'd like to have never gotten here.

HMJr: Now I located Walter George in his home....

D: Well....

HMJr:and if I'm going to see him, I'm going to have to go down there tonight to see him.

D: Well....

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HMJr: But I'd like very much to see you.

D: Well, where do you want to see me?

HMJr: Well....

D: I'm at your command and ready any time.

HMJr: Well, here's my - here's my situation. My trouble is I didn't know - somebody told me that George was going to be here this morning, and he misspoke himself, so I now find that he isn't and I'm going to have to go down there so I'll have to rear.. - and if I go at noon, I wondered if I could see you tomorrow.

D: Yes, sir.

HMJr: Well....

D: If I'm living you can.

HMJr: If you're living - well, you'll be living.

D: Well, I'm hoping so.

HMJr: I'll guarantee that.

D: Yes.

HMJr: Now do you want - this will take a couple of hours. Do you want to start at lunch time and then work through tomorrow afternoon, something like that?

D: Whatever suits you better.

HMJr: All right.

D: Just after lunch, there's a lot of bother about - were you coming up or do you want me to come down?

HMJr: Well, I want to do it where we won't be seen.

D: Just whatever suits you better, Henry. Your time is more precious than mine right now. I've - I'm in no special rush.

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HMJr: Well, if I go down to Atlanta, I think I could be back here by one o'clock tomorrow if everything went well.

D: Yeah.

HMJr: So if you didn't mind maybe we could have lunch together and then work on it right straight through the afternoon until we got together.

D: Well, if that suits you better, I'll just - it'll suit me.

HMJr: Well, then supposing....

D: Why don't you - why don't you just leave off the lunch, and when I get down just....

HMJr: No, no, no.

D: Well, all right. Well, we won't argue.

HMJr: I want to give you victuals.

D: Well, all right.

HMJr: And supposing....

D: I don't know whether I'm worth my feed or not.

HMJr: I think you're worth a lot.

D: (Laughs) Well....

HMJr: So let's leave it this way, and - and my office will be in touch with yours in case there's any - I don't get here on time or anything, you see?

D: You just have them call me, and let me know again....

HMJr: Yeah, and we'll leave - supposing we leave it tentatively for one o'clock tomorrow?

D: One o'clock and then they can call me and let me know for certain, or if I don't hear shall I be down there....

- 4 -

HMJr: Yes.

D:or shall I wait to hear from them?

HMJr: They'll - they'll let you know. But in the meantime, I'm going to try to go down to Atlanta and back.

D: All right, I hope you have a nice, safe trip. I know you enjoy your....

HMJr: You don't want to take a ride, do you?

D: No, I don't think so.

HMJr: What?

D: I know you'll enjoy - oh yeah, I wouldn't mind it - but I hope you'll enjoy your trip with - visit with Senator George. I expect I'd better stay here and work.

HMJr: All right, well, I didn't want you to feel hurt now.

D: What?

HMJr: I don't - I didn't want you not - if you want a ride, you know.

D: Oh, I'd like to ride with you always, but....

HMJr: No, I'm just joking.

D: Yeah.

HMJr: All right, Bob.

D: Well, I'll wait until I can get further orders and I'll be right ready.

HMJr: Thank you.

D: Thank you. Goodbye.

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Original of this is in President's
folder because of last paragraph.

December 21, 1942

At twenty minutes of seven Sunday night I called up Roy Blough and told him I would like him to put down as Plan A of the Tax Program: a very stiff withholding tax, rationing on all scarce articles, increase the personal incomes and corporate tax and social security tax, and nothing on the compulsory lending or saving. Did he think that that would do the job? He said, "Yes, it would." He asked me how much did I think the volunteer plan could do? Was it good for \$12 billion? I said I certainly thought that it was. Then I asked him to write me a letter to the President whereby I would point out the defects in the present plan of the so-called \$25,000 limit, and recommend that we limit personal income, both in salaries and invested capital, to a progressive income tax. Roy Blough said that he believed in that himself and would be very glad to do it.

I personally believe that if we could get enough money to close the gap and control inflation without borrowing more money from the people through compulsory saving and can get it through the volunteer plan, that it's an important part of the morale situation on the home front. I don't know how the plan would set with Congress, but I wish I could find out, and I now have a telephone call in for the President to see whether he would let me talk to Walter George and Doughton and try out the plan on them before I see him next Wednesday.

I talked to the President at five minutes to seven and said that I'd like to consult with George and Doughton and lay the problem before them. Should we have a diagnosis of the problem or should we diagnose it and make recommendations? He said he'd be delighted to have me talk to them. I'm delighted and it puts me in a much stronger position when I see him and also a stronger position in relation to the other agencies. I told him that we knew what the Jimmy Byrnes' crowd wanted and what the Budget crowd wanted and what the G.I.O. crowd wanted, and he said, "Well, how are things between all of you? Are they quiet?" And I said, "Yes, all relations are very friendly," and that seemed to please him. I said had he heard anything about the war? He said, "No, I haven't heard anything in two days and was hoping to hear something soon." He sounded in a very good humor.

December 21, 1942

Items for Discussion

1. Magnitude of 1943 revenue legislation.
2. Timing: Whether to do something at once on a few items or to wait for a tax bill of the regular kind.
3. Collection-at-source: Whether to attempt to start the high rates about April 1; the "Ruml plan."
4. Compulsory lending: Whether necessary; magnitude; protection against transfer of savings; amalgamation with Victory tax.
5. Spendings tax: Whether desirable; magnitudes.
6. Income tax rates and exemptions.
7. Social Security expansion and extension.
8. Corporate taxes.
9. Sales taxes.
10. Other taxes: Estate and gift; excise.

11. Victory Tax?



TREASURY DEPARTMENT
WASHINGTON

December 21, 1942

To: Secretary Morgenthau
From: Randolph Paul

I think the President's budget message should contain a specific figure (I think \$20 billion - perhaps more) and that as a base therefor we should have on the inside a plan showing the composition of this figure.

Irrespective of whether it contains a definite figure, I also think that the budget message should come out for forced lending or saving and against a sales tax. Perhaps it should advocate the spending tax. Probably, also, it should come out against loopholes and for the \$25,000 substantial limit.

One more thought is that I think the figures should go into the President's message with reference to the gap, especially since Jones' new national income figure is \$125 billion.

I assume that the subject of social security will be taken care of somewhere in the message.

A handwritten signature in dark ink, appearing to be "RP" or similar initials, written in a cursive style.

December 21, 1942
11:20 a.m.

TAXES

Present: Mr. Bell
Mr. Paul
Mr. Haas
Mr. Blough
Mrs. Klotz

H.M.JR: Go ahead.

(Copy of Budget Message, dated December 21, 1942,
handed to the Secretary by Mr. Blough.)

H.M.JR: Which statement is this?

MR. BLOUGH: This is the one we have been working
on since the middle of last week, which we keep down
to the policy--

H.M.JR: This is the diagnosis without any opera-
tion. (Laughter)

MR. BLOUGH: There is a little operation at the end
but not much.

MR. PAUL: There are no figures stated and no
particular scheme stated.

H.M.JR: Just make a note here, I would like to
make, somewhere in this thing, the statement that we
believe there should be rationing for all goods of
which there are shortages or impending shortages.

MR. BELL: Didn't we have that in?

MR. PAUL: The only reason for not putting that
in is we all agree--

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H.M.JR: I would like to put it in if it is not going over in somebody else's back yard. I would like to add, "There should be rationing of goods for which there are scarcities or shortages, or impending shortages."

MR. BLOUGH: On page three it says, "We must extend rationing." We could say, "We must extend rationing to all scarcities."

MR. PAUL: Or "impending"--

H.M.JR: "--for which there are shortages. I don't care. Think it over - whichever word you prefer.

MR. PAUL: Morris Ernst just got back from England. He went over on the paper shortage and he talked about everything, but what he particularly talked about, that interested me, was that with the rationing over there they don't have any trouble at all; the people all cooperate.

H.M.JR: Who sent him over there?

MR. PAUL: I think a magazine sent him over, but he was going over in full cooperation with Nelson's office. In fact, he is down there this morning.

MR. BELL: We have in, on page three, "We have rationed some essential, scarce goods to assure everyone a necessary minimum and to help protect price ceilings. ... We must extend rationing." We must extend rationing of the same kind, I suppose you mean.

H.M.JR: You have what I have in mind.

MR. PAUL: The thought that not only those that are scarce, but those that are likely to become scarce.

H.M.JR: That is right.

MR. BELL: I think scarce goods - it is kind of complicated.

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H.M.JR: Of course, "scarce" - I don't like the word - didn't I use the word "shortage"?

MR. BLOUGH: It is just a matter of reconstructing the sentence. There is no scarcity of sugar; there is plenty of sugar. We are short of it in a sense.

MR. PAUL: That is the whole inflation problem. There won't be any scarcity if you distribute it properly.

H.M.JR: I don't agree with you on that. There are not enough shoes. It isn't bad distribution of shoes; there just won't be enough shoes. Anyway, I think we all mean the same thing.

MR. PAUL: There are two refinements there.

H.M.JR: I would like to come out and say that we should, as promptly as possible, ration the things of which there are not enough to go around and the things on which there are impending shortages.

MR. PAUL: I think you can defend that as being in your back yard on the ground that the two things are tied so closely together.

H.M.JR: I am going so overboard on this thing that it doesn't make any difference anyway.

MR. HAAS: You previously said that before the Ways and Means Committee.

H.M.JR: That is right. You say, "We must extend rationing." You say, "These measures are interrelated." We are all right.

MR. BELL: We haven't said it in the way you indicated. It is not strong; it is in there, but kind of covered up.

MR. HAAS: Of course, this is broader than the other; you may want to leave it broad.

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H.M.JR: No.

MR. BELL: It might go to all goods instead of just scarce goods. It leaves it open.

H.M.JR: If you don't mind, on top of page four I would put "--the encouragement of maximum war production" first.

MR. PAUL: That was George's point. We left it that way partly on the theory that putting that at the end was a little more climactic.

H.M.JR: They keep telling me that, people do, but it doesn't affect me that way. I like the first thing first.

I think this is a damned good statement from my standpoint.

MR. PAUL: I think it is fine as far as it goes. Of course, I still think that - I drew up a little statement of what I thought - I think we ought to mention the figure.

MR. BLOUGH: We do mention the figure here.

MR. PAUL: I am a little afraid of that; there are so many variations.

MR. BELL: You ought to be afraid of the other, then, Randolph.

Jones came out with a hundred and thirty-five billion dollar national income this morning, which makes your gap ten billion dollars larger.

MR. PAUL: That is what came out Sunday afternoon.

H.M.JR: Go ahead.

(Mrs. Klotz entered the conference.)

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MR. PAUL: I just think we ought to make our decision on compulsory. My feeling is that we ought to make our decision about the forced lending or forced saving. We ought to come out against loopholes. I am not very strong for it, but I think the President will want to come out for substantially a twenty-five thousand limitation.

H.M.JR: We had that thing in about loopholes, didn't we?

MR. BLOUGH: It is in here - not in detail.

MR. PAUL: I don't think we ought to do it in detail. Then I agree on that point.

H.M.JR: What was your first point?

MR. PAUL: I think we have to decide on compulsory.

MR. BELL: "--special privileges and loopholes should be eliminated."

MR. PAUL: All right. I forgot we left that in. The principal point is the forced lending. I think we ought to decide it. I don't know whether we should advocate a spendings tax. I think we should come out against a sales tax.

H.M.JR: Are you finished?

MR. PAUL: I am simply not sure about the spendings tax.

H.M.JR: What I have done is - what has happened - I will go over it once more. I have been thinking very hard on all of this stuff and I realize that there is a difference - certainly Paul and myself - as to how far we should go and I also realize that Paul, more or less, now reflects a lot of these other people around here who are pretty much in agreement.

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MR. PAUL: I think I am in agreement with Roy and Harry White; I am not sure about George.

H.M.JR: Well, I am talking to you as head of the Tax Division. I am not singling you out. Therefore, what I always try to do is to be fair, and I have never given myself the luxury of having any ideas or hobbies - any success I have had, I have always eliminated any personal hobbies which I try to ride, like War Bonds or anything else. So what I am trying to do is to say, knowing how you felt, along with the other people - I got permission from the President to talk to George and Doughton, and therefore when we see them tonight - we are flying to Atlanta after lunch today - I am going to give you ample opportunity to state the whole case. I want to give him this and simply say, "How much further do you think we can go?"

MR. PAUL: Yes, I see.

MR. BELL: Give him this as a minimum that the President can say in his message?

H.M.JR: As a minimum; now, "How much more?"

"If I was working entirely alone without any advice, I would do this. My advisors are not in agreement with me." Therefore, I want to see how much more George and Doughton - they may say, "All right, we will go along with this; we will take one, two, three, and find out." We may have to tell the President that George and Doughton agree on this as a minimum and that George will take so much more; Doughton will take so much more.

MR. PAUL: George and Doughton won't be in agreement.

MR. BLOUGH: Moreover, if I may say, there is the question of how much should be in the message and how much should be in agreement behind the message, and giving meaning to the message even though it is not put into the message.

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H.M.JR: What do you mean by that, Roy?

MR. BLOUGH: The President might say just what you have said here, but sometime the Administration is going to have to decide on how far it is going to ask Congress to go. It seems to me we might just as well get that settled as nearly as possible before the message goes up, so even if it should not be put in the message, they will have agreed.

H.M.JR: I agree, but what you are saying is impossible. I will tell you why. I am going to try to get as much - I am not flying down to Atlanta because I like Atlanta, but Doughton told me he has got to get six new Democratic members on his Ways and Means; and Doughton isn't going to commit himself until he has his committee behind him. Let's be practical. He is simply going to say, "All right, Henry, I think you are right, but until I have organized my committee, I can't tell you."

MR. PAUL: My feeling about this goes to the basic point. It doesn't go to the question of whether it should be a Budget Message. But I do think that we have to have a pretty definite administration program before we can even say half the cost to the Government.

H.M.JR: Look, you fellows are all idealists, and I love you for it. Even fairies and pixies and all the rest of that-- (Laughter)

MR. PAUL: I won't accept that designation of idealism.

H.M.JR: All right. Well, anyway - now, if we could get out of this and simply say that they finance this war and pay half of it out of taxes, wonderful, but you don't know. And the thing that bothers me is - all right, give up the voluntary War Bond program of whatever it is, because we are going to get twice as much gross from the forced savings, then we deduct the difference and we are so much ahead, which you don't know.

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Now, if you could get any kind of a commitment that you would get these in increased taxes, and a very strong - did Roy give you the Morgenthau plan yesterday?

MR. BLOUGH: This morning I gave it to him. I didn't call him last night.

MR. BELL: In reading this do you get out of it that we have got to go fifty percent of the expenditure in taxes?

H.M.JR: Yes.

MR. BELL: That isn't what it means.

MR. PAUL: We used the word "levies."

MR. BLOUGH: The last paragraph is something of a weasel paragraph. I don't like to use that word.

H.M.JR: You are slipping from your idealism.(Laughter)

MR. BLOUGH: I was just about to bring it to your attention, Mr. Secretary. He beat me to it.

MR. HAAS: It means "all one" or "a combination."

MR. PAUL: It leaves the door open. The word "levy" is a weasel word.

MR. BELL: It is hard to say, but I am afraid most people will interpret it just like the Secretary did, and that would be unfortunate, I think.

MR. BLOUGH: I think that is quite true. They will interpret it as taxes.

H.M.JR: As what?

MR. BLOUGH: They will interpret it as taxes - half in taxes.

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H.M.JR: Why "unfortunate"?

MR. BLOUGH: It wouldn't be unfortunate if we can get it. It would be unfortunate if we closed the door to their giving it to us in anything else.

MR. BELL: I think what you will have to do is - the minute you go before Congress they will say you are advocating fifty percent in taxes. Then we will be up against the question whether you want to say, "No, we didn't say that; we said 'levies'" and levies may mean enforced savings of one kind or another plus taxes - or, taxes plus enforced savings, I should say.

MR. PAUL: Even the word "levies" doesn't cover it because if you had compulsory savings, that would not, in a sense, be a levy as would compulsory lending.

H.M.JR: The point is this, gentlemen, I want to get the President to say as much as he can. I don't want him to say something which is immediately going to get Doughton's back up and he is going to begin to fight us from the minute the Budget Message is said.

Let me give you this to cheer you up.

MR. PAUL: Cheer me up? (Laughter)

H.M.JR: Don't you need cheering up?

MR. PAUL: I can always take it.

H.M.JR: This is the way I feel. I would much rather have the President say the minimum and then fight inch by inch after the thing, than have him go overboard and say everything we want, and have them fight us and begin to lop the thing off. I think that is the fundamental difference between you and me on this thing.

MR. PAUL: No, I don't think we have too much difference there.

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MR. BELL: No, I don't think so, either.

MR. PAUL: Our basic difference is on compulsory lending.

MR. BELL: You have now come around, I think, if I understand you correctly, that you don't care whether compulsory lending is specifically mentioned in the Budget Message. What you would like to get is agreement with everybody around town on a program of some kind.

MR. PAUL: That is right.

MR. BELL: So I think this is the right approach to the Budget Message, myself.

H.M.JR: You do?

MR. BELL: Yes.

MR. PAUL: I think it is going to be misunderstood. It is going to be regarded as fifty percent taxes.

H.M.JR: You can clear that up.

MR. BELL: You have to work on that paragraph.

MR. BLOUGH: (Reading) "The amount and kinds of taxes Congress adopts will have a bearing on other fiscal measures it will need to take. Whatever the type of action, time is of the essence. New measures should be passed and put into operation promptly. Within the next few months we should be collecting from current levies one-half of the cost of the Federal Government."

MR. BELL: It puts Harold Smith a little in the hole because he can't complete his budget estimate.

MR. PAUL: I don't mind that.

MR. BELL: You would mind it if you were sitting in his chair.

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H.M.JR: Well, listen--

MR. BELL: I know how he feels. I have been there.

MR. BLOUGH: He wants a figure.

MR. BELL: I would, too.

MR. BLOUGH: They feel, if the President doesn't give the figure and split it up between taxes and compulsory savings, that he isn't taking that leadership that the country is entitled to.

H.M.JR: He has taken the leadership and where has it gotten him? What I want, gentlemen, is the difference here as between a frontal attack and a creeping attack, and I am recommending that we simply give a creeping attack; we do this thing inch by inch instead of going all out and having to retreat. It is what we have done every time. I have done this thing a dozen times. I have gone up there with a swell program and then steadily the Treasury forces withdraw. Now, this time I would like to--

MR. PAUL: You might say that steadily the administration forces withdrew from behind the Treasury.

Of course, in other respects you believe that the New Deal ought to be restored and we ought to--

H.M.JR: I believe?

MR. PAUL: You do, don't you?

H.M.JR: Yes.

MR. PAUL: I do, too. This is a part of that whole problem, to my mind. This is one of the vital fronts where we ought to attack and not defend.

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H.M.JR: I want to show them our strength. I would like the President of the United States to be not too far behind the front.

MR. PAUL: I see what you mean. That is what I like about his social security idea.

H.M.JR: You didn't have that in there.

MR. PAUL: We didn't put it in there because it was to be put in another part.

MR. BLOUGH: We can if you like, but there is a passage in the Budget Message on social security.

H.M.JR: I would like to put it in to make it perfectly clear how I stand on rationing. Is that recommending a plan, to do that?.

MR. BELL: You can put it in here, "The rates should be increased from top to bottom and special privileges and loopholes should be eliminated."

H.M.JR: I wish you would.

MR. BLOUGH: We can put it in - I don't know if that is the place, but we can put it in.

I think that if we are going to get any action in Congress, the emphasis will have to be, not on social security as a fiscal measure, but on social security as a social measure, with incidental fiscal benefits. Social security as a fiscal measure runs up against very strong hostility right at the beginning.

H.M.JR: All right.

MR. PAUL: I had dinner Friday night at the invitation of Mr. Louis Brown of the Johns Manville Company.

H.M.JR: You were going to meet the half a dozen men who run America.

MR. PAUL: Do you know who they are?

H.M.JR: I would love to know.

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MR. PAUL: Mr. Louis Brown was at the head of the table, at his right was Mr. Ross Magill and Mr. Alvord, and at his left were John Hanes and Mr. Cheever Cowdin. I had more fun than I have had in a long time. I had them disagreeing with each other.

H.M.JR: Wait a minute, Ross Magill, Alvord, Cheever Cowdin of the NAM--

MR. PAUL: And John Hanes.

H.M.JR: And John Hanes, well, I will be damned. Was it fun?

MR. PAUL: I had more fun. I mean I had them in complete disagreement and agreement in fifteen minutes, and they were arguing with each other instead of me. Cowdin wants sixty billion.

H.M.JR: Of what?

MR. PAUL: Taxes and savings. He wants a sales tax and he wants a flat twenty percent compulsory savings.

John is reconciled to higher corporate rates.

H.M.JR: Johnny Hanes?

MR. PAUL: Yes.

MR. BLOUGH: Is reconciled to them? I thought you said worried about them.

MR. PAUL: He wants to settle it.

Louis Brown said he would take a fifty percent rate if we had a debt relief provision.

Alvord doesn't think you will get much out of the sales tax.

Magill didn't say an awful lot. All of them disagreed with Cowdin's high figure of sixty billion.

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H.M.JR: I would love to get that in writing to myself and the President.

MR. PAUL: The only other subject discussed was the Ruml plan, or the modified Ruml plan.

H.M.JR: I would like to get that. *Doc 12/22*

MR. PAUL: They asked me to have lunch with them the 28th and spend the afternoon with them.

I will write it up for you.

MR.HAAS: Isn't Brown Morgan's man?

MR. PAUL: Yes, he is on the Morgan Board of Directors.

H.M.JR: He is his own man.

MR. PAUL: He has a front - one of these tax policy leagues, or something.

H.M.JR: Let me stop here, now, and I think this is all right. I would like to get - I have got to have this ready. You boys have got to be ready at two.

MR. PAUL: Leave here at two?

H.M.JR: Yes.

MR. BLOUGH: This will be ready.

MR. PAUL: I will write up a report on the plane on that other.

H.M.JR: Then we have got three hours to talk about the other thing going down. One thing, Dan - we are all right now, aren't we? One thing, Dan, I would like to ask your horse-back opinion - would you or wouldn't you seek publicity on this trip to Atlanta?

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MR. BELL: I would not. I don't know whether - if you can avoid it, I would not; but if you don't think you can avoid it - I think it is better to do so.

H.M.JR: Why? I would like to know your reasons.

MR. BELL: I think if it gets back to the Budget and to Byrnes that you are talking about the Budget Message or your tax program for the Budget Message - I think if it gets back to the Budget Bureau or to Byrnes that you are talking to these gentlemen about what is going on the Budget Message on taxes, it will create--

MR. PAUL: Take Byrnes down with you, and Smith.
(Laughter)

H.M.JR: The President took it perfectly for granted that I am proceeding on the right track. I think personally - no one has said so - I think it is awfully smart maneuvering that I have been doing.

MR. BELL: I think so, too.

H.M.JR: I mean this move with Doughton. I have been trying to think how I could flatter George by flying down there and everything like that - a great compliment to him.

MR. PAUL: He will probably get to the local papers that the Secretary flew down to see him.

H.M.JR: If he does, it is all right. Maybe you people don't agree with me.

MR. PAUL: I don't disagree at all.

H.M.JR: Doughton is just as sweet - anything I want, just tell him. He knows how busy I am. He says, "Tell me when you want me, Henry, and I will be there."

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MR. BLOUGH: It is too bad he couldn't go along.

H.M.JR: Don't you think this is good?

MR. PAUL: I think it is very good.

MR. BELL: Will publicity hurt him with his new committee?

H.M.JR: No, I was thinking with George, whether I should seek it or not. I guess - let nature take its course. But the thing that pleased me, when I talked to the President, "Fine, how are you getting along with all these people down in Washington?"

"Everything is fine. No trouble - no trouble."

He says, "That is what I like to hear."

In other words, I just think, up to the minute, we have just kind of out-maneuvered some of these fellows. I don't know how long it will last.

MR. PAUL: When is George coming back - did he say?

H.M.JR: Not until the 30th.

Don't you think, Dan - you have been around this town a long time - that you have to take the leadership? If you just sit here and scratch your head and say, "Jimmy Byrnes is doing this and that," the first thing you know he is.

MR. BELL: Yes, I think this is the thing to do. I would like to keep it out of the papers.

H.M.JR: All right.

Thank you all.

December 21, 1942

During the coming fiscal year we face two related fiscal problems, one on the budgetary front and one on the economic front.

On the budgetary front the fiscal problem is to supply the funds required to pay for the war. Tax legislation of the past three years, and particularly of 1942, has greatly increased revenues. But expenditures for war have increased vastly more. Taxes under existing law will raise less than one-third of the amount needed to pay for Federal expenditures in the fiscal year 1944. We should finance the war to a far greater extent by means of taxes. Taxes will be easier to pay during the wartime period of expanded money incomes than they are likely to be after the war.

On the economic front the fiscal problem is to pay for the war without further increases in prices and the costs of living, ~~which we call inflation~~. The people of the United States will have billions of dollars more income than they have had in the past, and there will be billions of dollars less goods to buy. More than half of our production is going directly to

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the war effort. Less than half is available for civilian use. Every effort will be made to keep the supply of civilian goods and services as large as is consistent with a maximum war effort and to make them available when and where they are needed most. There will be enough for health; there will be enough for efficiency; but there will not be enough goods available at present prices for the dollars people have to spend.

The excess dollars should be absorbed through taxes or increased saving. The spending of these dollars would have results which are alarmingly clear. Present shortages would be intensified and new shortages would appear. Prices and the cost of living would rise at an accelerating rate. A mad scramble for goods might ensue. Black markets would be difficult to prevent. Distribution of goods would be cruelly unfair. The war effort might be dangerously hampered.

The tragedy of inflation can be prevented; it must be prevented; and it will be prevented if we take the steps necessary to meet the danger.

We have already taken many vital steps. We have increased taxes and stimulated voluntary saving, thus withdrawing income from the spending stream. We have

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set price ceilings, thus at least temporarily putting the brakes on the spiral of rising prices. We have stabilized wages and salaries, thus restraining the rise of business costs and the increase in money incomes. We have placed limits on consumer credit and have brought about a great amount of debt repayment. We have rationed some essential, scarce goods to assure everyone a necessary minimum and to help protect price ceilings.

We must go further.

We must greatly increase taxes. We must greatly increase net savings. We must extend rationing. These measures are interrelated. Each increase in taxes and each increase in savings will lessen the upward pressure on prices and reduce the amount of rationing and other direct controls we shall need.

This twofold fiscal problem calls for action of wartime proportions. I have endeavored to make clear that higher taxes now are the best way to pay for the war and to do so without inflation. Certain broad principles should guide us in raising the additional revenue we need. These principles include the protection

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of a basic minimum standard of living, the fair and equitable distribution of the financial cost of the war, the prevention of excessive profits from the war effort, and the encouragement of maximum war production.

A revenue program in harmony with these principles will retain the individual income tax as the backbone of our revenue system. The rates should be increased from top to bottom and special privileges and loopholes should be eliminated.

We must adapt the income tax to war needs. We should collect as much as possible of the individual income tax currently out of incomes when they are paid. This will make the tax easier to bear; it will bring the money into the Treasury more quickly and more certainly; while at the same time it will remove the money from the spending stream before it can be used to bid up prices.

The amount and kinds of taxes Congress adopts will have a bearing on other fiscal measures it will need to take. Whatever the type of action, time is of the essence. New measures should be passed and put into operation promptly. Within the next few months we should be collecting from current levies one-half of the cost of the Federal Government.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE DEC 21 1942

TO Secretary Morgenthau
FROM Randolph Paul

We have made a thorough investigation of the constitutional and legal basis for the making of suggestions to Congress by the Secretary of the Treasury, in respect to tax legislation. I thought you might be interested in reading a copy of this memorandum. The summary of the conclusions begins on page 1.



MEMORANDUM

It has been requested that consideration be given to the question of the extent of the Secretary's power and authority to recommend revenue legislation to the Congress even though not requested to do so by the Congress or a committee thereof. The results of the legal research on the question may be summarized as follows:

Summary of Conclusions

It is concluded that the Secretary has authority to present to the Congress recommendations concerning revenue legislation without regard to the request of the Congress for such recommendations. While the proper view would appear to be that the Secretary has such authority of and by himself, it should be recognized that an argument can be made that such authority is limited by a requirement resulting from section 206 of the Budget and Accounting Act, 1921, that the President's approval be first obtained.

Article II, section 3, of the Constitution makes it the duty of the President to recommend to the Congress from time to time "such Measures as he shall judge necessary and expedient, * * *". In the light of the constitutional language, the duty of the President to recommend legislation may not be affected by statutory provisions. There appears to be no reason why the President cannot perform his constitutional duty by a direction to the Secretary of the Treasury as his agent to recommend revenue legislation approved by the President.

The following statutory provisions bearing upon the question were discovered:

First, sections 248 and 257 of the Revised Statutes of 1873, carried into U.S.C., title 5, as sections 242 and 262, outlining the powers and duties of the Secretary of the Treasury. Those sections were based on earlier statutes under the authority of which the Department of the Treasury was established and the duties of the Secretary defined. Section 248 provides, inter alia, that the Secretary "shall from time to time, digest and prepare plans for the improvement and management of the revenue, * * * " and "shall make report and give information to either branch of the legislature in person or in writing as may be required, respecting all matters referred to him by the Senate or House of Representatives, or which shall appertain to his office * * * ". Section 257 relates to the annual report required to be made to the Congress by the Secretary, and provides that the report shall contain estimates of the public revenue and public expenditures for the fiscal year then current, and plans for improving and increasing the revenues from time to time.

Second, sections 202 and 206 of the Budget and Accounting Act, 1921, incorporated in U.S.C., title 31, as sections 13 and 15. Section 202 prescribes that the President shall, when the estimated expenditures exceeds the estimates of receipts and of moneys in the Treasury, recommend new taxes, loans, or other appropriate action to meet

the estimated deficiency. Section 206 forbids all department officers or employees to submit to the Congress or any committee thereof any estimate or request for an appropriation, or any recommendation as to how the revenue needs should be met, unless at the request of either House of the Congress.

It is concluded that the Budget and Accounting Act does not have the effect of repealing the statutory provisions with respect to the powers and duties of the Secretary of the Treasury. That is, the earlier statutory provisions requiring the Secretary to make report and to give information on matters pertaining to his office and to devise revenue plans may be considered as a request within the meaning of section 206. In any event, section 206 cannot be construed as more than a requirement that the recommendations be transmitted through the President.

It should be recognized that the research conducted and the authorities cited with respect to the purely legal phases of the above-mentioned question go only to the point of recommendation of legislation and do not indicate any authority on the part of the Secretary, in the absence of a request from either House of the Congress, to appear in executive sessions of any of the committees of the Congress to advocate specific proposals or to argue on behalf of the adoption of particular policies to be incorporated in revenue legislation.^{1/}

^{1/} See, in that connection, Opinion of the Solicitor of the Treasury to the Secretary of the Treasury, dated June 23, 1914 (Fed. No. 8412) holding that the Secretary may appear before committees even though his appearance is not requested. The opinion is based on an assumption that a committee of the Congress would not refuse to hear the Secretary.

In a contemporaneous memorandum prepared by the Division of Tax Research dealing with the history of Treasury participation in revenue legislation, the entire activities of the Department of the Treasury with respect to such legislation, including advocacy of specific proposals and activities extra-legal in character, are considered.

I. Constitutional Provision

Article II, section 3, of the Constitution provides:

"He [the President] shall from time to time give to the Congress Information of the State of the Union, and recommend to their Consideration such Measures as he shall judge necessary and expedient; * * * "

As originally drafted, the provision read " * * * he may recommend * * * ", but

"On motion of Mr Gov^r Morris, 'he may' was struck out, & 'and' inserted before 'recommend' in the 2^d clause sect- 2^d art: X. in order to make it ['the duty of' stricken out] the duty of the President to recommend, & thence prevent umbrage or cavil at his doing it—"

(3 Documentary History of the Constitution of the United States (State Dept. 1900) 612; see also 1 Ibid. 153.)

The Congress has recognized the President's power and duty under this section with relation to the revenue. Thus, the Act of March 4, 1909, c. 299, sec. 7, 35 Stat. 1027, provided:^{2/}

^{2/} See also the legislative history of the Budget and Accounting Act, infra.

"Immediately upon the receipt of the regular annual estimates of appropriations needed for the various branches of the Government it shall be the duty of the Secretary of the Treasury to estimate as nearly as may be the revenues of the Government for the ensuing fiscal year, and if the estimates for appropriations, including the estimated amount necessary to meet all continuing and permanent appropriations, shall exceed the estimated revenues the Secretary of the Treasury shall transmit the estimates to Congress as heretofore required by law and at once transmit a detailed statement of all of said estimates to the President, to the end that he may, in giving Congress information of the state of the Union and in recommending to their consideration such measures as he may judge necessary, advise the Congress how in his judgment the estimated appropriations could with least injury to the public service be reduced so as to bring the appropriations within the estimated revenues, or, if such reduction be not in his judgment practicable without undue injury to the public service, that he may recommend to Congress such loans or new taxes as may be necessary to cover the deficiency." (Underlining supplied.)

Again, the Senate has, on the basis of the Constitutional provision, refused to receive any communications from executive officers unless transmitted to the Senate through the President except when authorized or required by law or a resolution. 8 Cannon's Precedents of the House of Representatives (1936) sec. 3353. That section is as follows:

"The Senate declines to receive communications from any executive department except through the President unless in response to a resolution of the Senate or in accordance with law.

"On December 14, 1920² in the Senate, following the reading and approval of the Journal, the Vice President² announced:

"In order that the Senate may be informed as to certain action taken by the Vice President outside of the Senate I am making this statement. At the Sixtieth Congress the Senate passed the following resolution:

"Resolved, That no communication from heads of departments, commissioners, chief of bureaus or other executive officers, except when authorized or required by law, or when made in response to a resolution of the Senate, will be received by the Senate, unless such communication shall be transmitted to the Senate by the President.'

"The present occupant of the chair has held that the Senate passed that resolution in conformity to the clause of the Constitution of the United States which provides that among other duties of the President—

"He shall from time to time give to the Congress information of the state of the Union and recommend to their consideration such measures as he shall judge necessary and expedient.'

"Certain solicitors of various departments of the Government have disagreed with the Vice President to the extent of saying that the resolution adopted in the Sixtieth Congress only applied to the Sixtieth Congress. Various departments and bureaus are constantly sending to the Vice President recommendations as to what the Congress should or should not do, without submitting the same to the President of the United States. I am holding that they have no right to do that, regardless of a resolution of the Senate of the United States; that the legislation of the United States of America originates in either the Senate or the House, and that recommendations with reference to such legislation must come either from or through the President of the United States.

"I call attention to it so that if Senators think the Chair is in error, the Chair may be corrected

and hereafter hand these communications down, I have been sending them back."

W/ Third session Sixty-sixth Congress, Record, p. 308.

W/ Thomas R. Marshall, of Indiana, Vice President."

Finally, Mr. Justice Story, in his Commentaries on the Constitution of the United States (3rd Ed. 1856) analyzed the reason for the provision as follows (p. 418):

"* * * There is great wisdom, therefore, in not merely allowing, but in requiring the president to lay before congress all facts and information which may assist their deliberations; and in enabling him at once to point out the evil and to suggest the remedy. He is thus justly made responsible, not merely for a due administration of the existing systems, but for due diligence and examination into the means of improving them."

Since the quoted provision of the Constitution imposes a duty upon the President, it is clear that no action of the Congress can either relieve him of that duty or prevent him from exercising it.

While it is true that traditionally the President has performed that duty, either by written messages delivered by one of his secretaries, or by oral messages, no reason is perceived why he may not, having first approved the proposals to be made by the Secretary of Treasury, send that official to deliver his message, or recommendation, for him. Of especial interest in that connection is the

statement in President Wilson's book, "Constitutional Government in the United States," that (p. 201) there is no reason to believe that the framers of the Constitution

"* * * meant actually to exclude the President and his advisers from all intimate personal consultation with the houses in session. No doubt the President and the members of his cabinet could with perfect legal propriety and without any breach of the spirit of the Constitution attend the sessions of either the House or the Senate and take part in their discussions, at any rate to the extent of answering questions and explaining any measures which the President might see fit to urge in the messages which the Constitution explicitly authorizes him to send to Congress."

II. Statutory Provisions

The only statutes concerning the instant question^{3/} which have been found are sections 248 and 257 of the Revised Statutes of 1873 (U.S.C., 1940 ed., title 5, secs. 242, 262), and sections 202 and 206 of the Budget and Accounting Act, 1921 (Act of June 10, 1921, c. 18, secs. 202, 206, 42 Stat. 21 (U.S.C., 1940 ed., title 31, secs. 13, 15)).

Rev. Stat., sec. 248, provides, as it appears in the Code:

"The Secretary of the Treasury shall, from time to time, digest and prepare plans for the improvement and management of the revenue, and for the support of the public credit; shall superintend the collection of the revenue; shall, from time to time, prescribe

^{3/} Section 512 of the Revenue Act of 1942 (Act of October 21, 1942, c. 611, sec. 512, 56 Stat. ___) concerning the power of the Joint Committee on Internal Revenue Taxation to obtain data from the various departments is not pertinent.

the forms of keeping and rendering all public accounts and making returns; shall grant, under the limitations herein established, or to be provided, all warrants for moneys to be issued from the Treasury in pursuance of appropriations by law; shall make report and give information to either branch of the legislature in person or in writing, as may be required, respecting all matters referred to him by the Senate or House of Representatives, or which shall appertain to his office; and generally shall perform all such services relative to the finances as he shall be directed to perform." (Underscoring supplied.)

The legislative history^{1/} of the Act of September 2, 1789, c. 12, 1 Stat. 65, from which that section was ultimately derived, shows that as originally introduced the bill provided that the Secretary should "digest and report plans for the improvement and management of the revenues". Representative Page moved to strike out that provision on the ground that it would render the Secretary too powerful an officer and interfere with Congressional authority. The motion failed, but a substitute motion to change the word "report" to "prepare" was carried. However, the direction of the section that the Secretary "make report, and give information to either branch of the legislature, in person or in writing (as he may be required), respecting all matters referred to him by the Senate or House of Representatives, or which shall appertain to his office" was not amended.

That portion of the section has been construed as permitting the Secretary of the Treasury to recommend legislation to Congress even though his views have not been requested. 5 Hinds' Precedents

^{1/} See Appendix A.

of the House of Representatives (1907) sec. 6652.^{5/} That section is as follows:

"The Secretary of the Treasury may recommend legislation to Congress, even when his views have not been requested by either House. — On February 14, 1878,^{1/} the Speaker laid before the House a communication from the Secretary of the Treasury, stating that discussion as to a reduction of taxes on spirits and tobacco had resulted in a decrease of revenue, which might render necessary the imposition of further taxes by Congress.

"The communication having been read, Mr. Carter H. Harrison, of Chicago, made the point of order that the Secretary of the Treasury was not authorized to recommend legislation to Congress except when his views had been requested by either House, and that the said communication was not properly before the House.

"The Speaker^{2/} overruled the point of order on the ground that the Secretary was required, under section 248 of the Revised Statutes, to give information to either branch of Congress respecting matters which shall appertain to his office.^{3/}"

^{1/} Second session Forty-fifth Congress, Journal, pp. 435, 436; Record, p. 1033.

^{2/} Samuel J. Randall, of Pennsylvania, Speaker.

^{3/} The Secretary of the Treasury alone, of all the Cabinet officers, sends his annual report to the House directly. The other Cabinet officers transmit their

^{5/} See also telegram from Secretary Sherman to the House of Representatives Journal Clerk, dated February 14, 1878, stating:

"The practice has been to freely communicate to the House or the Committees of the House all information from this Department, whether called for or not, and usually direct to the appropriate Committee, but in matters of importance to the House itself. The precedents of both forms of communication are very numerous." (Letters Sent, Series "C," Vol. 7, p. 205)

reports as a part of the President's message, or rather with it. The law of 1789 puts the Secretary of the Treasury on a basis of especial prominence in regard to Congress."

Rev. Stat., sec. 257, provides in part, as it appears in the

Codes:

"The Secretary of the Treasury shall make the following annual reports to Congress:

"First. A report on the subject of finance, containing estimates of the public revenue and public expenditures for the fiscal year then current, and plans for improving and increasing the revenues from time to time, for the purpose of giving information to Congress in adopting modes of raising the money requisite to meet the public expenditures."^{6/}
(Underscoring supplied.)

Those statutes clearly require the Secretary to make recommendations concerning revenue measures as well as other matters pertaining to his office, unless they are limited, with respect to revenue

^{6/} The debate in the House on the bill which became the Act of May 10, 1800, c. 58, 2 Stat. 79 (from which the above section was ultimately derived) shows that:

"Mr. GALLATIN and Mr. NICHOLAS opposed the passing of the bill, on Constitutional principles. They observed, that as all money bills were to originate in the House of Representatives, the Senate had no right to propose any bill by which that provision was changed; nor could the Secretary of the Treasury, upon the same ground, propose anything that should originate any money bill. Heretofore, it had been usual, when information was wanting by the House, to call for it from that Department, and the same could be done again." (Annals, 6th Cong., 1st Sess., 709).

measures, by sections 202 and 206 of the Budget and Accounting Act, 1921, supra. Those latter sections provide, as they appear in the Code:

*Sec. 202. (a) If the estimated receipts for the ensuing fiscal year contained in the Budget, on the basis of laws existing at the time the Budget is transmitted, plus the estimated amounts in the Treasury at the close of the fiscal year in progress, available for expenditure in the ensuing fiscal year are less than the estimated expenditures for the ensuing fiscal year contained in the Budget, the President in the Budget shall make recommendations to Congress for new taxes, loans, or other appropriate action to meet the estimated deficiency.

(b) If the aggregate of such estimated receipts and such estimated amounts in the Treasury is greater than such estimated expenditures for the ensuing fiscal year, he shall make such recommendations as in his opinion the public interests require.

Sec. 206. No estimate or request for an appropriation and no request for an increase in an item of any such estimate or request, and no recommendation as to how the revenue needs of the Government should be met, shall be submitted to Congress or any committee thereof by any officer or employee of any department or establishment, unless at the request of either House of Congress.

It is not believed that those sections worked a repeal of the requirements of sections 248 and 257 of the Revised Statutes. All those statutes are codified in the United States Code and are, therefore, prima facie the law. Act of May 29, 1928, c. 910, sec. 4, 45 Stat. 1007, as amended (U.S.C., 1940 ed., title 1, sec. 54(b)). The Budget and Accounting Act, 1921, contained no repealing provision; the provisions of section 206 are general, relating to recommendations as to revenue needs from officers or employees of all the departments and

establishments, whereas the earlier provisions of sections 248 and 257 of the Revised Statutes are specific, requiring the Secretary of the Treasury to make reports and recommendations concerning revenue matters to the Congress; and, as will be hereafter shown, the provisions of section 206 are not absolutely incompatible with the provisions of sections 248 and 257 of the Revised Statutes. In that situation the language of the Supreme Court in Washington v. Miller, (1914) 235 U.S. 422, is particularly pertinent. The Court was there considering the effect of the Act of April 28, 1904, c. 1824, 33 Stat. 573, which provided that "All the laws of Arkansas heretofore put in force in the Indian Territory are hereby continued and extended in their operation, so as to embrace all persons and estates in said Territory, whether Indian, freedmen, or otherwise, * * *" upon the Act of June 30, 1902, c. 1323, 32 Stat. 500, which provided that descent of Creek property should be in accordance with Arkansas law except that only citizens of the Creek Nation and their Creek descendants should inherit lands of the Creek Nation. The Court said (at p. 427):

"No repealing clause accompanied this provision, so the question is, did it repeal the provisos by implication. There is no doubt that, if taken literally, it would subject the Creek lands to the Arkansas law of descent and distribution without any qualification or restriction. But this would be only by reason of the generality of its terms, for it made no mention of that law or of those lands. In short, it was plainly a general statute and did not show that the attention of Congress was then particularly directed to the descent of the lands of the Creeks.

On the other hand, § 6 of the supplemental agreement and its two provisos dealt with that subject in specific and positive terms which made it certain that the Creeks and their lands were particularly in mind at the time. In these circumstances we think there was no implied repeal, and for these reasons: First, such repeals are not favored, and usually occur only where there is such an irreconcilable conflict between an earlier and a later statute that effect reasonably cannot be given to both (United States v. Healey, 160 U.S. 136, 146; United States v. Oresthouse, 166 U.S. 601, 605); second, where there are two statutes upon the same subject, the earlier being special and the later general, the presumption is, in the absence of an express repeal, or an absolute incompatibility, that the special is intended to remain in force as an exception to the general (Townsend v. Little, 109 U.S. 504, 512; Ex parte Crow Dog, *Id.* 556, 570; Rodgers v. United States, 185 U.S. 83, 87-89); and, third, there was in this instance no irreconcilable conflict or absolute incompatibility, for both statutes could be given reasonable operation if the presumption just named were recognized.

"No doubt there was a purpose to extend the operation of the Arkansas laws in various ways, but we think it was not intended that they should supersede or displace special statutory provisions enacted by Congress with particular regard for the Indians whose affairs were peculiarly within its control.* * *#7/

It would appear, then, that the earlier provisions of sections 248 and 257 of the Revised Statutes are not repealed by section 206

7/ See also, (a) Repeals by implication not favored: Posadas v. National City Bank, (1936) 296 U.S. 497; United States v. Jackson, (1938) 302 U.S. 629; (b) Special law not repealed by general law: Townsend v. Little, (1883) 109 U.S. 504; Rodgers v. United States, (1902) 185 U.S. 83; United States v. Nix, (1903) 189 U.S. 199; Ex parte United States, (1913) 226 U.S. 420; Baltimore National Bank v. State Tax Commission of Maryland, (1936) 297 U.S. 209.

of the Budget and Accounting Act unless there is an "absolute incompatibility" in their provisions. Such an incompatibility does not exist if the qualifying phrase of section 206, "unless at the request of either House of Congress" is read to include requests of the two Houses of Congress and the President acting together, for the provisions of sections 248 and 257 of the Revised Statutes constitute both a requirement and a request that the Secretary of the Treasury report revenue plans to the Congress. Nor would it appear improper so to read section 206, for the request of both Houses of Congress and the President acting together is certainly of as great force as the request of a single House.^{8/}

That such construction is proper is indicated by the fact that for eleven years (1922 to 1932 inclusive) after the passage of the Budget and Accounting Act, 1921, the Secretary's Annual Report contained recommendations relating to the revenue. Such administrative

^{8/} An indication that the Congress itself did not regard section 206 as incompatible with the earlier statutes is the fact that it took no action on the report made to it by the President pursuant to section 210 of the Budget and Accounting Act, 1921. That section provided:

"The Bureau shall prepare for the President a codification of all laws or parts of laws relating to the preparation and transmission to Congress of statements of receipts and expenditures of the Government and of estimates of appropriations. The President shall transmit the same to Congress on or before the first Monday in December, 1921, with a recommendation as to the changes which, in his opinion, should be made in such laws or parts of laws."

The report quoted verbatim sections 248 and 257 of the Revised Statutes (House Doc. No. 129, 67th Cong., 2d. Sess. 164)

practice is entitled to great weight in the construction of a statute.^{9/} Nor is the force of that practice weakened by reason of the fact that the Secretary's Reports from 1933 to date have not contained such recommendations, for that resulted from the fact that since that date they have been contained in the President's Budget Message or in separate messages of the President dealing with tax matters.

However, even assuming arguendo that the construction of sections 248 and 257 of Rev. Stat. and of section 206 of the Budget and Accounting Act, which is here set forth is incorrect, section 206 cannot be read as anything more than a limitation on the powers of the Secretary requiring him to obtain the President's approval of his recommendations before presenting them to Congress. The legislative history of the Budget and Accounting Act, 1921,^{10/} shows that the Congress recognized the constitutional duty of the President and sought

9/ United States v. Philbrick, (1887) 120 U.S. 52; Fenner v. McCannaughy, (1891) 140 U.S. 1; United States v. Jackson, (1930) 280 U.S. 183.

^{10/} H.R. 9783, 66th Cong., 1st Sess. was the original bill and references are to its legislative history. It was vetoed by President Wilson because of the provisions concerning removal of the Comptroller General. On the last day of the Second Session of the 66th Congress, H.R. 14441, identical with H.R. 9783 except for those provisions, was introduced but failed of passage. At the first session of the 67th Congress, the Bill S.1084, which finally became the Budget and Accounting Act, 1921, was introduced and passed. Its provisions in all respects here material were the same as those of H.R. 9783. The legislative history of S.1084 contains the following interesting, though not authoritative, passage:

"Mr. Montague. * * * I hope much from the successful accomplishment of this legislation, but have not the exuberant optimism that some Members seem to entertain as resulting from its enactment. Perhaps auxiliary and supplementary legislation may be necessary to perfect
(continued)

by the statutory provisions simply to center responsibility in the President for the appropriation estimates and revenue recommendations.^{11/} Thus, the reports on H.R. 9783 contain the following pertinent statements:

"A budget system thus contemplates that a document corresponding to the foregoing will annually be prepared by the Chief Executive; that this document will be submitted to the legislative branch, and that the latter will make use of it as a basis for all of its action looking toward the making of provision for the financing of the Government for the future. In a word, a budgetary system has as its prime characteristic that the Government in providing for its financial needs will have a definite financial and work program; that responsibility will rest upon the administrative branch for the formulation of this program in the first instance and upon the legislative branch for subjecting it to such revision as in its opinion is deemed desirable.

10/ (continued)

the plan. Time will decide this. In my own view I am happy to see that the Treasury Department has somewhat to do with this law. I think the budget system will only work in its maximum efficiency when the Secretary of the Treasury himself has a seat on the floor of this House and on the floor of the Senate to debate any matter in relation to the budget, and to answer any interrogatories that may be propounded by Members of the respective bodies. Long since I offered a bill to that effect. The Congress will with greatest difficulty avail itself of the benefits of the budget system, or control that system as it should do, unless the Secretary or his assistants cooperate on the floor of the House in the actual consideration of the measure. In course of time I predict such mutual consideration debate, and cooperation will come to pass." (1921) 61 Cong. Rec. 1858.

11/ The debates show that there was before the Congress the rule of the House of Commons providing that: "This House will receive no petition for any sum relating to the public service or proceed upon any motion for a grant or charge upon the public revenue * * * unless recommended by the Crown." (1919) 58 Cong. Rec. 7137. Apparently the Congressional purpose was to emulate that rule.

"If increased economy and efficiency in the expenditure of funds is to be secured, it is thus imperative that the evils should be attacked at their source. The only way by which this can be done is by placing definite responsibility upon some officer of the Government to receive the requests for funds as originally formulated by bureau and departmental chiefs and subjecting them to that scrutiny, revision, and correlation that has been described. In the National Government there can be no question but that the officer upon whom should be placed this responsibility is the President of the United States. He is the only officer who is superior to the heads of departments and independent establishments. He is the only officer of the administrative branch who is interested in the Government as a whole rather than in one particular part. He is the only administrative officer who is elected by the people and thus can be held politically responsible for his actions. Furthermore, as head of the administration it is to him that Congress and the people should look for a clear and definite statement of what provision in his opinion should be made for the revenue and expenditure needs of the Government. The requirement that the President shall prepare and submit to Congress annually upon its convening in regular session a budget will thus definitely locate upon him responsibility for the formulation and recommendation of a financial and work program for the year to ensue.

"If duplication, waste, extravagance, and inefficiency exist in any branch of the service, the President will be responsible for them if he includes in his budget an estimate for their continuance. The members of his Cabinet and their assistants would aid the President in preparing a budget for which his administration is willing to be charged. It substitutes teamwork in the executive departments for the unorganized work of each of the members of his Cabinet.

"The primary purpose of the bill that is submitted with this report is thus to insure the preparation and submission of such a program by the Chief Executive." (H.R. Rep. No. 362, 66th Cong., 1st Sess. 5.)

"The bill, if it become law, in no sense will impair either the authority or the responsibility of Congress. It presumes that the President, in conference with his Cabinet, will adopt a fiscal policy conformable to his general program; it presumes that there will be laid before the Cabinet the estimates of the revenues for the ensuing fiscal year, as well as preliminary and tentative estimates for expenditure by the several departments. The President, in conference with his Cabinet, must determine the sum of the budget—the total of expenditure to be proposed to Congress—as well as the sums proposed to be expended by the several executive departments of the Government. This will require at the same time decision whether recommendation shall be made to Congress to continue the existing sum of taxation, to reduce, or to increase it." (Underscoring supplied.) (Sen. Rep. No. 524, 66th Cong., 2d Sess. 4.)

"It provides in section 202 that the President shall recommend to Congress new taxes, loans, or other appropriate action to meet the deficiency, if the Budget shows a deficit, or, if it shows a surplus, he is required to make such recommendation as he believes the public interests required. This section is in lieu of corresponding matter contained in each bill but is more specific and definite than the corresponding matter in either of them.

* * *

"It provides in section 206 that no estimate or request for an appropriation and no request for an increase in any item of any such estimate or request, and no recommendation as to how the revenue needs of the Government should be met, shall be submitted to Congress or any committee thereof by any person in the executive branch of the Government except the President, unless upon the request of either House. This section is in lieu of a similar section in the House bill and a similar section in the Senate bill, except that the Senate bill provided that estimates of appropriations or recommendation for raising revenue could be submitted to Congress by any official or employee in the executive branch of the Government, upon request of any committee of either House having

jurisdiction over appropriations or revenues."
(Underscoring supplied.) (Conference Report, H.R.
Rep. No. 1044, 66th Cong., 2d Sess., 10, 11.)

Again, there are set forth in Appendix B hereto, colloquies between the various members of the House Committee and other members of the House, which support the conclusion that the only purpose of the quoted sections was to center responsibility in the President. It follows that the only effect, if any, of section 206 of the Budget and Accounting Act, 1921 on the previously existing authority of the Secretary of the Treasury was to require approval of the President of all revenue matters presented by the Secretary to the Congress. There is, therefore, no violation^{12/} of that section if the Secretary, at the direction, and as the agent of the President, presents recommendations to the Congress for revenue legislation.^{13/}

^{12/} Whether if the section is construed to prevent the President from making recommendations through Executive officers it would be constitutional, need not be discussed.

^{13/} The only contrary indication in the legislative history of H.R. 9783 is the following colloquy between Representative Elston and Representative Good (Chairman of the House Committee):

"Mr. ELSTON. Every executive officer is the mere agent of the Chief Executive, and this measure merely provides that every recommendation for expenditure should come from the Chief Executive and not through his agents. That is, you do not want his agents to do it, but the President himself?

"Mr. GOOD. Yes."

It is submitted, however, that Representative Good's answer indicates only that an executive officer could not present recommendations without first obtaining approval from the President on the theory that he was the President's alter ego. It does not necessarily imply that the President, having approved and adopted the recommendation, could not present it through an executive officer as his agent.

APPENDIX A

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June 25, 1793.]

War Department.

[H. OF R.]

DEPARTMENT OF WAR.

The House then went into a committee on the bill for establishing the Department of War. Mr. TOWNSEND in the chair.

Mr. BARBOUR proposed, with respect to the Secretary's being removable by the President, a similar amendment to that which had been obtained in the bill establishing the Department of Foreign Affairs.

Mr. SUMNER thought it unnecessary to load this bill with any words on that subject; he conceived the gentleman ought to be satisfied with having had the principle established in the other bill.

Mr. PANG was of the same opinion, but farther thought it argued a doubt, even in the mind of the majority, of the truth of their principles, and they wanted, by repetition, to force that upon the mind which was not impressed by right reason. The question on the amendment was taken without further debate, and agreed in the affirmative, twenty-four to twenty-two.

Some other small alterations being made, the committee rose, and reported the bill as amended, which being partly considered, the House adjourned.

THURSDAY, June 25.

Mr. WYNDROP presented the petition of Samuel Briggs, of Philadelphia, praying for the exclusive privilege of constructing and vending machines for making nails by mill-work. Ordered to lie on the table.

DEPARTMENT OF WAR.

The House resumed the consideration of the amendments reported by the Committee of the whole on the bill for establishing the War Department, which being agreed to, the bill was ordered to be engrossed.

A message from the Senate informed the House that they agree to the amendment proposed by this House to their amendment to the bill for laying a duty on goods, wares, and merchandise imported into the United States; and on their fourth and fifth amendments to the said bill; agree to the proposed conference on the subject-matter of the other amendments thereto, and have charged their managers to concur also on the said fourth and fifth amendments. The Senate likewise agree to the amendments proposed by this House to their first and second amendments to the bill imposing duties on tonnage; and also to the proposed conference on the subject-matter of the other amendments to the said bill.

TREASURY DEPARTMENT.

The House then resolved itself into a Committee of the whole on the bill for establishing the Treasury Department, Mr. TOWNSEND in the chair. The second clause being under consideration.

Mr. PANG objected to the words making it the duty of the Secretary to "digest and report

plans for the improvement and management of the revenue, and the support of the public credit;" observing that it might be well enough to enjoin upon him the duty of making out and preparing estimates; but to go any farther would be a dangerous innovation upon the constitutional privilege of this House; it would create an undue influence within these walls, because members might be led, by the deference commonly paid to men of abilities, who give an opinion in a case they have thoroughly studied, to support the minister's plan, even against their own judgment. Nor would the mischief stop here; it would establish a precedent which might be extended, until we admitted all the ministers of the Government on the floor, to explain and support the plans they have digested and reported: thus laying a foundation for an aristocracy or a detestable monarchy.

Mr. TUCKER.—The objection made by the gentleman near me is, undoubtedly, well founded. I think it proper to strike out all the words alluded to, because the following are sufficient to answer every valuable purpose, namely, "to prepare and report estimates of the public revenue and public expenditures." If we authorize him to prepare and report plans, it will create an interference of the executive with the legislative powers; it will abridge the particular privilege of this House for the constitution expressly declares, that all bills for raising revenue shall originate in the House of Representatives. How can the business originate in this House, if we have it reported to us by the Minister of Finance? All the information that can be required, may be called for, without adopting a clause that may undermine the authority of this House, and the security of the people. The constitution has pointed out the proper method of communication between the executive and legislative departments; it is made the duty of the President to give, from time to time, information to Congress of the state of the Union, and to recommend to their consideration such measures as he shall judge necessary and expedient. If revenue plans are to be prepared and reported in Congress, here is the proper person to do it; he is responsible to the people for what he recommends, and will be more cautious than any other person to whom a less degree of responsibility is attached. Under this clause, you give the Secretary of the Treasury a right to obtrude upon you plans, not only undigested, but even improper to be taken up.

I hope the House is not already weary of executing and sustaining the powers vested in them by the constitution; and yet it would argue that we thought ourselves less adequate to determine than any individual what burthens our constituents are equal to bear. This is not answering the high expectations that were formed of our exertions for the general good, or of our vigilance in guarding our own and the people's rights. In short, Mr. Chairman, I

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Treasury Department.

[JUNE 25, 1799.]

can never agree to have money bills originated and forced upon this House by a man destitute of legislative authority, while the constitution gives such power solely to the House of Representatives; for this reason, I cheerfully second the motion for striking out the words.

Mr. BENSOU.—If the proposed amendment prevail, the bill will be nearly nugatory. The most important service that can be rendered by a gentleman who is at the head of the Department of Finance, is that of digesting and reporting plans for the improvement of the revenue, and supporting public credit; and, for my part, I shall despair of ever seeing your revenue improved, or the national credit supported, unless the business is submitted into the hands of an able individual. I thought this subject was well understood, from the debate on the original motion. It was then insisted upon by an honorable gentleman, Mr. GERRY, who proposed the appointment of a Secretary of the Treasury, that his important duties ought to be "to consider of the means of improving the revenue, and introducing economy into the expenditures, and to recommend general systems of revenue." Now, what more than this is required by the clause?

For my part, I am at a loss to see how the privilege of the House is infringed. Can any of the Secretary's plans be called bills? Will they be reported in such a form even? But admitting they were, they do not become bills, unless they are sanctioned by the House; much less is the danger that they will pass into laws without full examination by both Houses and the President. From this view of the subject, so far is the clause from appearing dangerous, that I believe it discovers itself to be not only perfectly safe, but essentially necessary; and without it is retained, the great object of the bill will be defeated.

Mr. GOODRICH.—We certainly carry our dignity to the extreme, when we refuse to receive information from any but ourselves. It must be admitted, that the Secretary of the Treasury will, from the nature of his office, be better acquainted with the subject of improving the revenue, or curtailing expense, than any other person; if he is thus capable of affording useful information, shall we reckon it hazardous to receive it? For my part, when I want to attain a particular object, I never shut my ears against information likely to enable me to secure it.

Mr. FARR.—I can never consent to establish, by law, the interference of an executive officer in business of legislation; it may be well enough in an absolute monarchy, for a minister to come to a Parliament with his plans in his hands, and order them to be registered or enrolled; but this practice does not obtain even in a limited monarchy like Britain. The minister there, who introduces his plans, must be a member of the House of Commons. The man would be treated with indignation, who should attempt in that country to bring his schemes before Parliament in any other way. Now, why

we, in the free republic of the United States, should introduce such a novelty in legislation, I am at a loss to conceive. The constitution expressly delegates to us the business of the revenue; our constituents have confidence in us, because they suppose us acquainted with their circumstances; they expect, in consequence of this knowledge, we will not attempt to load them with injudicious or oppressive taxes; but they have no such security, if we are blindly to follow perhaps an unskillful minister. It does not answer me, Mr. Chairman, to say the House has a right of deliberating and deciding upon these plans, because we may be told, if you prune away this part or that part of the system, you destroy its efficiency. Therefore we must act with caution; we must either take or reject the whole; but if we reject the whole, sir, we are to depend upon ourselves for a substitute. How are we to form one? For my part, I should not despair, that the united wisdom of this House could procure one; but if we are to do this in the second instance, why cannot we attempt it in the first? I have no objection to our calling upon this or any other officer for information; but it is certainly improper to have him authorized by law to intrude upon us whatever he may think proper. I presume, sir, it is not supposed by the worthy gentleman from New York (Mr. BENSOU) that we shall be at a loss to conceive what information would be useful or proper for us to require, that we must have this officer to present us with what he chooses. When the President requires an opinion of him, the constitution demands him to give it; so under the law, let him send his opinion in here, when it is asked for. If any further power is given him, it will come to this at last: we, like the Parliament of Paris, shall meet to register what he dictates. Either these reports of the Secretary are to have weight, or they are not; if they are to have weight, the House acquires a foreign influence, which is altogether improper and impolitic; if they are to have no weight, we impose a useless duty upon the officer, and such as is no mark of our wisdom.

Mr. AMES hoped the subject might be treated with candor and liberality; he supposed the objections were made on those principles, and therefore required a serious answer. The worthy gentleman who first expressed his aversion to the clause seemed to be apprehensive that the power of reporting plans by the Secretary would be improper, because it appeared to him to interfere with the legislative duty of the House, which the House ought not to relinquish.

Whenever it is a question, Mr. Speaker, said he, whether this House ought, or ought not, to establish offices to exercise a part of the power of either branch of the Government, there are two points which I take into consideration, in order to lead my mind to a just decision; first, whether the proposed disposition is useful; and, second, whether it can be safely guarded from abuse. Now I take it, sir, that the House, by their order for bringing in a bill to establish the

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Treasury Department in this way, have determined the point of utility; or, have they erred in adopting that opinion, I will slightly make an inquiry. How does it tend to general utility? The Secretary is presumed to acquire the best knowledge of the subject of finance of any member of the community. Now, if this House is to act on the best knowledge of circumstances, it seems to follow logically, that the House must obtain evidence from that officer; the best way of doing this will be publicly from the officer himself, by making it his duty to furnish us with it. It will not be denied, sir, that this officer will be better acquainted with his business than other people can be. It lies within his department, to have a comprehensive view of the state of the public revenues and expenditures. He will, by his superintending power over the collection, be able to discover abuses, if any, in that department, and to form the most eligible plan to remedy or prevent the evil. From his information respecting money transactions, he may be able to point out the best mode for supporting the public credit; indeed, these seem to me to be the great objects of his appointment.

It is, perhaps, a misfortune incident to public assemblies, that from their nature they are more incompetent to a complete investigation of accounts than a few individuals; perhaps in a Government so extended, and replete with variety in its mode of expenditure as this, the subject may be more perplexing than in countries of smaller extent, and less variety of objects to guard. The science of accounts is at best but an abstruse and dry study; it is scarcely to be understood but by an unwearied assiduity for a long time; how then can a public body, elected annually, and in session for a few months, undertake the arduous task with a full prospect of success? If our plans are formed upon these incomplete investigations, we can expect little improvement; for I venture to say, that our knowledge will be far inferior to that of an individual, like the present officer. Hence I contend, sir, that the Secretary is a useful and invaluable part of the Government.

I would not have it understood that I am against an inquiry being made into this subject at every session of the Legislature. I think such a practice highly salutary, but I would not trust to a hasty, or perhaps injudicious examination of a business of this magnitude; on the contrary, I would take every precaution in ascertaining the foundation upon which our revenues are to stand.

If we consider the present situation of our finances, owing to a variety of causes, we shall no doubt perceive a great, although unavoidable confusion throughout the whole scene; it presents to the imagination a deep, dark, and dreary chaos; impossible to be reduced to order without the mind of the architect is clear and spacious, and his power commensurate to the occasion; he must not be the fitting creature of a day, he must have time given him competent for the successful exercise of his authority. It

is with an intention to let a little sunshine into the business that the present arrangement is proposed; I hope it may be successful, but I doubt the event. I am confident our funds are equal to the demand, if they are properly brought into operation; but a bad administration of the finances will prove our greatest evil.

But is our proposed arrangement safe? Are the guards sufficient to prevent abuse? I am perfectly satisfied it can be made so, and hope the united exertions of both Houses will effect it. How is the power complained of by the honorable gentlemen over the way (Mr. PEARSON and Mr. TUCKER) unsafe? We are told, the plans reported may have an undue influence. Upon what ground is this opinion formed? Do the gentlemen apprehend the facts will be maliciously stated? If so, I would ask, cannot they be detected? If facts are faithfully stated, and the deductions are fair, no doubt the plan will be patronized; and will gentlemen say that it ought not? I believe there is little danger of imposition, for a person in this situation would hardly run the risk of detection, in a room where detection might be easy by an examination of the books and vouchers, and his reputation be destroyed.

What improper influence could a plan proposed openly and officially have on the mind of any member, more than if the scheme and information were given privately at the Secretary's office?

Nor, Mr. Chairman, do I apprehend what the gentlemen say with respect to calling on the Secretary for information; it will be no matter of inattention or neglect, if he takes time to consider the questions you propound; but if you make it his duty to furnish you plans of information on the improvement of the revenue and support of public credit, and he neglect to perform it, his conduct or capacity is virtually impeached. This will be furnishing an annual check.

It has been complained of as a novelty, let me ask gentlemen, if it is not in the nature of a similar kind that the management of the finances of Britain is the envy of the world? It is true, the Chancellor of the Exchequer is a member of the House that has the sole right of originating money bills; but is that a reason we should not have the information which may be obtained from our officer, who possesses the means of acquiring equally important and useful knowledge? The nation, as well as the Government of Britain, holds a check over the Chancellor: if his budget contains false calculations, they are corrected; if he attempts to employ any or even unpopular measures, his administration becomes odious, and he is removed. Have we more reason to fear than they? Should we less responsibility or security in the management of the Treasury department? If we let us improve it, but not divide it of its most and most useful power. I hope the committee will release their apprehensions of the present motion.

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Mr. Livermore.—I shall vote for striking out the clause, because I conceive it essentially necessary so to do. The power of originating money bills within these walls, I look upon as a sacred deposit which we may neither violate nor divest ourselves of, although at first view it may appear of little importance who shall form a plan for the improvement of the revenue. Although every information tending to effect this great object may be gratefully received by this House, yet it behoves us to consider to what this clause may lead, and where it may terminate. Might it not, by construction, be said, that the Secretary of the Treasury has the sole right of digesting and reporting plans for the improvement of the revenue? This construction may appear a little extraordinary, but it is not more so than some constructions heretofore put upon other words; but however extraordinary it may be, it may take place, and I think the best way to avoid it, will be to leave out the words altogether. It is certainly improper that any person, not expressly entrusted by our constituents with the privilege of taking their money, should direct the quantum and the manner in which to take it.

But if there is not the danger I have mentioned, of giving power exclusively to this officer, I would ask gentlemen, and I submit it to their candor to say, whether it must not have a tendency to render the minds of the members indifferent on the subject, if the business is to be arranged and conducted by another, who, we are told, is better capable of understanding it than ourselves? Certainly, we shall hardly think it worth while to trouble our heads about the business. How far this will disappoint the object of our election, may be plainly seen. For my part, I think the power too great to be entrusted in any hands but those of the representatives of the people, where the constitution has deposited it, unless it be to a committee specially appointed by the House for that purpose.

Some allusions, Mr. Chairman, have been made with respect to the origin of this power. Gentlemen have intimated that it was copied from the powers vested in the First Lord of the Treasury. I am not of this opinion. I rather believe the committee, in searching for precedents, have turned to the former appointment of a Superintendent of Finance under the late Confederation, and, having discovered this enumerated among his powers, have copied it into the bill, not adverting to the different circumstances of the present and former Congress; for to them alone was not confined the power of originating revenue plans. Besides, it might be safe in them, because they possessed the legislative and executive power; they could abolish his plans and his office together, if they thought proper; but we are restrained by a Senate, and the negative of the President. We have no power over him, therefore we ought to be cautious of putting dangerous powers into his hands.

Mr. Sedwick.—If the principle prevails for

curtailing this part of the Secretary's duty, shall lose the advantages which the proposed system was intended to acquire. The improvement and management of the revenue is a subject that must be investigated by a man of abilities and indefatigable industry, if we mean to have our business advantageously done. Honorable gentlemen will for a moment consider the peculiar circumstances of this country. By means of information attainable by the individual members of this House, and compare this with the object they have to pursue, they will plainly perceive the necessity of calling to this aid the advantages resulting from an establishment like the one contemplated in the bill; they weigh these circumstances carefully, their objections, I trust, will vanish. Coming, Mr. Chairman, as we do, from different parts of the Union, from States where the objects of revenue are different, where the circumstances and views of the people are different, and in a great degree local, it appears to me that no one individual can be so fortunate as to possess the extensive knowledge attainable by this officer. A single circumstance induces me to draw the same conclusion. We shall find systems adopted to defeat the collection of the revenue, but it will be impossible for any of us to become so well acquainted with these machinations as to defeat their object; but from the advantageous position we gave the Secretary of the Treasury, and the multilarious objects of his attention, he may watch over and detect their plans; he will have a better capacity to propose a remedy than any member of the Legislature.

I do not apprehend any undue influence operating on the members of this House, because I am persuaded there will ever prevail an independent and indignant spirit within the walls of Congress, hostile to every venal attempt. Nor do I believe it possible to color, with a semblance of justice, either false or false measures against the public welfare; the wisdom of this House can never be thought so meanly of. I trust a majority will always be found wise and virtuous enough to resist being made the tools of a corrupt administration. It, therefore, with confidence, approve the object of the clause.

I will mention one other circumstance, of no inconsiderable force, in favor of the bill. Coming, as I said we do, from districts with different ideas, perhaps different objects to pursue much time will necessarily be consumed before a current is found in which the mind of the majority will run; and even then, gentlemen will not be certain they have procured all the information that could be obtained. It appears, therefore, to me, from the reason and nature of things, to be our duty, as wise legislators, to form such a reservoir for information as will supply us with what is necessary and useful at all times.

Mr. Brewster.—A proper jealousy for the liberty of the people is commendable in those who are appointed and sworn to be its faithful guardians; but when this spirit is carried so far

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of subjects and instead of leading us off to the purchase of iron, or to the application of iron, so far as the present measure from which we are to derive the interest and prosperity of the country. Are gentlemen apprehensive we will do worse? For my part, I have no objection to the penetration of the people than to dread any such measure.

I am contented whether this power is necessary to the Government. I take it to be so. They say they are willing to give the information because it may be serviceable, but do not choose to have it communicated in this way. If the Secretary of the Treasury is the proper person to give the information, I can see no other mode of obtaining it that would be so useful. Do gentlemen mean that he shall give it piecemeal, by way of question and answer? This will tend more to mislead than to inform us. If we would judge upon any subject, it would be better to have it in one clear and complete view, than to inspect it by detachments; we should lose the great whole in the minutiae, and, instead of a system, should present our institutions with a structure composed of discordant parts, counteracting and defeating the operation of each other's properties.

Make your officer responsible, and the presumption is, that plans and information are properly digested; but if he can secrete himself behind the curtain, he might create a noxious influence, and not be answerable for the information he gives. I conceive this great principle of responsibility to be essentially necessary to secure the public welfare; make it his duty to study the subject well, and put the means in his power; we can then draw from him all the information he has acquired, and apply it to its proper use. Without such an officer, our plans will be ineffectual and inconsistent. I have seen too much the want of a like officer in the State Legislatures, not to make me very desirous of adopting the present plan. It has been said, that the members coming from the different parts of the Union are the most proper persons to give information. I deny the principle. There are no persons in the Government to whom we could look with less propriety for information on this subject than to the members of this House. We are called from the pursuit of our different occupations, and come without the least preparation to bring forward a subject that requires a great degree of assiduous application to understand; add to this the locality of our ideas, which is too commonly the case, and we shall appear not very fit to answer the end of our appointment. Witness the difficulty and embarrassments with which we have hitherto been surrounded. If we had the subject digested and prepared, we should determine with ease on its fitness, its combination, and its principles,

and might supply omissions or defects without hazard; and this in half the time we could frame a system, if left to reduce the chaos into order.

Mr. HAYES rose to express his sentiments, as he did on every occasion, with diffidence in his own abilities; but he looked upon the clause as both wise and inconsistent with the constitution. He thought the gentleman last up proved too much by his arguments; he proved that the House of Representatives was, in fact, unnecessary and useless; that one person could be a better judge of the means to improve and manage the revenue, and support the national credit, than the whole body of Congress. This kind of doctrine, Mr. Chairman, is indelicate in a republic, and strikes at the root of all legislation founded upon the great democratic principle of representation. It is true, mistakes, and very injurious ones, have been made on the subject of finance by some State Legislatures; but I would rather submit to this evil, than, by my voice, establish tenets subversive of the liberties of my country.

Notwithstanding what I have said, I am clearly of opinion it is necessary and useful to take measures for obtaining other information than what members can acquire in their characters as citizens; therefore, I am in favor of the present bill; but I think these words too strong. If it was modified so as to oblige him to have his plans ready for this House when they are asked for, I should be satisfied; but to establish a legal right in an officer to obtrude his sentiments perpetually on this body, is disagreeable, and it is dangerous, inasmuch as the right is conveyed in words of doubtful import, and conveying powers exclusively vested by the constitution in this House.

One gentleman (Mr. ASKS) has said, that the Secretary would be responsible for the plans he introduces. Very true; but how are we to detect the omissions they contain? for, he says, we require more time and leisure to make the scrutiny than falls to our lot, so that it does not afford the degree of responsibility which his observations supposed.

Mr. GIBNEY expressed himself in favor of the subject of the clause; that was, to get all the information possible for the purpose of improving the revenue, because he thought this information would be much required, if he judged from the load of public debt, and the present inability of the people to contribute largely toward its reduction.

He could not help observing, however, the great degree of importance they were giving this, and the other executive officers. If the doctrine of having prime and great ministers of state was once well established, he did not doubt but we should soon see them distinguished by a green or red ribbon, or other insignia of court favor and patronage. He wished gentlemen were aware of what consequences these things lead to, that they might exert a greater degree of caution.

H. of R.]

Treasury Department.

[JUNE 25, 1799.]

The practice of Parliament in Britain is first to determine the sum they will grant, and then refer the subject to a Committee of Ways and Means: this might be a proper mode to be pursued in this House.

Do gentlemen, said he, consider the importance of the power they give the officer by the clause? Is it not part of our legislative authority? And does not the constitution expressly declare that the House solely shall exercise the power of originating revenue bills? Now, what is meant by reporting plans? It surely includes the idea of originating money bills, that is, a bill for improving the revenue, or, in other words, for bringing revenue into the treasury. For if he is to report plans, they ought to be reported in a proper form, and complete. This is giving an indirect voice in legislative business to an executive officer. If this be not the meaning of the clause, let gentlemen say what it, and to what extent it shall go; but if my construction is true, we are giving up the most essential privilege vested in us by the constitution. But what does this signify? The officer is responsible, and we are secure. This responsibility is made an argument in favor of every extension of power. I should be glad to understand the term. Gentlemen say the Secretary of the Treasury is responsible for the information he gives the House—in what manner does this responsibility act? Suppose he reports a plan for improving the revenue, by a tax which he thinks judicious, and one that will be agreeable to the people of the United States; but he happens to be deceived in his opinion, that his tax is excessive, and excites a popular clamor against the minister—what is the advantage of his responsibility? Nothing. Few men deserve punishment for the error of opinion; all that could be done would be to repeal the law, and be more cautious in future in depending implicitly on the judgment of a man who had led us into an impolitic measure. Suppose the revenue should fall short of his estimate, is he responsible for the balance? This will be carrying the idea further than any Government hitherto has done. What then is the officer to be responsible for, which should induce the House to vest in him such extraordinary powers?

It was well observed by the honorable gentleman over the way, (Mr. PAON,) that when his bill or plan is before the House, we must take or reject the whole; for if the individual members are so uninformed on the subject as they have been represented, it will be next to impossibility to prepare an alteration; we should be told it was his duty officially to present plans, and our duty officially to pass them; that he is better informed than any other man, nay, better than the collective wisdom of the country. But this argument goes further still, and it may be justly asked, what occasion is there for a session of Congress? It incumbers the nation with a heavy expense, without rendering it any service. For, if we can neither alter nor improve the Secretary's plans, we can only con-

sume our time to no avail. Under these circumstances, it will be patriotic to lay down our authority, and vest it in the great minister we have established.

Mr. LAWRENCE.—I do not see consequences so dangerous as some gentlemen seem to apprehend; nor did they appear to them. I believe, when the subject was last under consideration, I recollect, Mr. Chairman, that some difficulty was made about establishing this office, because it was feared we could not find men of sufficient abilities to fill it. The duties were then properly deemed of a high and important nature, and enumerated as those proposed in the bill. It was supposed by an honorable gentleman, that the powers here expressed might be lodged in a board, because an individual was incompetent to undertake the whole. But now we have the wonderful sagacity of discovering, that if an individual is appointed, he will have capacity to form plans for improving the revenue in such an advantageous manner, as to supersede the necessity of having the representatives of the people consulted on the business; he will not only perform the usual duties of a Treasury Board, but be adequate to all purposes of legislation. I appeal to the gentleman for his usual candor on this occasion, which will assure us that he has wire-drawn his arguments.

I hope, sir, if we give this power to an individual, we shall have judgment enough to discover whether his plans are consistent with the public happiness and prosperity; and while we exercise this judgment, there can be no cause to apprehend the chimerical effects portrayed by the gentleman last up.

It is said to be giving him the power of legislation. Do we give him the power of deciding what shall be law? While we retain this power, he may give us all the information possible, but can never be said to participate in legislative business; he has no control whatever over this House. I see no danger, but a great deal of benefit, arising from the clause; by making it his duty to study the subject, we may reasonably expect information.

How is it said, that the power of reporting plans for the improvement of the revenue, is the power of originating money bills? The constitution declares that power to be vested solely in this House. Now, will gentlemen say a money bill is originated by an individual member if he brings it forward? It cannot be originated, in my opinion, until the sense of the House is declared; much less can a plan for the improvement of the revenue be said to be a money bill.

Mr. GRANT admitted that he gave it as his opinion, that it was not an easy thing to find a proper person for conducting the finances in this country; there were but few in Europe who possessed abilities equal to the undertaking. He said before, that he knew but one in America, and believed there were not many to be found. These were his sentiments then, at

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[H. of R.]

he had made no discoveries since that warranted a change of opinion. But perhaps the advocates of the bill are acquainted with a gentleman fit for the business; if they are, it is more than he pretended to be, unless, as he said before, it was an honorable member of the Senate, who had made more progress in acquiring a knowledge of this difficult science, than any other person he had heard of.

He would not proceed on this subject, because the House had determined to appoint such an officer, and thereby put an end to the debate. By that vote, they supposed they could find a man equal to the task; he hoped they might, but he was really apprehensive of a disappointment, when he considered the confused and embarrassed state of our public debts and accounts; however, he submitted to the voice of his country.

The gentleman last up, said he, did me the honor of noticing what I said on a former occasion; but I appeal to himself whether my words were conveyed in the language of the bill. Did I advise any thing like this? Has not the gentleman sagacity enough to discover that my arguments went no further than this, that he was the proper person to give information respecting the public revenues and expenses, the mode of collecting, and the probable remedy for abuses?

But certainly, this House contains more information relative to the proper means of supporting the national credit, and how far our constituents are capable of sustaining an increase of taxes, or which mode of assessment would yield most satisfaction. Yet gentlemen propose to give the power of advising the House, in all these cases, to the Secretary of the Treasury. It was always my opinion, that the representative body, from their sense of feeling, was a better judge of taxation than any individual, however great his sagacity, or extensive his means of information.

The gentleman says, we only give him power to give information; that is what I wish, but the clause goes farther. In digesting and reporting plans merely giving information? These plans will have to undergo the consideration of the House, I grant; but they must have some influence coming from such high authority, and if they have this in any degree whatever, it is subversive of the principles laid down in the constitution.

The gentleman says, a bill is not originated until it has obtained the sense of the House; what is it then? The bill now under consideration has not obtained the sense of the House, yet I believe that gentleman himself conceives it to be a bill; he uses the term when he is speaking of it, and will hardly deny that it has originated. I think, sir, whenever the House order a committee to bring in a bill, or give leave to a member to read one in his place, that by that order they originate the bill; and here it is that I am apprehensive of a diminution of our privilege. By this law you give the Secretary the right of digesting and reporting all plans,

which is but another word for bills, for the management and improvement of the revenue, and supporting public credit. To what an extent these last words may reach, I shall not pretend to say; but certainly they may include the operations of more departments than one. If the clause will bear the construction I have mentioned, it is altogether unwarrantable. I said, I differed from the gentleman with respect to the origin of bills, but perhaps this phrase may be applicable to a bill on its passage; all bills, from the time they are admitted before the House, may be said to be on their passage; but they are originated, as I take it, at their introduction.

Mr. FITZSIMONS was not certain that he understood the objections which were made against the clause; but if he did, it was a jealousy arising from the power given the Secretary to report plans of revenue to the House. No gentleman, he believed, had objected to his preparing a plan, and giving it in when it was called for. If this were the case, perhaps harmony might be restored to the committee by changing the word report into prepare; he would therefore move that amendment, in order to try the sense of the House.

Mr. MADISON.—After hearing and weighing the various observations of gentlemen, I am at a loss to see where the danger lies. These are precisely the words used by the former Congress, on two occasions, one in 1783, the other in a subsequent ordinance, which established the Revenue Board. The same power was also annexed to the office of Superintendent of Finance, but I never yet heard that any inconvenience or danger was experienced from the regulation; perhaps, if the power had been more fully and frequently exercised, it might have contributed more to the public good.

There is a small probability, though it is but small, that an officer may derive a weight from this circumstance, and have some degree of influence upon the deliberations of the Legislature; but compare the danger likely to result from this clause, with the danger and inconvenience of not having well-formed and digested plans, and we shall find infinitely more to apprehend. Inconsistent, unproductive, and expensive schemes, will be more injurious to our constituents than the undue influence which the well-digested plans of a well-informed officer can have. From a bad administration of the Government, more detriment will arise than from any other source. The want of information has occasioned much inconvenience and unnecessary burthens under some of the State Governments. Let it be our care to avoid those rocks and shoals in our political voyage, which have injured, and nearly proved fatal to, many of our cotemporary navigators.

A gentleman has asked, what is meant by responsibility? I will answer him. There will be responsibility in point of reputation, at least a responsibility to the public opinion with respect to his abilities; and supposing there is no per-

H. of R.]

Treasury Department.

[JUNE 25, 1789.]

sional responsibility, yet we know that men of talents and ability take as much care for the preservation of their reputation as any other species of property of which they are possessed. If a superior degree of wisdom is expected to be displayed by them, they take pains to give proofs that they possess it in the most unequivocal manner; this of itself will ensure us no small degree of exertion.

With respect to originating money bills, the House has the sole right to do it; but if the power of reporting plans can be construed to imply the power of originating revenue bills, the constitution is inconsistent with itself, in giving the President authority to recommend such measures as he may think expedient or necessary; but the construction is too unnatural to require further investigation.

I have admitted there is a small probability of a small inconvenience, but I do not think it any more an argument against the clause, than it would be an argument against having windows in a house, that it is possible the wind and the rain may get in through the crevices.

Mr. LEVINGS expressed an apprehension that the clause originated from a clause in an ordinance of the former Congress; he found now he was not mistaken; but he wished gentlemen to distinguish, in the manner he had attempted to do, between properties of this Congress and that, from which they might discover the impropriety of adopting it.

He thought gentlemen had sufficiently extolled the excellence of this office, and its advantages. He remembered that the grant of this power to the officer who formerly presided at the head of the finances, had produced some morsels of this kind; the five per cent. impost, a poll tax, and a land tax, if his memory served him right, were submitted; how far these were likely to meet the approbation of the Union, he did not say; but certainly one of them would meet few patrons. From this specimen, he did not form so favorable an opinion as some gentlemen expressed of the revenue plans, prepared, digested, and reported by a Secretary of the Treasury.

Mr. PAGE added, that the late Congress were obliged to submit their plans to the State Legislatures; consequently, there was less danger of undue influence. As this was his principal fear, he would vote against every thing like giving him authority to bring his plans before the House.

Mr. LEVINGS declared the amendment proposed by Mr. FITCHESON unsatisfactory, and by no means removing the ground of complaint.

Mr. TUCKER likewise objected to the amendment, because its effect would be precisely the same with the words standing in the bill. Why, said he, should the Secretary be directed to propose plans, unless it is intended that the House should regularly call for them? The views of the gentlemen are to have a uniformity in the system of finance; but how can this

be effected, without the plans are always brought before us? Whatever the House shall presume to do on independent principles, may break in upon the Secretary's system, or make him vary his propositions, in order to accommodate them to what we have done. If we must adopt plans for the sake of uniformity, we must adopt them at all times, or lose our object.

However useful it may be to obtain information from this officer, I am by no means for making it a matter of right in him to intrude his advice. I admit, information may at all times be acceptable, but I think advice should never come but when required. Are we to be advised on all occasions, because we don't know when to require it? Are the members of this House incapable of asking for assistance when they want it? Why have we not affronted the other branches of the Government, as well as this House? Why have we not said that the Secretary of Foreign Affairs should prepare and digest plans for the formation of treaties, and report them to the President and Senate, who are exclusively to manage that concern? The cases are exactly similar; but we did not choose to offer them such an indignity. If it is right in one instance, it is equally so in every other. We ought to have given the Secretary an opportunity of exercising his ingenuity, in devising plans of fortifications to strengthen our shores and harbors; we ought, in every case, where we have to decide, appoint officers with the same view to aid our deliberations, and, in fine, to perform the whole duties for which we were elected.

Mr. HANTLEY expressed himself satisfied with the amendment proposed by Mr. FITCHESON.

Mr. STONE was not afraid of giving the officer the power of reporting plans, because he was sure Congress would, in every case, decide upon their own judgment. A false Congress would not pay such a deference, even to their predecessors, as to follow in their footsteps, unless they were convinced of the good policy of their measures. He thought, if the House wanted to make use of the information acquired by the Secretary, they ought to give him notice of their intention; consequently, something of this kind was proper in the bill.

Mr. SHERMAN thought the principle held up by the clause, was absolutely necessary to be received. It was of such a nature as to hang itself upon them; therefore it was in vain to attempt to elude it by subterfuge. It was owing to the great abilities of a financier, that France had been able to make the exertions we were witnesses of a few years ago, without embarrassing the nation. This able man, after considerably improving the national revenue, was displaced; but such was the importance of the officer, that he has been restored again.

The honorable gentleman, said he, from South Carolina, (Mr. TUCKER,) has asked why we did not make a similar provision in the bill of the Department of Foreign Affairs, and if we had done so, the President, if he had consulted the

JUNE 27, 1789.]

Tonnage Bill.

[H. or R.]

that he would have found it unnecessary, because it is there made the duty of the heads of departments to answer the inquiries of the President in writing. It is the proper business of this House to originate revenue laws; but as we want information to act upon, we must procure it where it is to be had, consequently we must get it out of this officer, and the best way of doing so, must be by making it his duty to bring it forward.

I do not contend for a word; if the spirit of the clause is retained, I am satisfied.

Mr. BALDWIN.—I do not see what we are guarding against by striking out the words, unless gentlemen mean to go so far as to introduce a prohibitory clause, and declare that the Secretary of the Treasury shall be restrained from digesting or preparing plans for the improvement of the revenue. If there is any evil in having him attend to this branch of the business, I cannot see how to avoid it. Suppose the officer is a bad man, and there are others like him in this House, (for this must be what the gentlemen are afraid of) and suppose he has prepared a scheme for speculation, which he hopes to get adopted by making dupes of the honest party: how are you to hinder it from being brought forward? Cannot his friends introduce it as their own, by making and seconding a motion for that purpose? Will you restrain him from having access to the members out of doors? And cannot he infuse his dangerous and specious arguments and information into them as well in the closet, as by a public and official communication? But, Mr. Chairman, can this House, or if it can, will it, prevent any of their constituents from bringing before them plans for the relief of grocers or oppressions? Every individual of the community can bring business before us by petition, memorial, or remonstrance, provided it be done in a decent manner. How then do you propose to restrain the Secretary of the Treasury?

I think the clause is very well as it stands, and shall therefore be against the amendment.

Mr. PAGE's motion for striking out the clause being put and negatived:

The question on Mr. FELLSMENA's motion to amend the bill, by striking out the word report, and inserting prepare, was taken and carried by a great majority.

After which the House adjourned.

FRIDAY, JUNE 26.

A number of the members attending the interesting conference which today took place with the Senate on the impost and tonnage bill, no business was done in this House.

SATURDAY, JUNE 27.

The engrossed bill for establishing the Department of War was read the third time, passed, and sent to the Senate for its concurrence.

REVENUE BILL.

Mr. BOURNOR, from the managers on the part of this House in the conference with the Senate, on the subject of the amendments to the Impost bill, reported that the conference had agreed to pass the bill as amended by the Senate, with some additional amendments, viz: the duty on distilled spirits of Jamaica proof, to be reduced from fifteen cents to ten cents per gallon. The duty on all other spirits, to be reduced from twelve to eight cents per gallon. The duty on beer, ale, porter, or cider, imported in casks, from eight to five cents per gallon. The duty on beer imported in bottles, from twenty five to twenty cents per gallon. The duty on coal, from three to two cents per bushel.

TONNAGE BILL.

Mr. BOURNOR reported further with respect to the Tonnage bill, and the House agreed to the Senate's amendment, in the third section, whereby foreign vessels are allowed to carry goods coastwise, upon paying fifty cents per ton at each entry.

And in the first section, whereby all ships built within the United States, and afterwards sold to foreigners, pay twenty cents per ton at each entry less than if such vessel had been built in a foreign country.

The House then took up the amendment proposed to strike out the clause discriminating between the tonnage of vessels belonging to nations in treaty, and those not in treaty.

On this clause it was observed by Mr. MADISON, that nothing had been urged at the conference, by the managers on the part of the Senate, in favor of this amendment, but what had been repeated over and over again, by the opponents to the clause, in its original form in this House. But it was not contended by the Senate, that the principle was improper so far from it, they thought some measure of a similar tendency to be necessary, and were inclined to take the subject up, but on a different scale, and to extend it further than the House had hitherto contemplated. He had, however, some doubts whether it would not be more prudent to adopt the moderate style of the bill, than apply to rasher expedients: if the end could be attained, without departing from the principles of moderation, it would redound to the honor of the Government; but, at all events, it was prudent to begin with measures of this temper; if they were found ineffectual, it might then be time enough to attempt more coercive regulations. For these reasons, he was in favor of the bill as it stood, without the Senate's amendment.

There was another circumstance that had considerable weight on his mind: it was universally admitted, that something ought to be done this session, both for the dignity of the United States, and to answer the high expectation of the people; but if the proposed discrimination be relinquished, there is little pro-

APPENDIX B

[1919] 98 Cong. Rec. 7130.

"Mr. LONGWORTH. I should like to know how the committee construes section 4, particularly that portion of it which gives to the President the recommendation as to revenues. Is this budget, in addition to suggestions as to appropriations, to contain suggestions for the imposition or raising of revenues?

"Mr. TAYLOR of Colorado. Why, yes; in so far as the President sees fit to advise Congress. In other words, we want to put the duty and the responsibility upon the President of the United States to outline and present to Congress, as we feel he ought to, the fiscal policy of this Government; in other words, to show how and where the money is coming from and where he thinks every dollar of it ought to go. In other words, we want to make him put all his financial cards on the table here and before the whole country and be officially responsible for them.

"Mr. LONGWORTH. For instance, take the case of this year, where the total expenses for the fiscal year exceeds the sources of revenue from all known sources by more than \$3,000,000,000. Would it be the duty under this plan for the President to recommend to Congress how that deficit can be made up?

"Mr. TAYLOR of Colorado. Yes, absolutely. He ought to tell Congress what his financial policy and ideas are, and then, if necessary, go before the American people and back them up. If we differ with him and change his budget, we will have to answer to our constituents when we go home for reelection.

"Mr. GOOD. If the gentleman will allow me, that is the law now, under the act of March 4, 1909.

* * *

"Mr. LONGWORTH. I understand the purpose of making this provision is to make it the duty of the President to make suggestions and recommendations as to revenue and recommendations as to expenditure?

"Mr. TAYLOR of Colorado. Yes; we feel that he ought to frankly and fully let the country know what his policy is. He will have the necessary machinery, and he should do the work and give the country the benefit of his power and opportunity to save the people's money and get the credit for it if he does and be blamed for it if he does not.

"Mr. LONGWORTH. In other words, the budget is, so far as the Executive is concerned, a complete recommendation to Congress as to the finances of the Government?

"Mr. TAYLOR of Colorado. Absolutely. In other words, we put the responsibility on the executive departments of this Government to tell Congress and the American people what that financial policy is and how to carry out what he promised during the campaign, what his party stands for, and present it to the American people in a way that everybody can understand. Then Congress will take up his recommendations, and we have the absolute power to indorse them or disregard them. If we disregard them we have to answer to the American people for it, whether we raise or lower it."

(1919) 58 Cong. Rec. 7229.

"Mr. STEGALL. Mr. Chairman, I move to strike out section 7.

"The CHAIRMAN. The Clerk will report the amendment.

"The Clerk read as follows:

"Amendment offered by Mr. STEGALL: Page 6, line 3, strike out all of section 7.

"Mr. STEGALL. Mr. Chairman, this section provides—

"That after June 30, 1920, no estimate or request for any appropriation, and no recommendation as to how the revenue needs of the Government should be met, shall be submitted to Congress by any officer of the executive branch of the Government except the President, unless at the request of either House of Congress.

"Now, there may be some necessity for this that I do not see, but I can not understand why the various committees of the House, which, at least so far as anything we know at the present is concerned, are to continue to exist and function, should not have the right to the estimates and recommendations of the various departments of the Government just as they have had heretofore. I do not see what harm can come even if everything is done that has been suggested or contemplated in connection with this bill. Even if we have the supercommittee

1/ Note that as finally enacted the words "or any committee thereof" were inserted. That insertion was made by a Senate amendment which also authorized committees to request information, Sen. Rep. No. 524, 66th Cong., 2nd Sess. 12. The Conference Committee retained the first part but struck out the second part of the Senate amendment. H.R. Rep. No. 1044, 66th Cong., 2nd Sess. 11 (quoted in the text of this memorandum at p. 19). As finally enacted the bill contained, in section 212, a provision requiring the Bureau of the Budget to make information available to committees upon request and, in section 213, a provision requiring the various departments and agencies to make information available to the Bureau of the Budget.

and effort is to be made to create, there is no reason to prohibit the submitting of these estimates to the various committees of the House.

MR. BLANTON. Will the gentleman yield?

MR. STEAGALL. And certainly so long as those committees are to continue as they are now and to perform the same duties they now perform, there is no reason why they should not have this information from the various departments in connection with which they serve.

MR. BLANTON. Will the gentleman yield?

MR. STEAGALL. In a minute I will yield.

And as this section is drawn the Committee on Naval Affairs would have no right to call upon the Navy Department or the Secretary of the Navy for these estimates or figures or recommendations, or any information; at least no right to require such reports to be submitted. The same as to the Committee on Military Affairs, or any other committee of this House. No committee will under this section be allowed to receive this information, or at least if they may receive it they will not have the right to require it, and the House will not have that information except at its own request or in response to a resolution of the whole House making such request. As I understand, this section would mean that nothing could be done until the House itself took action looking toward obtaining those recommendations and statements from these various departments.

MR. MADDEN. Will the gentleman yield?

MR. STEAGALL. Yes.

MR. MADDEN. The gentleman probably has overlooked the fact that the President under this bill is charged with the responsibility of reporting all the budget appropriations for every branch of the Government.

MR. STEAGALL. Yes; that is true, that he is charged with such responsibility.

MR. MADDEN. And if the President is not made the sole instrumentality through which these reports are to be made, we would have chaos worse than we ever had before.

MR. STEAGALL. I understand thoroughly that the President is supposed to have the final say on all these matters, but I do not

see why the various Members of this House should not still have the right to pursue their inquiries into every department as far as they please, in order to get all the information they can from the departments or from any other source. Unless these various appropriation committees are to be dispensed with, it seems to me no law should be passed preventing the executive heads of the departments from furnishing these estimates and recommendations or any information desired. But the paragraph reads that this 'shall not' be done.

"MR. BLANTON. Mr. Chairman, will the gentleman yield now?

"MR. MADDEN. This does not take away from anybody any right of inquiry. It simply gives to the President exclusively the right to make estimates and requests for appropriations and imposes on him the duty of making recommendations as to revenue needs in the budget.

"The CHAIRMAN. The time of the gentleman from Alabama has expired.

"MR. STEAGALL. Mr. Chairman, I ask unanimous consent for five minutes more.

"The CHAIRMAN. The gentleman from Alabama asks unanimous consent to proceed for five minutes more. Is there objection?

"MR. BLANTON. I object.

"MR. GOOD. Mr. Chairman, the present law provides for the manner in which the estimates shall be submitted, and then it provides that all the supplementary estimates shall be transmitted to the Congress by the Secretary of the Treasury. Now, let us read very carefully section 7, to which the gentleman from Alabama objects. It provides—

"That after June 30, 1920, no estimate or request for any appropriation, and no recommendation as to how the revenue needs of the Government should be met, shall be submitted to Congress by any officer of the executive branch of the Government except the President, unless at the request of either House of Congress.

"MR. STEAGALL. Mr. Chairman, may I ask the gentleman a question?

MR. GOOD. Certainly.

MR. STEAGALL. Does it not say that no estimate or recommendation or request for any appropriation shall be submitted by any executive head except the President, unless Congress especially requires it?

MR. GOOD. Absolutely, of course.

MR. STEAGALL. Then how can we get it unless Congress itself as a body requests it, as distinguished from a committee of Congress as heretofore?

MR. GOOD. The gentleman has based his argument on the fact that none of the executive officers could come before committees of Congress. This does not attempt in any way to control the executive departments so far as their appearing before committees for hearings is concerned. This determines the manner in which estimates are to come before the Congress, through the Speaker's desk, for appropriations. If you are going to have a budget and make the President responsible for it, you can not have every Tom, Dick, and Harry coming in every day, sending in requests through the Speaker's desk for an appropriation. The purpose of this bill is to make the President responsible for every request for money that comes to Congress. That is all this bill does. It simply provides that this provision of law that now obtains, which requires the Secretary of the Treasury to transmit estimates from the several departments to the Speaker or to the Vice President, shall be superseded by an act that requires the President himself to send it.

MR. CANNON. Mr. Chairman, will the gentleman yield right there?

MR. GOOD. Yes.

MR. CANNON. It does not prevent Congress from putting an appropriation authorized by law on a bill, even though there is no estimate?

MR. GOOD. Not at all.

MR. STEAGALL. I ask the gentleman as a lawyer if this does not say that no estimate or request for an appropriation and no recommendation as to how the revenue needs should be met shall be submitted to Congress by the executive branch of the Government, except through the President, unless Congress requests it?

MR. GOOD. Yes.

MR. STEAGALL. None of these things shall be submitted to Congress?

MR. GOOD. Yes.

MR. TEMPLE. Mr. Chairman, will the gentleman yield?

MR. GOOD. Yes.

MR. TEMPLE. Does not the existing law make exactly the same provision about estimates that are now sent through the Secretary of the Treasury?

MR. GOOD. Yes.

MR. TEMPLE. They must be sent in that way, and in no other way. This law will in no way interfere with the committees or Members than does the present law?

MR. GOOD. No.

MR. RAMSEYER. Mr. Chairman, will the gentleman yield?

MR. GOOD. Yes.

MR. RAMSEYER. This not only refers to requests for appropriations, but to recommendations as to how the revenue needs of the Government should be met?

MR. GOOD. Yes.

MR. RAMSEYER. Would that preclude the Tariff Commission from recommending to the Committee on Ways and Means methods of raising revenue?

MR. GOOD. They have not that authority now. All that the Tariff Board has authority to do is to investigate as to the cost of production and things of that kind and to report to Congress. They have no power to make recommendations.

MR. RAMSEYER. They are all experts. Suppose the committee wants them to make recommendations?

"MR. GOOD. No committee ought to ask them to do that. All the power they have now is to investigate and make findings of fact.

"MR. ELSTON. Mr. Chairman, will the gentleman yield?

"MR. GOOD. Yes.

"MR. ELSTON. Every executive officer is the mere agent of the Chief Executive, and this measure merely provides that every recommendation for expenditure should come from the Chief Executive and not through his agents. That is, you do not want his agents to do it, but the President himself?

"MR. GOOD. Yes.

"The CHAIRMAN. The time of the gentleman from Iowa has expired.

"MR. MADDEN. Mr. Chairman, I move to strike out the last word. I simply want to call the attention of the gentleman from Alabama [Mr. STEAGALL] to the fact that his fears are not well founded. This does not in any wise prevent any Member of Congress, either in the House or in the Senate, from making any inquiry that he may wish to make or acquiring any information that he may need for the proper discharge of his duties. It simply transfers the power of reporting estimates for appropriations from the Secretary of the Treasury to the President of the United States, and provides that the President shall make his reports; in other words, that the President shall furnish to the Congress of the United States a complete photograph of the annual needs of the Government in advance; and it does away with the piecemeal reports of items of appropriation in the various departments and makes the President supply the information complete as to the needs of the whole Nation.

"Now, the question arises, do we want that? If we do not want it we ought to stand where we are. The purpose of this section is to do away with the present slipshod method of doing business and to institute a systematic, scientific mode of supplying information to the Congress, upon which Congress can base intelligent and economical action, and incidentally to supply to the American people information upon which the administration can base its claims for economy or extravagance, as the case may be. That is the whole story. There is no danger in this thing. There is nothing hidden in it. It simply goes to the American people with the statement that we are in favor of a reform that is likely in the long run to help to economize in public expenditures.

"The CHAIRMAN. The question is on the amendment offered by the gentleman from Alabama. [Mr. STEAGALL].

"The amendment was rejected." (Underscoring supplied.)

Broadway

By DANTON WALKER

The Roaring 40's

WASHINGTON hears that . . . Leon Henderson will become Secretary of Labor as soon as his health permits . . . Senator Prentiss Brown will be only temporarily head of the OPA, the job for which he will be groomed being that of assistant to Economic Stabilizer James F. Byrnes, who is now being referred to as the "Assistant President" . . . It will be Byrnes, and not Secretary of the Treasury ~~Worthington~~, who will father the NEXT tax legislation to be presented to Congress . . .

This just came
to my desk

December 21, 1942
2:00 p.m.

HMJr: Hello.

Operator: Mr. Pehle. Go ahead.

HMJr: John?

John Pehle: Yes, Mr. Secretary.

HMJr: Are you at all familiar with Sterling Products?

P: I think so.

HMJr: How - how is the management there now?

P: They seem to be very clean here....

HMJr: Yes.

P:and our rec.. - our investigation here showed that they were clean, but we wanted to satisfy ourselves as to what they were doing in Latin America. We have two people down there now checking into that.

HMJr: Well, you know about Harold Thomas helping us in War Bonds?

P: No, I don't.

HMJr: Did they ever talk to you about it?

P: They didn't talk to me, no, sir.

HMJr: I see. But as far - is there - is there any reason - well - I mean he's given us about half of his time.

P: Is he with Sterling?

HMJr: No, he's with one of the subsidiaries.

P: I see.

HMJr: But it's part of Sterling.

P: I see.

HMJr: But he's been with us helping Harold Graves now for six months.

P: Probably perfectly all right. They're doing an awful lot of work helpful to us on the advertising side in Latin America.

HMJr: They are?

P: They're plugging the American line very strongly.

HMJr: Yes.

P: But we can just check this discreetly if you want us to.

HMJr: Well - no, because I just wanted your impression.

P: Yes.

HMJr: How about - but the American company?

P: The American companies were always pretty clean.

HMJr: How about Mr. Hill?

P: Well, we have fundamental doubts as to them, but right now I think that their interests and ours are the same.

HMJr: I see. But it - it's Harold Thomas who'll be down here helping us.

P: Yes.

HMJr: And Graves never spoke to you?

P: Not - no, sir. I'm sure he didn't speak to me.

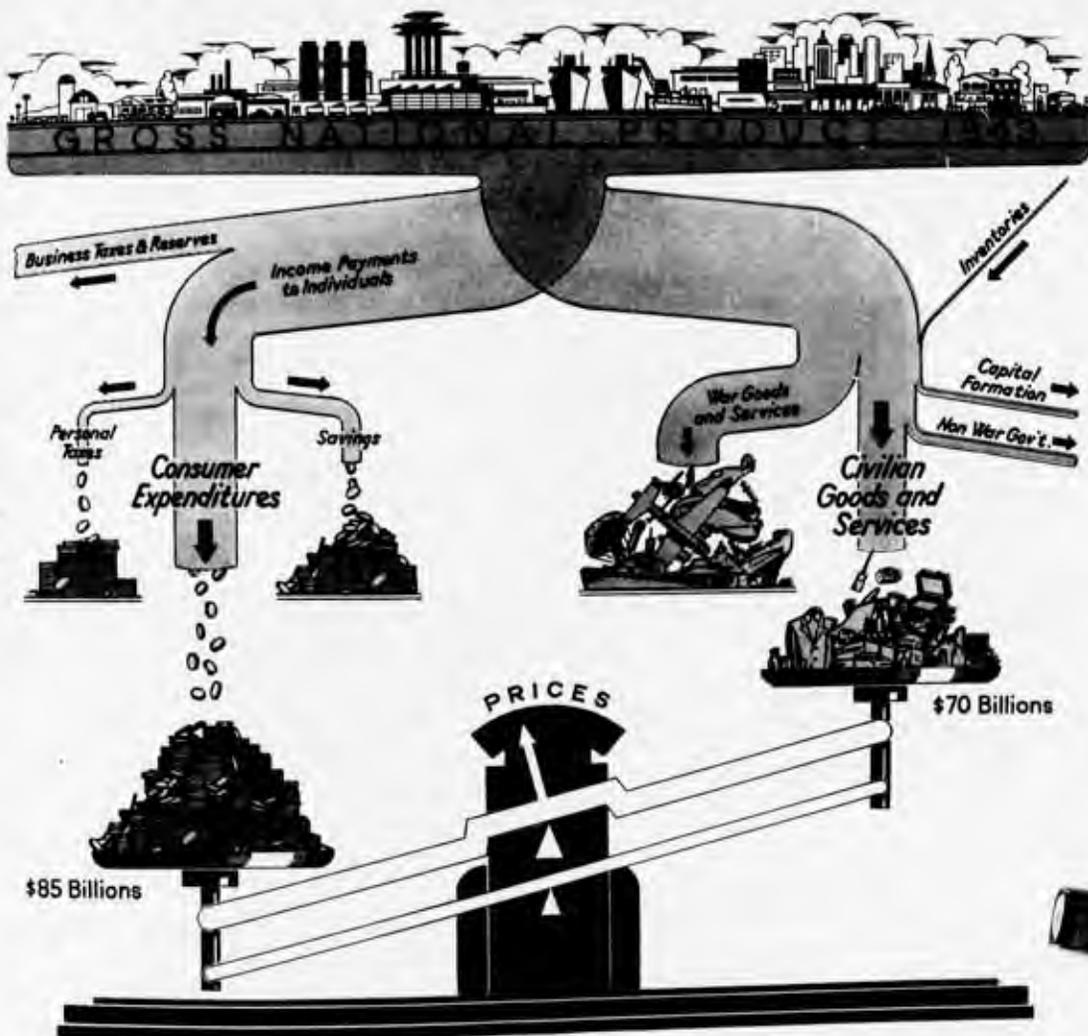
HMJr: I see. I see.

P: He may have spoken to someone else, however.

HMJr: Okay.

P: Right.

THE INFLATION PROBLEM



Inflation

The chart, reproduced above, was prepared in the Tax Research Division of the Treasury Department. In it the Division presents forecasts of the amount that consumers will try to spend in 1943 and the value at present prices of the goods and services they will find on the market. Business capital formation and non-

war Government expenditures, as indicated by the chart, are relatively small in contrast to the larger problem of consumer income and demand.

The chart reveals a serious lack of balance between consumer expenditures and the supply of goods and services. The implication here seems to be that the

supply of goods and services must be increased or the amount of money coming on the market for consumer goods decreased in order to prevent a serious pressure on price ceilings and a sharp rise in prices. A stable increase in goods available for civilian consumption obviously can be obtained only at the expense of reducing the volume of war production. If war production goals are to be realized little can be added to the civilian goods side of the scale. Presumably, the amount on the money side of the scale can be reduced only by withdrawing income before it gets on the market for consumer goods by means of increased taxes or increased savings or both.

While the Chair's main story is the imbalance which exists between the \$85 billion for consumer expenditures and the \$70 billion for civilian goods and services, it will be interesting to some persons to see estimates for the other items. Additional information, which is presented in this Supplement is taken from a number of recent public addresses by Randolph Paul, General Counsel of the Treasury. These mimeographed statements may be obtained upon application to the Treasury Department, Washington.

Mr. Paul believes that the passage of the Second Price Control Act by Congress and the creation by the President of the Office of Economic Stabilization will make an invaluable contribution to the successful control of inflation. He goes into some detail regarding the increased use of taxation and savings as a further means of diminishing the inflation threat. According to Mr. Paul, the dimensions of the inflation problem are revealed by careful examination of the following figures:

"The total of the income currently being received by all individuals in the nation is running at more than \$115 billion a year. . . . It is likely to reach \$125 billion in the calendar year 1943. Even after all individual taxes payable directly to Federal, State and local governments, there will remain for spending or saving more than \$110 billion. . . ."

"The supply of goods and services available to consumers is currently running at the rate of \$80 billion a year. An optimistic figure for 1943 is \$70 billion. The difference between \$110 billion and \$70 billion, or \$40 billion, is the inflation threat. . . . The best estimates of annual current saving run at less than \$25 billion. If this rate of saving is maintained there will still be left \$15 billion of purchasing power in excess of consumer goods available."

Unfortunately none of the addresses from which these figures are taken include the General Council's estimates for business taxes and reserves, for capital formation, or inventories. Neither is there a definite figure showing expenditures for war goods and services. Mr. Paul does point out, however, that the total war budget, requested in the 1942 Budget Message and in subsequent budget revisions, now stands at \$78 billion, "which together with non-war Governmental expenditures makes a total for the fiscal year 1943 of \$85 billion. With tax revenue augmented by the 1942 Act, which will be in operation for only part of the year, we shall still be left with the necessity of borrowing in the fiscal year 1943 more than \$60 billion."

While Mr. Paul states the inflation problem in conventional monetary terms, he emphasizes that the basic problem is more fundamental. More people will have to work longer and more intensively next year than this year. "Harder work and the exhaustion of our capital, on the one hand, and a smaller supply of goods and services on the other hand contribute the price civilians must pay to win the war. They constitute the inescapable economic cost of the war."

"We should not delude ourselves into thinking that we have complete freedom in the distribution of this real cost of the war. We must compensate individuals who are working when they have not previously been working or who are working longer or who have changed from positions in the civilian economy to positions in the war economy. We can compensate them out of a diminishing supply of goods and services only through the sacrifices of others who for one reason or another are not being asked, or are not able, to work harder, longer, or in a new capacity. These persons, often described as the fixed income group, have no choice. No financial legerdemain, no tax panaceas, no verbal evasions, can protect the whole of the fixed income group from a larger than proportionate diminution of their standard of living."

"If we do nothing, the physical realities of today will inevitably develop into a disastrous inflation of tomorrow. We may as well recognize that individuals will not of their own choice save close to half of the income that is available for spending or saving. They are human beings and they will inevitably try to spend more than the value at present prices, of the goods and services that will be available. If consumer incomes are not withdrawn by taxes and borrowing, they will flow to the market in a stream that will break the dam of price control and rationing. When a dam breaks, the floods are not far away."

Taxation

One of these addresses, before the Iowa Bankers Association in Des Moines on October 27, includes a particularly concise description of Mr. Paul's views regarding the adequacy of the 1942 Revenue Act* and his opinions regarding various proposals for increasing taxes. Under the Act major reliance will probably be on borrowing to raise war funds, instead of placing greater emphasis on taxation—which Mr. Paul feels is the best weapon at our command for distributing fairly the economic burdens of the war. He is encouraged to note that the Act furthers the process of converting the income tax to a mass tax. In 1940, about four million taxpayers paid tax on the 1939 income, but in 1943 there will be more than 27 million net income taxpayers under the established income tax system and close to 40 million taxpayers under the gross Victory tax.

Collection-at-Source

One suggestion put forward by the Treasury, which Mr. Paul believes has an important bearing upon inflation, has to do with collection of the regular net income tax at the source. This was recommended by Treasury officials because collection-at-source would tap the income stream as it flows into the hands of individuals. It provides a taxpaying machinery which fits into the weekly or monthly family budgets of the new taxpayers; the administrative difficulty will not be great—as may be judged by English, Canadian and other experience. "The 1942 Revenue Act provides for collection-at-source under the Victory tax. It is essential that collection-at-source be extended to the regular net income tax as well."

Mr. Paul thinks our increased taxes should be considered in relation to those of other countries. He attaches to his address an interesting chart which compares our rates with those of Canada and Great Britain, which are still far higher than ours. In his opinion we may soon need to supplement the income tax with other elements "more capable of recognizing the factor of sacrifice in the war effort and designed to recognize the fact that many individuals assumed substantial long-term obligations when tax rates were at post-war levels." Three basic alternatives are described by Mr. Paul: (1) the sales tax, (2) the post-war credit device or "compulsory saving," and (3) a spending tax.

Sales Tax

The Treasury's stand against the sales tax is well known. Mr. Paul gives as the reasons for this disapproval the facts that it places the economic cost of the war on those least able to bear that cost; the easiest type of sales tax to administer, the manufacturers or wholesaler tax, would raise our price ceilings; a

retail sales tax would to some extent affect price ceilings and its administration would require a large force of highly skilled and scarce auditors and the use of machinery and equipment that cannot be spared at this time. Mr. Paul stresses a further deficiency of the sales tax which he says is not ordinarily recognized—"its inadequacy as a revenue producing measure". He believes that the sales tax does not come within compass of solving our present national problem, despite the fact that it was a productive source of revenue to the states sought in the financial difficulties of the depression years.

Post-War Credits

A device for post-war credits should be considered, according to Mr. Paul, either in conjunction with a further expansion of the income tax or by use of an independent compulsory lending program. This means of raising funds will be most effective at the lower income levels. It would withdraw purchasing power during the war, but would return it as soon after the war as possible. It would permit an equitable adjustment, by allowing offsets against post-war credit, to persons with fixed commitments. Offsetting points which commercialize these advantages, however, include the fact that such a program involves borrowing, which means large government liabilities after the war; and the further fact that there may be the danger of reducing other forms of savings and that it may not be so effective as taxation in reducing current consumer expenditures.

Spending Tax

The spending tax is one of the most important items in the Treasury's program for meeting the current problem, according to Mr. Paul. Such a tax bears most heavily on those who can afford it. "The spending tax is levied on the amount of money that the individual spends for consumers' goods and services over and above the amount considered necessary to maintain a minimum standard of living. Those who spend only enough to provide a standard of living sufficient to maintain working efficiency would have no tax to pay. Those who spend somewhat more to live in moderate comfort would have a moderate tax to pay. But those who maintain a high level of personal expenditure and make inordinate demands upon the reduced national supply of consumers' goods and services would be required to pay heavy taxes. The tax, in other words, would be progressive. It will strike at both roots of the inflationary pressure: the excessive volume of consumer spending and the restricted volume of consumers' goods and services." This form of taxation leaves to the individual a wide scope of choice in deciding how much he will spend and hence what tax he will pay. Since the spending tax return would be combined with the regular income tax return and collected in the same way there would be little additional administrative machinery or trouble for the taxpayer.

* The Revenue Act of 1942. FROM: CPO, 208 Pages. Price: 10c.

Additional copies from

National Planning Association,

800-21st St., N. W., Washington, D. C.,

3¢ a copy; 100 or more in one address, \$1.00 a hundred

MEMORANDUM

December 21, 1942.

TO: The Secretary

FROM: Mr. Sullivan

ALS

Eight additional men from the Technical Staff Office in Chicago have been assigned to the Salary Stabilization Unit in that city. Commissioner Helvering tells me he believes this will enable the force to handle the problem of Christmas bonuses expeditiously.

KAY:

Charles S. Ellis, Peabody Coal Co., Chicago Ill. telegram of 12/14 was sent to Commissioner of Internal Revenue. The Commissioner replied by telegram on 12/18/42 as follows:

"Retel December 14 to Secretary. As all pertinent facts have been furnished Chicago office believe they can make ruling more expeditiously since congestion here equally heavy."

and are going to public work or moving into the small towns, to live on what they have accumulated in past years. Most of them are man and wife who are past middle age and just not able to do the heavy farm work which they carried on while they had their boys with them. As a banker, I am not making any suggestion as to what can be done or what remedy can be applied to relieve the situation. I am just giving you the information for whatever it may be worth to your Department and to the Department of Agriculture.

Charles S. Ellis, Peabody Coal Company, Chicago, Ill. (Telegram) * ** On Friday, December 11, we filed application with your salary stabilization division at Chicago, Ill., for approval of proposed Christmas bonus. Our representatives who filed such applications do not believe your Chicago office has sufficient personnel to handle the number of similar applications which have been recently filed in time to permit payment before Christmas. Matter is of vital interest to our company and its employees. Is there any way our application can be approved before Christmas, either at Chicago or Washington? If necessary, will be glad to send representative to Washington at any time appointed by you. Can you help please?

It has been some months since mention was made of the fact that Mr. Melchor León of Mexico has continued his donations in accordance with his promise. It will be remembered that he is part Mexican and part Chinese. He makes a monthly donation of \$200, and in addition, sends a draft covering 25% of all purchases made by American citizens in his store. The two checks received this week were therefore for \$200.00 and \$192.01.

Corydon L. Baker, Shop Steward, United Electrical, Radio and Machine Workers of America, Local 257, CIO, Lynn, Mass., sends copy of Resolution recently adopted by that Union -- * * * Be it Resolved: That the members

December 21, 1942

My dear Chester:

Thank you very much for your telegram of December 19th, a copy of which I have forwarded to Secretary Wickard with a recommendation that he look into this matter. I will let you know what happens.

Yours sincerely,

(Signed) Henry

Mr. Chester Davis,
President, Federal Reserve Bank,
St. Louis, Mo.

File in Diary

116

No one in Secretary's office to
receive this.

W29G73WASH (LONG) H63 STL 19-1143

HON HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY

1942 DEC 19 PM 1 19

AS YOU KNOW THE BANKERS HAVE BEEN MAINSTAY IN WAR SAVINGS BOND SALES AND THROUGHOUT MUCH OF RURAL AREAS AARE OUR LEADERS IN VICTORY FUND CAMPAIGN. THEY ARE ALSO READY AND ANXIOUS TO DO THEIR FULL PART IN FINANCING AGRICULTURAL PRODUCTION FOR WAR IN 1943 STOP I HAVE JUST READ THE HANDBOOK FOR AGRICULTURAL WORKERS IN CONNECTION WITH FOOD FOR FREEDOM CAMPAIGN 1943 WHICH STRESSES FARM CREDIT AND FARM SECURITY AS SOURCES OF LOCAL CREDIT FOR PROGRAM AND NOWHERE REFERS TO BANK CREDIT AS AVAILABLE TO AID PROGRAM. AM INFORMED THAT SIMILAR PRESENTATION IS BEING MADE IN REGIONAL AND LOCAL MEETINGS STOP MR. HEMINGWAY, PRESIDENT A.B.A. IS RECEIVING MANY COMPLAINTS FROM BANKS AND IS FILING STATEMENT ON MATTER WITH SECRETARY WICKARD STOP IT OCCURRED TO ME YOU MIGHT WISH TO MAKE REPRESENTATION TO SECRETARY WICKARD SINCE I AM SURE HE DOES NOT INTEND NON-RECOGNITION OF COUNTRY BANKS IN FOOD FOR FREEDOM PROGRAM.

CHESTER C. DAVIS
PRESIDENT, FEDERAL RESERVE BANK OF STLOUIS.

COPY

T E L E G R A M

WAA163 144/142 2EXTRA

ST LOUIS MO DEC 19 1942 1243 P

HON CLAUDE R WICKARD

SECRETARY OF AGRICULTURE

THE NATIONS BANKS ARE READY AND ANXIOUS TO SUPPORT FOOD-FOR-FREEDOM PROGRAM WITH CREDIT SERVICE AGAIN NEXT YEAR STOP REGRET TO STATE HOWEVER THAT IN DISCUSSIONS AT RECENT REGIONAL CONFERENCES TO CONSIDER FOOD PRODUCTION GOALS FOR 1943 BANKS WERE NOT INCLUDED AS SOURCES OF CREDIT TO SUPPORT THE PROGRAM STOP ACCORDING TO MOBILIZATION PLAN TO BE FOLLOWED BY WAR BOARDS IN EVERY COUNTY OF THE COUNTRY IT WOULD APPEAR THAT FARMERS ARE TO BE GIVEN THE IMPRESSION THAT THE ONLY SOURCE OF CREDIT AVAILABLE TO THEM IS THAT OF CREDIT AGENCIES OF THE DEPARTMENT OF AGRICULTURE STOP RESPECTFULLY URGE THAT THIS PROGRAM BE AMENDED TO RECOGNIZE THE COUNTRY BANKS AND THE IMPORTANT PART THEY PLAY IN THE FARM ECONOMY STOP THE FOOD FOR FREEDOM COMMITTEES OF THE AMERICAN BANKERS ASSOCIATION ARE AVAILABLE FOR ASSISTANCE IN YOUR PROGRAM AND SHOULD BE USED

W L HEMINGWAY PRESIDENT AMERICAN BANKERS ASSOCIATION AND
PRESIDENT MERCANTILE COMMERCE BANK AND TRUST COMPANY STLOUIS
MERCANTILE COMMERCE BANK AND TRUST COMPANY

December 21, 1942

Dear Claude:

I am sending you herewith a copy of a telegram I have received from Chester Davis.

Knowing how much you are interested in being helpful on our sale of War Bonds, I am sure you would be glad to personally look into this complaint and let me know, first, is it a justifiable one and, second, if so, if there is anything you can do about it.

Yours sincerely,

(Signed) Henry

Honorable Claude R. Wickard,
Secretary of Agriculture.

File in Diary

December 21, 1942.

Dear Mr. Dallman:

It was very good of you to write me as you did under date of December 14, and I want to thank you both for your letter and for the editorial which accompanied it.

This also gives me an opportunity to extend the Season's Greetings and best wishes for the New Year.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable V. T. Dallman,
Collector of Internal Revenue,
Eighth District of Illinois,
Springfield, Illinois.

File in Diary

GEF/bs

(Orig. clipping in
Clipping Book)

Morgenthau's Inspiring Words

Under Treasury Department sponsorship an address by Henry Louis Morganthau was broadcast Saturday night. He did more in twenty wild minutes than any other individual the entire country has ever heard. He said words of such force as Henry Morganthau has never spoken since the Victory Loan Drive started. He said words of encouragement, of government and encouragement to maximum effort.

Over fifty million persons have invested in war-winning government securities in the past year, and the distinguished Keeper of the Exchange said that he had means new homes and new methods of economic freedom in post-war programs. Fifty million people have a favored address in the post-war Nation. They are going to spend, to stock-hold in the new government and better America, and in a common better World.

Richly deserved, indeed, is the tribute which Secretary Morgenthau paid to Congressman "Doc" Donahoe, chairman of the powerful Ways and Means committee, who by his wise and decisive controls the financial destiny of the Nation. Congressman Donahoe seemed the security of higher taxes when he stressed the fact that willing and generous payment of taxes is an expression of willing and generous support of our soldiers, sailors and marines on all battle fronts. So it was with the Victory Loan Drive in the midst of which we are today.

These days of sacrifice and struggle are doing a great deal of good to us, and in a spirit of consolation. They are the best of the best in the history of the world. They give all of our business men and farmers one day one great day of profit and of hope. The good drive has far exceeded advance plans. Against Treasury forecasts and estimates of a four man, the drive has produced, said Secretary Morgenthau, \$2,000,000,000 an eight and one-half percent.

There are deeper facts and figures, indeed. They should add a new dimension and confidence to investment in American government, in government investment, in these programs privileges of which the name of our savior Abraham Lincoln is the symbol. Yes, and we may add investment in security against Axis conquest of the World, and against slavery for our children and generations yet to come.

Behind the security in the Victory Loan Drive SIX AND ONE-HALF BILLIONS in government securities in the way to the goal of the Morgenthau goal.

It is a time for us to stand for simple decided support in the way to get this thing done. It is a time for us to stand for the good drive in all things. While we are doing up your drive, we are doing up your drive with our funds, you are doing up our drive.

With that thought in mind, who is left for an answer to the Victory Loan Drive call to duty?

NO REAL AMERICAN!



TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

SPRINGFIELD, ILL.

December 14, 1942.

OFFICE OF THE COLLECTOR
EIGHTH DISTRICT OF ILLINOIS
IN REPLYING REFER TO

PERSONAL

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

Dear Secretary Morgenthau:

Your Saturday night broadcast was perfect. Sunday I wrote an editorial which today headed the editorial columns of all issues of the Illinois State Register.

Hoping this meets with your approval, and with congratulations, I remain

Yours very truly,

V. Y. Dallman
V. Y. Dallman
COLLECTOR.

VYD:AD
Enc.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

123 *submitted*
12/21/42

SHIELD'S REPORT

Copies to: Graves
Bell
Buffington
Harold Thomas

discussed
with Deen
1/16

Mr. Thomas' copy mailed to his home,
Fox Run Road, Norwalk, Connecticut.

See also Reports by Knott +
Woodward att to 315
meeting 1/17.

Field Survey of Bond Drive in Ohio, December 7-9, 1942

Scope

Conversations were held with one or more bankers in eleven communities, east, northeast, and south of Columbus, Ohio, ranging in population from 6,300 to 40,000. The communities visited were Newark, Zanesville, Cambridge, Coshocton, Dover, Wooster, Ashland, Portsmouth, Jackson, Chillicothe and Lancaster.

The survey included no community experiencing a war boom. Each town visited had some manufacturing activity but was also the center of a substantial agricultural area. The county populations ranged from 27,000 to 70,000.

Findings

In most of the communities it was not until the week ending December 7 that the organization effort was started and solicitation was not scheduled to be under way in any large extent until the week beginning December 14. The sales made before December 14 represent the use of the same sales techniques as were applied in the October financing, namely, a few telephone calls by individuals connected with the Victory Loan organizations to, mainly, the institutional type of buyer in the community.

A few investors have responded to the advertising and come into the banks voluntarily; but the real test of the selling techniques used for the first time in the December drive cannot be measured until later in the month.

December is not an easy month to start a campaign because retailers are busy, and many communities are in the midst of their Community Chest drives. But from the point of view of the Treasury's need for a field sales organization ready at any time to participate in drives, the December campaign can be regarded as fairly successful, for it is clear from the conversations I held that it was not until the Treasury opened the December campaign that any effort was made to form a real selling organization. Therefore, the decision to have a December campaign was justifiable, no matter what the financial results in that month, for the second campaign can deal more with actual solicitation and less with the building of an organization.

Some of the county chairmen seemed to me to be doing a splendid job. Many of them have worked night and day. They have arranged daily meetings of salesmen and others. They have worked with Rotary and other clubs. They have been busy in selecting salesmen and in preparing prospect lists, which is difficult. The conventional practice, apparently, was not to go over the lists of bank depositors, but, rather, to work from the telephone books.

The organization effort from the top seemed to me to have been a realistic one, for the county chairmen have been allowed considerable latitude so that the particular situation in each community could determine the form of the organization actually put to use. Thus in one community the sales effort was organized by professional and industrial groups. In another it was built around a particularly active Rotary club. In another it leaned heavily on the labor organizations. In another it was handled almost entirely by the investment banking groups. In another it was handled by the commercial bankers. In some cases the farm organizations were used for solicitation.

It is clear that it would be futile to set up a fixed pattern of organization because here and there there are no labor organizations, some of the farm organizations appear to be unpopular and in some cities the Rotary clubs are not very active.

The banks have been participating splendidly in the campaign. Their banking floors are full of advertising. They were telephoning customers who have funds. They represent the organizing agencies in most communities. They have spent a good deal of money in advertising the obligations and handling the transactions.

The "basket" of securities, in the view of every individual interviewed, seemed to include about the right number and variety of issues for bank and institutional, as well as for individual investors. However, a survey of opinion after the drive is over might yield more reliable information on this point. I gathered that the G's may very well make it more difficult to sell the 2 1/2's in most small and medium-sized communities. The difficulty of educating the salesmen concerning the various issues in the December drive might make it a good idea to use the same basic issues for the next campaign so that more effort could be placed on selling and less on educating the salesmen.

The advertising job is generally regarded as a good one. One criticism expressed was with regard to failure of the advertisements to feature the whole "basket". Most of the

advertisements apparently overstressed the 2½'s, which are difficult to sell in the smaller communities in competition with the B's and G's. There was some talk about lack of zip in the advertisements. The people out on the firing line seemed to sense that the conventional form of security advertising would work all right with the high-bracket investors but that something a little more popular is desirable if the low-bracket people are to be brought into the picture.

The talk of forced savings in several communities seems to have frightened some investors, who interpret that term to mean the conscripting of present savings. More than one of the bankers interviewed stated that some prospects were fearful that if they held their savings where the Government could lay its hands on them the savings would be taken away.

While most local chairmen appear to be doing a splendid job in the very short period they had available, they can do a still better job if they are given some professional assistance. In one community it might be desirable to lean a little more heavily on the direct mail approach, while in another it might improve the sales effort to bring the labor unions or the professional groups a little more actively into the campaigns. I think it was a help to a few of the men I interviewed to find out what some of the other communities were doing. One man said that he had neglected entirely a very active Rotary club and would have a meeting the next day at which the whole program could be given a little zip.

It is clear in all of these communities that one group of savers is not being reached at all, in either the Victory Loan Committee or the War Savings Staff drives. The former is a very efficient means of reaching the middle and upper-income brackets. The latter is effective only in pay roll deduction. Many workers, even in the non-boom communities, such as those visited, have funds which are not reached with the ten per cent pay roll deduction, and most such individuals are not on the Victory Committee prospect lists. Such individuals are believed to have a substantial amount of funds. They are hard to locate since they are not on the books of the banks and in some cases they are not even in the telephone or the city directories. These people whose savings have increased sharply in the past year or so because of two or three workers per family, overtime, increased wages, and work for the first time for the full year instead of just for part of it, can be reached only through a house-to-house campaign. Every banker with whom I discussed the question agreed with that.

Even in these non-boom towns the maldistribution of the increases in incomes which originate in the war effort is striking. While many families have two, three, or even five times the incomes they had two years ago, there are other individuals whose dollar incomes are not up at all and whose real purchasing power and saving ability has been curtailed by the rise in the cost of living.

It may be that the maldistribution of these increases in incomes is, from the Treasury's point of view, quite important; for if in bringing the communities' savings to the Treasury forced savings or tax devices are used in such a way as to "take the hide off" the millions of people whose incomes have not increased at all while they leave the chief beneficiaries of the war effort enough money to increase their scale of living materially or to spend lavishly at the local beer parlors, as a great many of them are doing, a great injustice will have been done.

I found in these small non-boom communities further evidence of the maldistribution of increases in incomes which we had discovered in certain other analyses. I found the same thing in the Far West states, in Michigan, in Illinois, and in Massachusetts, where I have taken the trouble to study the situation. Furthermore, I have obtained - on a confidential basis - from the chief employment executives of a number of the largest corporations in the country evidence that while thousands of their employees are making a very good thing out of the war the white-collar groups are caught between rising costs and stabilized incomes.

This maldistribution of increases in incomes which I saw in each of these small cities must be allowed for in setting up the next Treasury drive, for it is far better to use the techniques of high pressure salesmanship to induce a worker to use most of the increased income to buy War Savings Bonds than it is to put into effect a fiscal program which would require everyone, regardless of his ability to do so, to put twenty or thirty per cent of his income into War Bonds or taxes. In the one case no one would be hurt, and in the other, many good American citizens may be forced to cancel insurance, sell their homes, reduce their assistance to dependent relatives, and reduce their support of home charities and religious organizations, or curtail other socially desirable expenditures.

The case for mobilizing for a real selling campaign to get this money where it is, rather than try to squeeze it out where it just doesn't exist, seems to me to have demonstrated

to be a very good one. And it was interesting to see that this maldistribution of increases in income is quite pronounced in every one of the communities I visited.

As to the organization, the Victory Fund Committees sometimes include the chairmen of the War Savings Committees. In certain of the towns visited, the War Savings Committees do not seem to be as active as they were a few months ago, or as they ought to be. There has been a little difficulty because in some cases the Victory Loan Committees do not know whether they would be permitted to sell an E Bond, and because here and there the War Savings Staff people feel that when they get a man invested in E's that is all that is expected of him. But, in general, the Victory Loan Committees are promoting E's because in the small towns many of their prospects have not taken their limit in such obligations.

I gained the strong impression that the sales effort is producing better results in those communities where the Victory Loan Committees and the War Savings Committees are cooperating closely.

Currency is flowing out in most of these communities; but in one of them the trend is inward; week by week the banks in that community are returning currency to the Federal Reserve. In one of them there was no net in or out-flow. But in every case the bankers said that their prospect lists did not include the bulk of people who hold the currency.

The reasons cited for currency "hoarding" are fear of confiscation by way of forced savings schemes, unwillingness to do business with the banks which have had to initiate service charges and low rates of interest on time deposits. The money flowing into circulation is not evenly distributed by communities or by individuals in the community. It can be gotten out of circulation not, I think, by warning people against hoarding, for that might merely advertise the desirability of hoarding, but by having a War Bond salesman point out that there is an attractive alternative available, and that is investment in United States Savings Bonds.

The more potent the salesmanship for bonds and the stronger the appeal addressed to the lower income groups, the more currency will be returned from current circulation.

Suggestions for Consideration in Connection
with Campaign No. 2

1. That investigations such as that just completed in Ohio, Illinois, and Indiana be conducted in the first two or three weeks of January by fifteen to thirty trained

investigators covering every state in the Union to discover what improvements in drive technique are called for from the experience of the December campaign. One of the market research agencies can do that job quite easily.

2. That on the basis of these reports, a sales manual be prepared, listing the most effective organizational set-ups, the best sales appeals, the methods of training salesmen, and so forth.
3. That the fifteen to thirty investigators be sent to spend one day with the chairmen of each of the largest counties to counsel with them in perfecting their organizations, not to force uniformity of organization, but to make sure that each community organization head knows the tricks of the trade.
4. That the Victory Loan Committees and the War Savings Committees be brought into one selling organization, perhaps with the chairmen of the Victory Loan Committees and the chairmen of War Savings Committees serving as co-chairmen of the new committee. The Victory Loan Committee might be in charge of solicitation of the larger investors in each community and the War Savings Staff could have charge of house-to-house solicitation of all individuals not on the Victory Loan Committee list, and, of course, in charge of any further pay roll deduction drives. But both groups must sell the entire "basket" - concentrating, of course, on the securities its prospects are interested in.
5. That consideration be given to the payment of a commission of 1/8 to the individual salesmen on the house-to-house staff. In the communities visited I found that the banks and many business concerns are understaffed and are unable to free individuals for door-to-door solicitation. The Victory Loan Committee people need not be compensated, for they will be recruited from the well-to-do people in each community. All that is required is a call from the bank president to the head of some local industrial concern. But the War Savings Staff salesmen may be young lawyers, real estate agents, or insurance agents who will do their job better if there is some small compensation. The larger security houses can, as did one in New York City, pay an eighth to their salesmen, but the smaller dealers and the banks in the small community simply can't do it.
6. That the Treasury pay for much, if not all, of the War Bond advertising. The Treasury cannot expect an adequate advertising campaign to be contributed locally for the

- 7 -

Treasury needs to advertise where the prospects are, not where some public-spirited group is willing to contribute the funds. The advertising should not be in the form of the conventional announcement, for the masses, not the classes need to be sold.

- - - - -

I believe a campaign along the lines I have described will yield ten to twenty billion dollars per annum from people who will not be reached through the pay roll deduction or the Victory Loan Campaign type of approach. A successful campaign to sell securities voluntarily to the people who have increased their savings sharply in the past two years, and to those who have hoarded currency, may make it unnecessary to resort to the device of forced savings in any vicious form.

The first campaign had to be experimental and organizational, and in the smaller communities I visited it was successful in that sense, way beyond my expectation. I came back convinced that the directional effort from the top must have represented one of the finest jobs of its kind ever done.

D. Murray Shields

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of December sales to date with sales during the same number of business days in November and October, 1942

(At issue price in thousands of dollars)

Date	December		Cumulative sales by business days			December as percent of November
	daily sales	December	November	October	December as percent of November	
December 1942						
1	\$ 4,116	\$ 4,116	\$ 5,164	-	-	79.7%
2	4,489	8,605	9,272	-	-	92.8
3	10,042	18,647	20,460	\$ 5,045		91.1
4	39,690	58,337	31,309	42,285		186.3
5	16,648	74,984	53,076	52,984		141.3
7	46,424	121,408	62,326	73,919		194.8
8	11,887	133,295	96,366	98,490		138.3
9	17,857	151,152	111,002	117,077		136.2
10	13,607	164,759	146,494	131,593		112.5
11	38,664	203,423	161,929	169,859		125.6
12	17,480	220,903	181,120	179,232		122.0
14	52,056	272,959	188,497	194,811		144.8
15	15,530	288,488	230,083	222,243		125.4
16	22,764	311,252	241,624	239,891		128.8
17	24,848	336,100	262,274	254,201		128.1
18	25,260	361,359	287,409	290,282		125.7
19	17,907	379,266	314,568	312,386		120.6

December 21, 1942.

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

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. These figures have been adjusted on the basis of wire reports and therefore will not agree with the Treasurer's accounts.

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of December sales to date with sales during the same number of business days in November and October, 1942

(At issue price in thousands of dollars)

Date	December		Cumulative sales by business days			December as percent of November
	daily sales	December	November	October	December as percent of November	
December 1942						
1	\$ 197	\$ 197	\$ 303	-	-	65.0%
2	329	527	1,115	-	-	47.3
3	2,688	3,214	7,846	\$ 2,218		41.0
4	13,947	17,161	14,720	20,322		116.6
5	12,303	29,464	31,425	24,325		93.8
7	17,522	46,986	34,030	31,922		138.1
8	2,872	49,858	43,940	46,695		113.5
9	9,576	59,434	49,326	55,998		120.5
10	5,651	65,085	58,842	59,711		110.6
11	14,274	79,359	64,157	74,275		123.7
12	7,135	86,495	71,352	76,430		121.2
14	15,430	101,924	73,989	83,857		137.8
15	7,719	109,644	83,246	91,884		131.7
16	5,146	114,789	88,888	98,457		129.1
17	11,654	126,443	97,154	101,252		130.1
18	6,466	132,909	104,487	110,052		127.2
19	7,992	140,901	113,191	115,757		124.5

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

December 21, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. These figures have been adjusted on the basis of wire reports and therefore will not agree with the Treasurer's accounts.

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

December 21, 1942

MEMORANDUM FOR THE SECRETARY:

At 10:30 A. M. Friday, December 18, 1942, Secretary Morgenthau received Senator Downey of California, and a discussion ensued concerning Treasury policy in regard to applications for additional branches by the Bank of America National Trust and Savings Association. Under Secretary Bell and Comptroller Delano were present.

Senator Downey opened the discussion by stating the Bank of America had requested that he present to the Secretary a brief outlining the position of the bank. He stated he had not read the brief himself as yet but would like to leave it with the Secretary for study and answer. He further stated the Giannini interests felt that under the law they were entitled to certain new branches and that they were being discriminated against by continual denial of their applications. Senator Downey made it clear that he was not undertaking to substitute his judgment for that of Treasury officials but that he

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was presenting a viewpoint.

Secretary Morgenthau replied that he would like to take a few minutes to inform the Senator as to the background of this controversy and the present attitude of the Treasury. He then made a brief summary of the Treasury supervisory policy in this case, pointing out that in 1933, his predecessor, Secretary Woodin, had decided to permit the Bank of America to reopen against the advice of every one concerned and that ever since he (Secretary Morgenthau) had been Secretary of the Treasury he had been attempting to improve the condition of the bank and to force the Gianninis to abandon policies and practices which were universally condemned by all who knew the facts. The Secretary stated that this campaign to restore the asset condition of the institution and to improve the management had been met with sullen opposition at every step from the Gianninis and their officers, and that this opposition included personal attacks on himself and attempts to have him removed from office.

Secretary Morgenthau continued that finally Mr. L. M. Giannini had called on him personally and alone. Mr. Giannini was then told that, despite their many attacks and discourtesies, the Secretary of the Treasury had no interest in either A. P. or L. M. Giannini, but that his interest was unflagging in preventing a further expansion of a banking organization already over-extended. Mr. Giannini was also firmly informed at this conference that the policies and practices which had proved so damaging to the bank and the general financial situation on the Pacific Coast must not be resumed and that there would be no weakening of supervisory pressure toward that end. Subsequent to this conversation with Mr. Giannini, the attitude of the Bank of America underwent a change and steady improvement has continued up to the present time.

At the Secretary's request, Mr. Delano explained somewhat more in detail the Treasury policy as to branch removals and transfers. It was explained to Senator Downey that while any increase in the number of branches had been consistently denied, a substantial number of

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transfers of existing branches from one location to another had been authorized. These transfers fell into two classes -- routine transfers of a short distance to permit improvement in the convenience of locations; and transfers permitted in those cases where both the public and the bank would be served by moving from an uneconomic to a more profitable and more useful location. It was explained that such transfers were always handled on a case basis, and that they would not be permitted where the result was simply expansion or intrusion into the field of any small independent bank.

Senator Downey expressed himself as appreciative of the courtesy shown him and of the temper of the explanation. The subject was then changed to one of taxes, the Senator pointing out the difficulties which will be encountered in attempting to collect taxes from certain piece work farm laborers. The conference then terminated.

The brief presented by the Bank of America through the good offices of the Senator was turned over

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to Mr. Delano for study with the understanding there should be further discussion as to what action should be taken in regard to it.

Preston Delano
Preston Delano

swB

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

December 21, 1942

TO Secretary Morgenthau

FROM Ferdinand Kuhn, Jr.

Regarding the distribution of the work I have been doing, I would suggest that you give the following assignments:

Savington Crampton:

- (1) To handle the correspondence that has been coming to me from Miss Chauncey's office, some of it consisting of letters for your signature and a larger number of letters to be written and signed on your behalf.
- (2) To receive visitors sent by your office.
- (3) To continue as executive secretary of the committee that has been working on public information on taxes and inflation.

Peter Odegard:

- (1) To direct the writing of public messages signed by the Secretary in connection with War Bonds. All such messages, whether requested from the outside or by the War Savings Staff, should come up to the Secretary through Mr. Odegard.
- (2) To handle all Treasury relations with O.W.I. except speech clearance.

Harold Mager:

- (1) To prepare the Secretary's public speeches and to assist in the preparation of all other formal statements.
- (2) To write or assist in the writing of speeches or articles for other Treasury officials who ask for his help.
- (3) To read Government reports that may be sent to him by Miss Chauncey and to mark passages if he thinks the Secretary would be interested in them.

Herbert Gaston:

To edit, for style and content, all Treasury speeches, other than the Secretary's, and to approve them for policy. These speeches shall not be made unless Mr. Gaston approves the manuscript.

Charles Schwarz:

To handle the clearance of speeches with O.W.I. All Treasury speeches by the Secretary, Under Secretary, Assistant Secretaries and the General Counsel, should, after leaving Mr. Gaston, be referred to Mr. Schwarz, who will clear them with Mr. John R. Fleming's office at O.W.I. Mr. Fleming's office, in turn, will refer to Mr. Schwarz all Government speeches bearing on Treasury problems. Mr. Schwarz will circulate them among the appropriate Treasury officials and will send their comments or suggestions back to Mr. Fleming.

J.K.

December 21, 1942.

MEMORANDUM FOR THE PRESIDENT

Mr. Temple Seay has been engaged by the Division of Foreign Funds Control of the Treasury Department as an attorney in its Washington office at \$6400 a year. He will start his new work on January 1, 1943.

(Signed) H. Morgenthau, Jr

Sent by Sturgis 12:20 12/19/42

File in Diary

JLE:kb

MEMORANDUM

December 5, 1942.

TO: The Secretary
FROM: Mr. Sullivan

JLS

Mr. Wenchel has an appointment with Temple Seay Monday morning at 11 O'clock. Mr. Wenchel is prepared to offer Mr. Seay a position at \$6400 a year trying income tax cases in his choice of Boston, Pittsburgh, Kansas City, Houston or Chicago.

()

MEMORANDUM

December 3, 1942.

TO: The Secretary
FROM: Mr. Sullivan

JLS

Upon receipt of the memorandum from the President to you relating to a position for Mr. Temple W. Seay, I phoned Commissioner Helvering who suggested that Mr. Seay communicate with Mr. Wenchel. I then phoned Mr. Seay and Mr. Wenchel and they are to get together this week.

Monday ✓ B

hatched

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THE WHITE HOUSE
WASHINGTON

November 30, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

What can you do about
Temple W. Seay whose term on
the Processing Tax Board
expires on January first?

F. D. R.

THE ASSISTANT SOLICITOR GENERAL
WASHINGTON

copy to Mr. White
12/22

December 21, 1942

Dear Secretary Morgenthau:

If it has not already been done, what about the idea of the Treasury's minting some gold coins for use in occupied territories? American gold pieces used now and in the near future may have some interesting implications in the conduct of the war and after.

For the course of the war, the advantages of gold coin are obvious. If Europe should get to a common currency after the war, it may well be that it ought to be tied to the dollar. The people of Europe know the dollar and would doubtless rather have it than any other form of currency.

Sincerely yours,

Charles Lutz

The Honorable

The Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 21, 1942

TO Secretary Morgenthau
 FROM Mr. Hays.
 Subject: The Business Situation,
 Week ending December 19, 1942.

Summary

Industrial production: Industrial activity declined less than seasonally in November and the FRB adjusted index rose to 191 as compared with 189 (revised) in October and 167 in November 1941. Recent reported cancellations of various Army munitions contracts are causing dislocations currently.

Construction activity: Decline in construction next year expected to release one million men for other lines of work. This is more than the additional number of workers expected to be needed in the shipbuilding industry.

Gasoline shortage: Only 365,000 barrels daily available for distribution in rest of December in 17 Eastern states, as compared with recent consumption rate of 450,000 barrels daily. Further drop in supplies to 331,000 barrels daily estimated for January.

Wholesale prices: BLS all-commodity index rose 0.4 to a new high at 100.5 in the week ended December 12. Led by grains, basic commodity prices moved higher last week, with bullish implications seen in Henderson resignation.

Retail trade: Department store sales rose to a new peak in week ended December 12, with gain over year-earlier levels widening to 16 percent as compared with 10 percent in previous week.

Department store stocks: Stocks in New York Federal Reserve District declined in November, and gain over year-earlier levels narrowed for fourth consecutive month. At the end of November, stocks were 13 percent above the corresponding date in 1941. The higher price level would account for a rise of about 6 percent.

- - - -

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Industrial production declined less than seasonally in November

Although industrial production in November receded slightly for the first time since our entry into the war, the decline was less than seasonal. As a consequence, the FRB seasonally-adjusted index of production for November rose to another new high at 191, as compared with 189 in the previous month and only 167 in the pre-war month of November 1941. (See Chart 1.)

However, the fast pace of industrial activity in recent months may be slowed down, temporarily at least, by the extensive cancellation of Army munitions contracts reported in recent weeks. Shifts made necessary by changing war requirements, as well as an under-estimation of plant capacity, have been cited as the principal factors underlying cancellation or reduction of orders for various items, including large and medium tanks.

In addition to the dislocations caused by shifts in production schedules, evidence continues to accumulate that the construction and tooling-up phases of the war effort have passed their peak. In connection with the prospective decline in construction during 1943, the Secretary of Labor said last week that the tapering-off in construction activity in the coming year will be sufficient to release 1,000,000 men for other lines of work. Employment on privately-financed construction is expected to drop to only 40 percent of the 1942 level, while employment on publicly-financed construction is expected to recede to 60 percent of the 1942 level. It was pointed out that the number of men released from construction work will more than offset the number of additional workers expected to be required in the shipbuilding industry.

Production of machine tools is reported to have been declining from the peak reached in October, and the present outlook is for lower production in 1943 than during the current year. Partly due to cancellations, new orders for machine tools in October are said to have fallen far short of production.

Gasoline and fuel oil shortage may affect war effort

Although shifts in production schedules are causing some dislocations, the greatest immediate threat to the war program appears to be the acute shortage of gasoline and fuel oil in the Atlantic Coast area.

- 3 -

Coincident with the temporary stoppage of all non-emergency gasoline sales for A, B, and C coupons on Friday, it was revealed that only 365,000 barrels of gasoline daily would be available for distribution in 17 Eastern states in the rest of December, as compared with a recent consumption rate of 450,000 barrels daily. Furthermore, the daily rate available during January is expected to drop to 331,000 barrels.

Fuel oil stocks are reported to have dropped to perilously low levels under the impact of unexpectedly large consumer demands and export requirements, and oil trade circles are said to be fearful of an imminent break-down of the fuel oil rationing program. The fuel oil shortage is not confined to the Eastern states, but is also reported serious at many points in the mid-West. In view of the disrupting ramifications of acute gasoline and fuel oil shortages, it is obvious that prompt and effective handling of the problem will be necessary to avoid impairment of the war effort.

Commodity prices continue to rise

Momentum was added to the rise in prices of farm and food products last week as the resignation of Price Administrator Henderson was interpreted as a major victory for the farm bloc. Members of Congress were reported to be forecasting a renewed and successful drive in the next session to revise the parity formula and thereby ensure higher agricultural prices. In addition to this latest blow to Administration efforts to control farm and food prices, new evidence appeared of current advances in retail food costs and curtailed food supplies.

To these various factors, prices of staple commodities not subject to controls responded buoyantly. Higher prices for commodities not subject to control carried the BLS index of 9 uncontrolled commodities to a new peak, together with the BLS index of 28 basic commodities. (See Chart 2, upper section.)

Grains led the price advance last week. Cash wheat reached a new high since the 1936-1937 peak, and was 11 percent higher than a year ago. Feed grains were also strong. Oilseed prices were buoyed by a report from the Department of Agriculture indicating a shortage of fats and vegetable oils for food and industrial purposes in 1943 estimated at 7 to 9 percent of present requirements. Flaxseed sold at highest levels since April, and cottonseed oil remained at its ceiling.

- 4 -

Hogs sold for their highest prices since the first week in November. Although receipts are now about in proportion to supplies on farms, demand continues heavy. Beginning with the week ended November 28, the Department of Agriculture has resumed its pork and lard purchase program in quantities equivalent to the high rate of early summer.

Sharp advances in wholesale prices in the week ended December 12 for grains, cotton, peanuts, and certain fruits and vegetables lifted the BLS all-commodity wholesale price index to 100.5 (1926=100), a new high since the outbreak of the war in August 1939. The index now stands 34.0 percent above the level of August 1939.

Food prices still rising

Both wholesale and retail food prices continue their marked rise begun early in 1941. (See Chart 3.) In explanation of the 1.2 percent rise in retail food costs in the month ended November 17, the Bureau of Labor Statistics has stated that increases in the uncontrolled items of fresh fruits, vegetables, and fish amounted to 6.6 percent. These products alone, as of November 17, were 21 percent higher than in May of this year. The rise compares with an increase of 7.8 percent in total food costs during that period.

Additional advances in retail food prices were disclosed officially last week. Price increases for 21 food items were allowed by the OPA, to afford relief to wholesalers and retailers. Increases were allowed on such staples as rice, dry beans and dried fruits. An increase of one cent a half pint in the retail price of light cream, the OPA said, was expected to halt "any abnormal" diversion of butterfat from cream to butter.

Ceilings in dollars and cents were placed on all types of domestic poultry at wholesale prices slightly higher than those which have prevailed this year. The new wholesale prices, according to the OPA, are designed to encourage producers to meet the Department of Agriculture's production goals. Retail prices, except for turkeys, for the present are still under the ceiling of the seller's highest price from September 28 to October 2.

Food supplies tighten

Food distribution showed no improvement last week. The Executive Secretary of the New York State Food Merchants Association said that the butter situation now resembles in

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many respects the sugar and coffee situations just before those staples were officially rationed. Grocers continue to limit sales to customers, while hoping that the CPA will take immediate steps to add butter to the list of rationed commodities.

Factory butter production in 1942 through October was 5.3 percent less than in the first ten months of 1941. Cold storage holdings of butter (see Chart 4, lower section) have continued to run less than a year ago beginning with the July 1 holdings, and in more recent months they have been less than in 1940. On December 1, they were 70 percent below the holdings of a year earlier, and the lowest for that date since 1932.

Milk production (upper section of Chart 4) has continued its more than seasonal decline, and for the month of November dropped practically to the level of production of 1941, although there were more cows in the herds. A decrease of about 2½ percent in milk production per cow on December 1, as compared with a year earlier, was offset by the greater number of milk cows on farms. Record feeding of grains and concentrates was not sufficient to overcome the adverse influences of labor shortages and perhaps other factors, which have reduced the percentage of cows milked to the lowest December 1 figure since 1934.

Supplies of other foods in storage have also declined. Cold storage holdings of cheese during November dropped below their 1941 levels for the first time this year. Storage holdings of meat on December 1 continued lower than a year earlier, and this decline, as heretofore, was due entirely to decreases in holdings of pork. Civilian supplies of pork, veal, lamb, and mutton have been ordered cut about 13 percent, effective during the first quarter of 1943. The reduction was ordered for the purpose of filling expanding war needs.

New civilian quotas for meats

Civilians who are now being asked to restrict per capita consumption of meats to 40 ounces a week, after the first of the year will be cut to 35 ounces through further limitations on packer deliveries of meats for civilian use. A comparison of the current and new quotas for packer deliveries is as follows:

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	<u>Last quarter of 1942</u>	<u>First quarter of 1943</u>
	(Percent of deliveries in corresponding quarter of 1941)	
Beef	70	70
Pork	75	70
Veal	100	70
Lamb and mutton	95	75

In order to relieve local meat shortages, packers are to be allowed to distribute 10 percent of their quotas for the first quarter of 1943 during the last 12 days of December.

Department store sales at record levels

With the customary peak in Christmas buying still one week away, department store sales in the week ended December 12 rose to within 1 percent of the all-time record set in the third week in December last year. Moreover, the gain over year-earlier levels rose to 16 percent, from 10 percent in the week ended December 5. (See Chart 5.) Sales gains over the corresponding week in 1941 ranged from 10 percent in the New York, Philadelphia and Chicago districts to 44 percent in the San Francisco district, where sales in the 1941 week were especially hard hit as a result of the attack on Pearl Harbor.

Although sales last week probably fell somewhat short of earlier expectations, due to the adverse effects of the gasoline crisis on automobile driving in the Eastern states, Dun and Bradstreet report that sales rose to a new peak for the year and reached record-breaking figures. As a result of the heavy buying, retail stocks in general were said to be down to around last year's levels.

New York department store stocks declined in November

Department store stocks in the New York Federal Reserve District (in dollar value) declined during November, and the adjusted index of stocks fell to 134 from 145 in the previous month. The gain in stocks over year-earlier levels was reduced for the fourth consecutive month. By the end of November, stocks were only 13 percent above the corresponding date in 1941, as compared with 22 percent at the end of October and no less than 82 percent at the end of July. Stocks of

- 7 -

department stores in New York City showed a similar trend and at the end of November were only 16 percent above year-earlier levels, thus lending support to some predictions that with the conclusion of Christmas trade stocks will be down to or even below 1941 levels. Prices of typical department store items at the beginning of November averaged about 6 percent higher than last year, according to the Fairchild index.

Industrial stock prices rise to year's high

The customary year-end rally in stock prices, which has occurred in 41 out of the last 44 years, appeared to be getting under way earlier than usual last week, as industrial stock prices on Thursday moved up to a new peak for the year on the heaviest volume of trading recorded thus far in 1942. Utility stocks advanced to within a fraction of their high for the year, while railroad shares, which have been sagging recently in reflection of threatened wage increases and rate cuts, also strengthened. (See Chart 6.) The volume of year-end tax selling is reported to have been considerably lighter than last year, and this factor undoubtedly has contributed to the recent improvement in prices. This will be the first time since 1928 that the average of industrial stock prices reached its year's high in December.

F.R.B. INDEX OF INDUSTRIAL PRODUCTION

1935-'39=100, Seasonally Adjusted

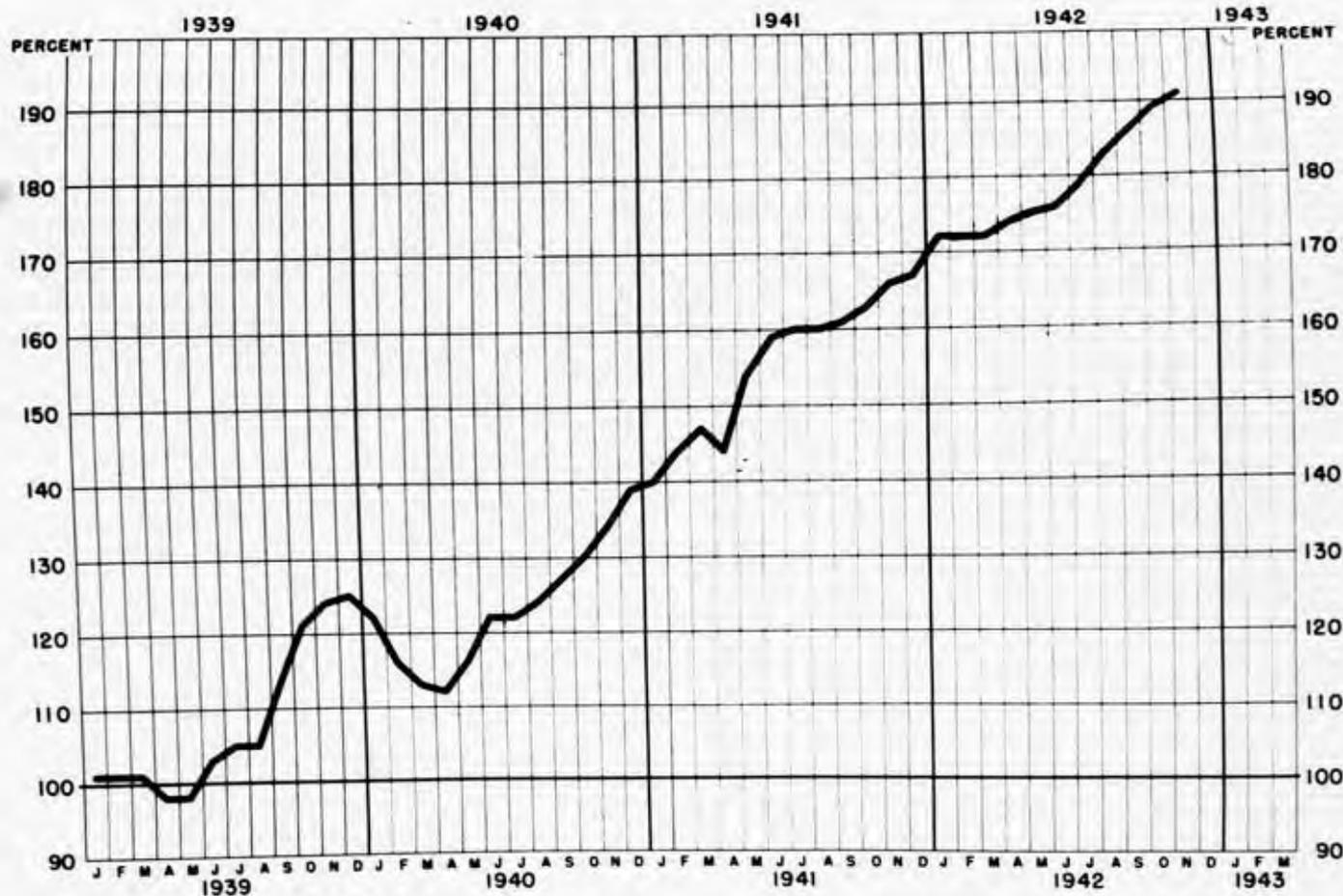
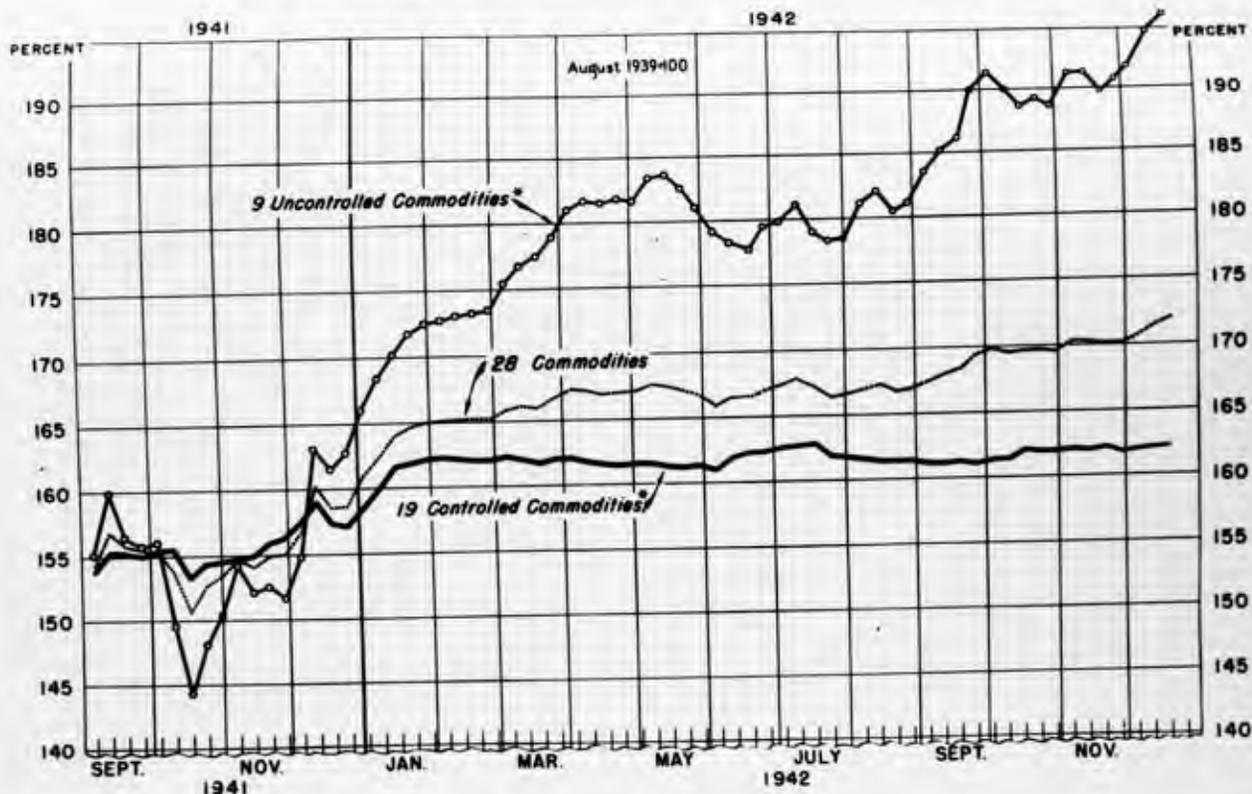
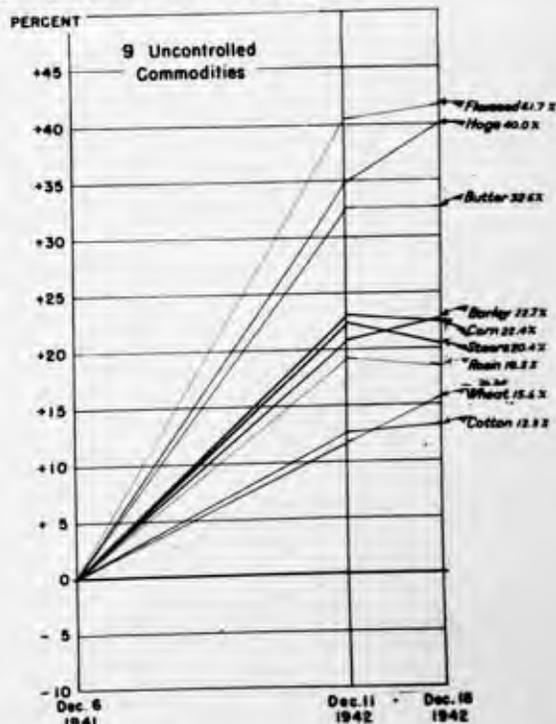
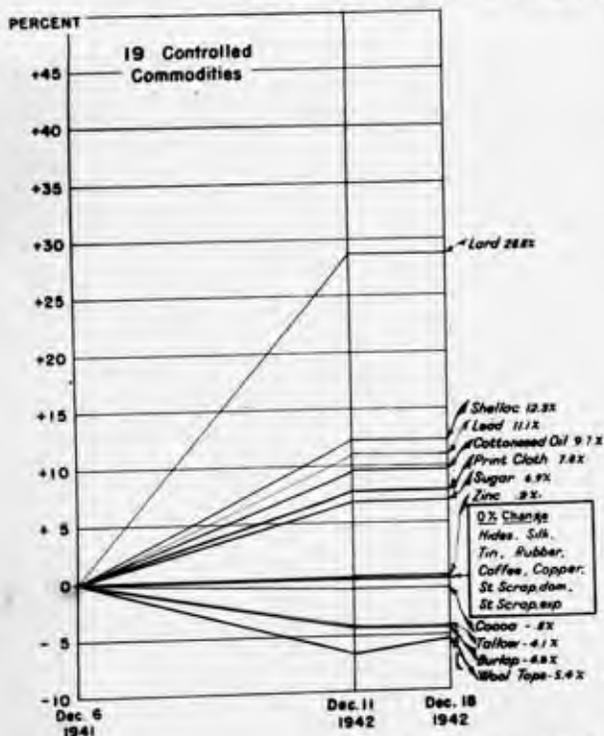


Chart 1
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MOVEMENT OF BASIC COMMODITY PRICES

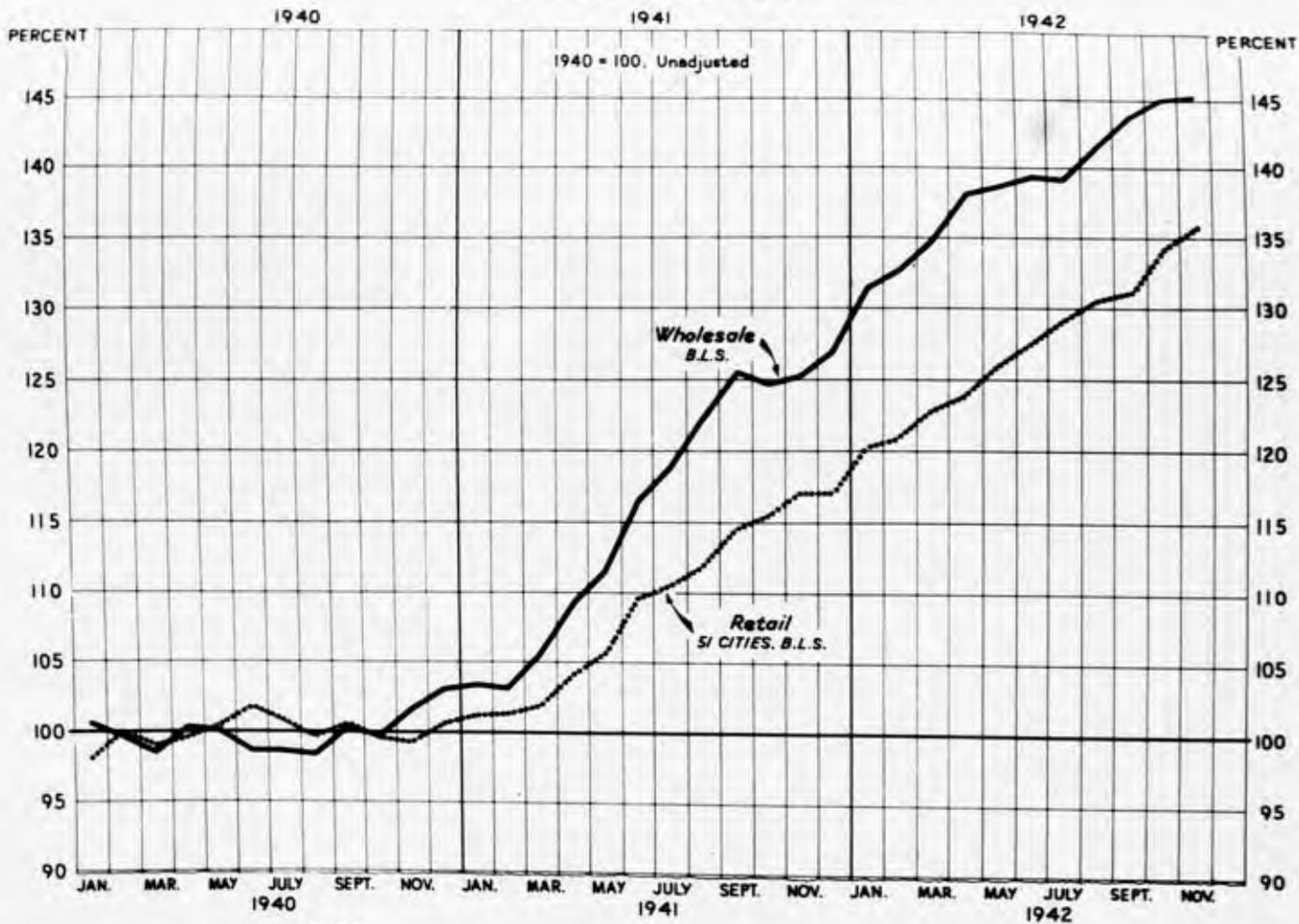


PERCENTAGE CHANGE DEC. 6, 1941 TO DEC. 11 AND DEC. 18, 1942



* 20 Controlled and 8 Uncontrolled previous to June 26

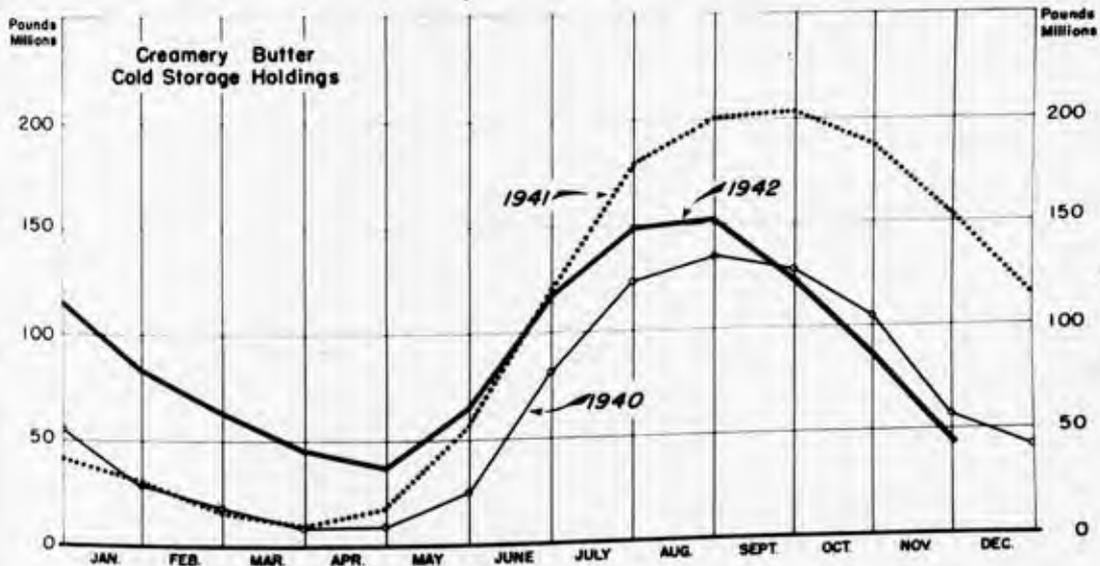
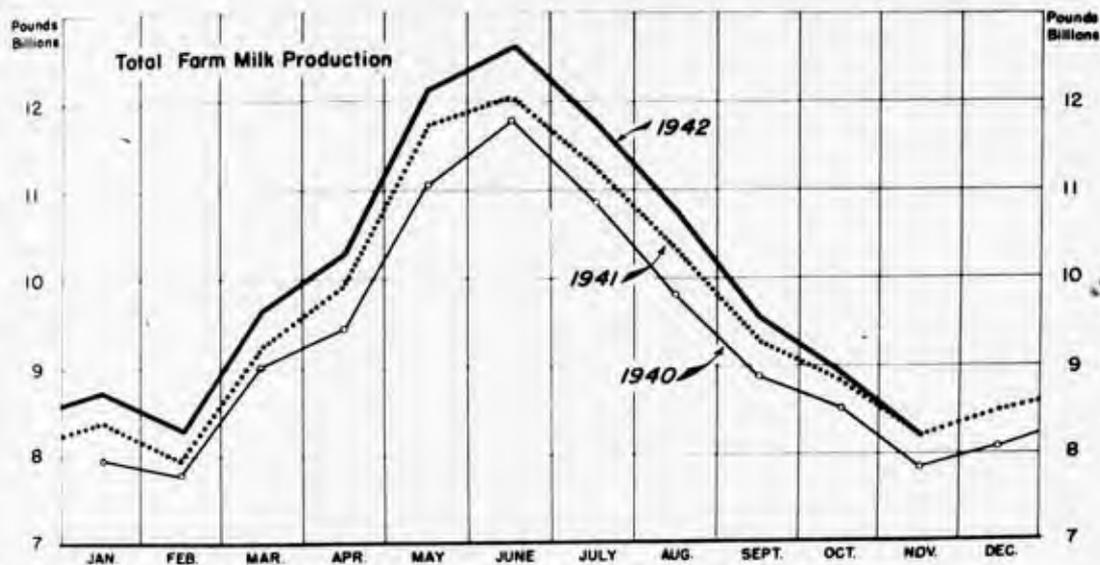
FOOD PRICES



Office of the Secretary of the Treasury
Bureau of Research and Statistics

Chart 3
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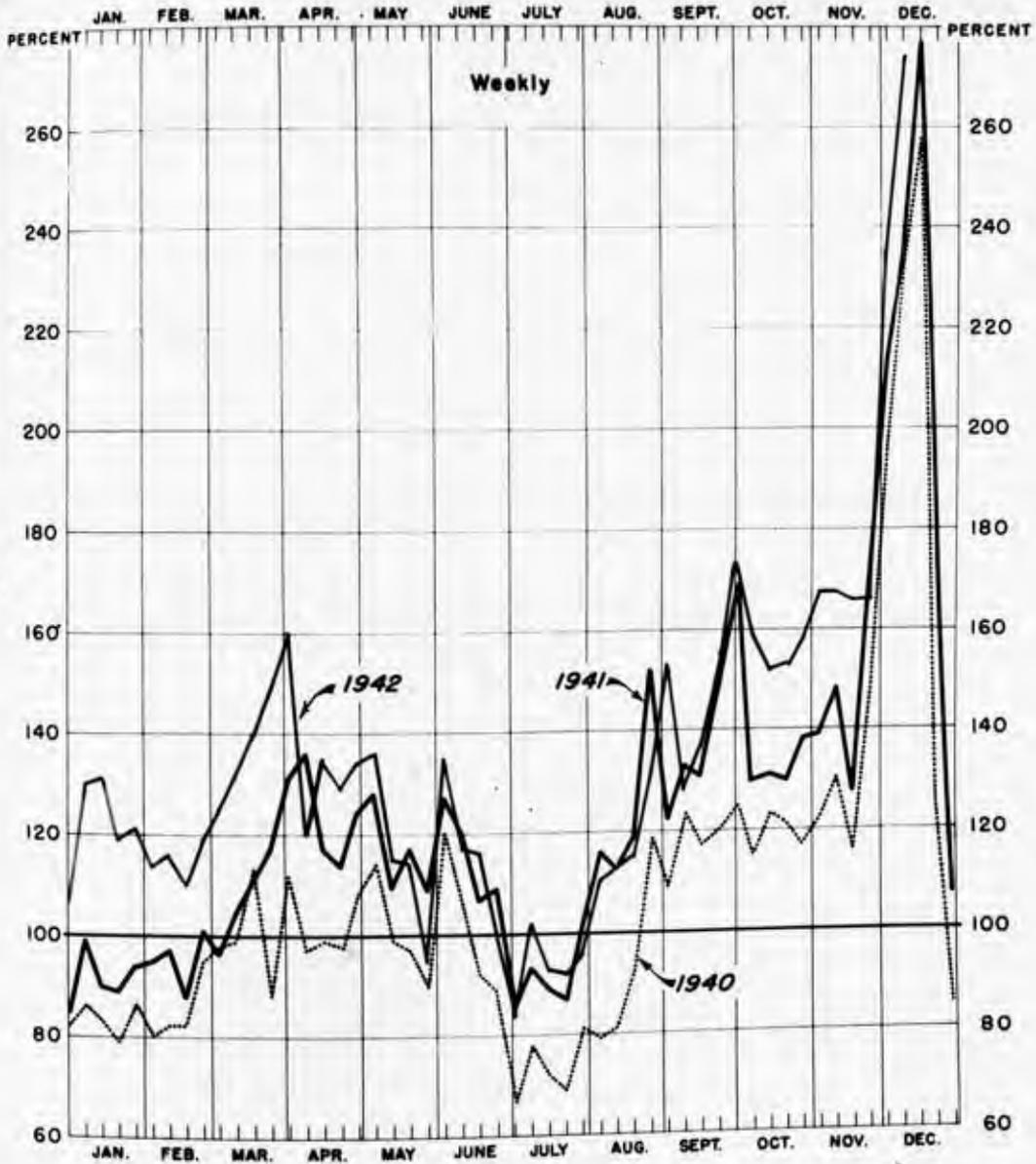
MILK PRODUCTION AND BUTTER STOCKS



Source: U.S. Dept. of Agriculture

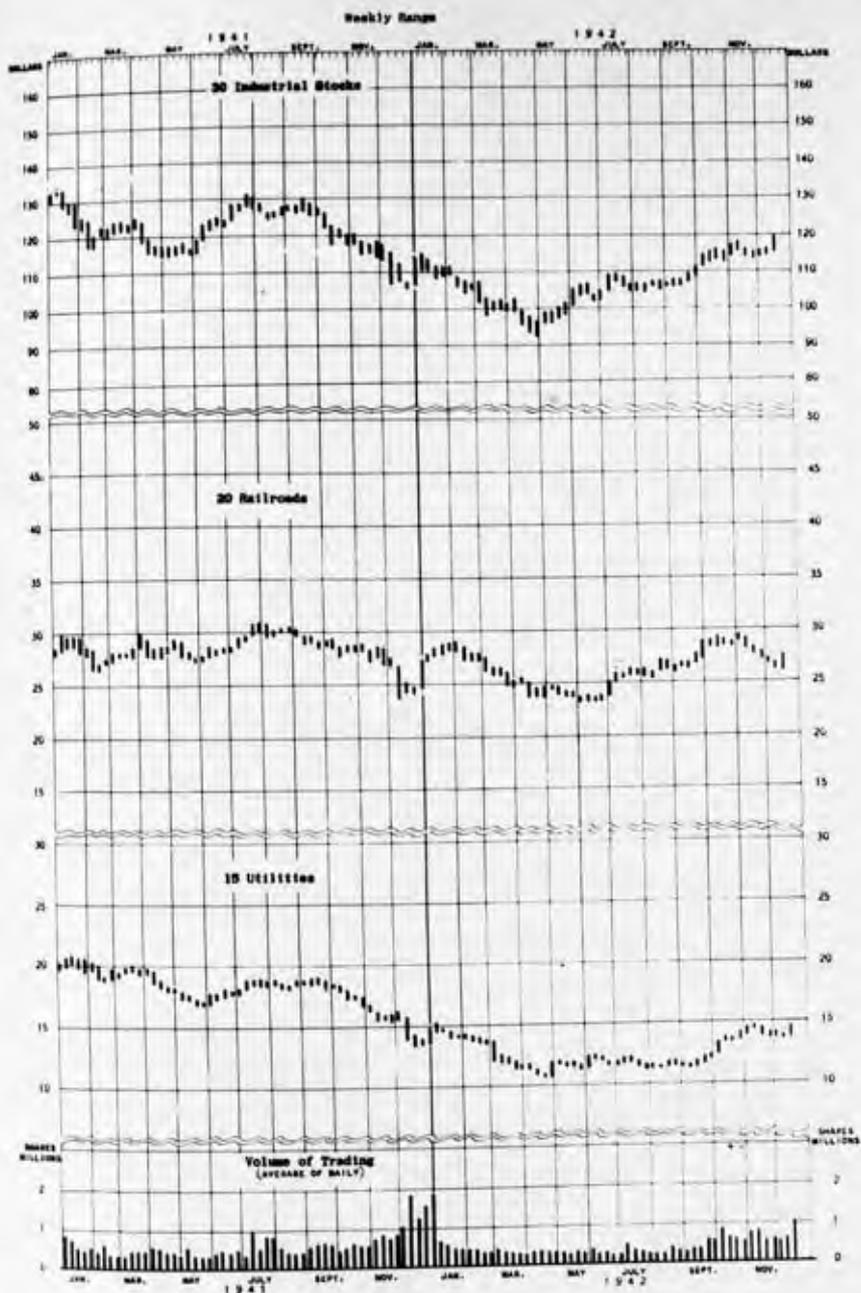
DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted



STOCK PRICES, DOW-JONES AVERAGES

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Chart 6



HIGH-LIGHTS OF THE WAR NEWS
(10:00 A. M.)

North Africa

1. Libya - British contact fleeing Axis troops 225 miles west of El Agheila as Rommel's forces reach Sirte.
2. Tunisia - French troops and U. S. fighter planes re-captured Pichon, 50 miles inland from port of Sousse. Allies also attacked Axis Sfax Railroad yards. Continued rainy weather prevented much ground activity.
3. Nazis reported massing reinforcements on the French Mediterranean.

India

1. Wavell's troops, unopposed, pushed along Bay of Bengal over 30 miles into Burma and 60 miles from Akyab. Ahead of ground forces, R.A.F. bombed Toungoo airdrome on railroad between Rangoon and Burma Road.
2. Only slight damage was done in Jap retaliatory attack on Calcutta, British claim.
3. Japs also opened drive on China in the East.

Russia

1. The Red army opened its third great winter offensive on the Don front with the Germans counterattacking. Already astride the strategic Moscow-Rostov railroad, Red troops are reported bearing down on key railroad junction of Millerovo.
2. At the same time the Russians continued to drive forward in the Rzhev area (the central front) and in the Stalingrad area.

The Pacific Area

1. Allies, using tanks (light General Stuarts) for the first time, smashed Jap pill boxes and other defenses which had held up ground forces for more than a month and drove to within 3,000 yards of Buna mission.
2. Jap commander reported killed.
3. With the capture of Buna, Gona, and Cape Endaiadere, Buna mission and Cape Sanananda remain last 2 Jap pockets on New Guinea.

Europe

1. London - Continuing their round-the-clock raids on Germany and occupied France, British and American planes bombed Duisberg, important German inland post on the junction of the Rhine and Ruhr rivers.

2. London - American flying fortresses and liberators in a Sunday raid on Romilly, 70 miles east of Paris, were understood to have shot down at least 46 German fighters and damaged 30 more.
3. Explosive developments were expected to follow the week-end conference of almost every European Axis leader except Mussolini at Adolf Hitler's eastern front headquarters.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPT. No. 440

Information received up to 7 A.M., 21st December, 1942.

1. NAVAL

A 2,000 ton ship was sunk by H.M. Destroyers in the Gulf of Hammamet, Tunisia, on night 20th/21st. One of H.M. Corvettes sank off BANGHAZI on 19th from unknown cause but probably mine. 60 survivors picked up. A 23,700 ton transport in convoy to MEDITERRANEAN was torpedoed north of ORAN 20th/21st. Attempts are being made to tow her into port.

2. MILITARY

LIBYA. Indications that Panzer Army is making great efforts to develop communications through TUNISIA but shortage of M.T. is likely to prove an obstacle. It is believed that shortage of M.T. fuel in LIBYA persists.

3. AIR OPERATIONS

WESTERN FRONT. 20th. 101 U.S. Fortresses and Liberators supported by 16 Squadrons of Spitfires were sent to ROMILLY SUR SEINE Airfield and airport. 71 aircraft attacked in good visibility dropping 145 tons of H.C. and incendiaries. One hangar was probably destroyed and many hits were seen on buildings and aircraft on the ground. Enemy casualties (provisional by Bombers) 45, 26, 5. 6 Fortresses missing. 9 Mosquitos attacked objectives including railway communications in Northwest GERMANY. One is missing. 9 enemy aircraft flew over KENT and EAST ANGLIA. Enemy casualties 1, nil, 2. Two Beaufighters were destroyed by P.V. 190's west of BREST. 20th/21st. 259 aircraft sent out - ROUEN 232 (11 missing, 4 crashed), Intruders 17, leaflets 4, anti-shipping 6. At ROUEN weather was good and attack is considered successful. A few enemy aircraft operated over YORKSHIRE and LINCOLNSHIRE. Some damage was caused at HULL.

TUNISIA. 18th. 36 escorted U.S. Fortresses bombed BIZERTE Harbour. One ship believed a cruiser was hit. Other U.S. bombers successfully attacked BOUSSE railway centre and on 19th escorted Bostons attacked SFAX railway centre. Enemy casualties 4, nil, 1. Ours 7 missing.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

December 21, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Here are a few items of interest from the latest Intelligence Report (public opinion survey) of the O.W.I.

1. Eighty-three percent of the public feel that the work week should be 48 hours or more; forty-seven percent think that over-time pay should start after a forty-eight hour minimum. Most of the public seem to be aware of the fact that the Wage-Hour law does not restrict war workers to a 40-hour week. (pages 5 and 6 of the attached report.)
2. More than half of the American people feel that organized labor should be represented on the War Production Board. (page 8 of the attached report.)
3. Lots of morale work needs to be done in communities near Army camps. Pages 12 to 15 of this report contain a survey that I think will be of special interest to you and Mrs. Morgenthau.
4. Public thinking is still very fuzzy on the subject of the post-war world. The isolationists are in a minority of only 20%, but the majority have hardly begun to think in concrete terms about our role in post-war years. (pages 16 and 17)

F.K.

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12-18-42

INTELLIGENCE REPORT 54

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morrenthau, Jr.

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A summary of investigation and analysis conducted for certain OWI officials, issued for OWI and the interest of other members of the Government.

The period covered by this report is the week of December 10 through December 16, except where otherwise specifically stated.

EDITORIAL ATTITUDES

BATTLEFRONTS

Editorial optimism adjusted itself this week to the modified tempo of allied progress. The news from Tunisia, Russia and the Pacific led commentators to more sober appraisals of the war as a long, tough struggle against determined, resourceful adversaries.

The increased length of allied supply lines and the necessity of constructing advance air bases were the chief reasons offered to account for the reduced speed of the allied offensive in North Africa. Rommel's flight from El Agheila offset earlier uneasiness. Most of those analyzing the situation regarded it as the prelude to a decisive air duel between the contending forces. The prevailing judgment was that the United Nations, because of their superior resources, would be able in time to bring up overwhelming aerial power.

Much of the comment on North Africa continued to deal with Admiral Darlan. Editors seemed to feel some obligation to justify the "military expediency" involved in the arrangement with the Vichy leader. They insisted vehemently that it will prove only temporary in character and pointed redundantly to the benefits which have accrued from it.

Interest in Darlan has been superseded, however, by anxiety over Spain's General Franco. The Generalissimo's speech to the Spanish Falange December 8 was widely interpreted as indicating that Spain intends to stay out of the war. The Atlanta Constitution remarked cheerfully, "It is not

likely that Franco of Spain will abandon the neutral position his country has so far held in the war, despite his outright approval of the fascist system of Government given in his speech of a few days ago."

But some observers were more apprehensive. According to the Christian Science Monitor, "Those who think they see in General Francisco Franco's latest public pronouncements assurances that Spain is not going to permit the Nazis to strike from Gibraltar at the flank of British-American forces in North Africa are fooling themselves... The fact is that Spain is on the brink of war and General Franco is bargaining with both sides. However, the chances of his coming to terms with Britain and America seem slight."

Editors were disturbed, too, by Franco's assertion that the choice of the world lies between fascism and communism. "The fallacy of his speech," said the Pittsburgh Post Gazette, "lies in the fact that there are not two, but at least three, possible courses for post-war Europe."

Comparatively little comment appeared during the week on developments in Russia. Stiffened German resistance and counterattacks have dissipated the more extravagant hopes for a decisive victory on the eastern front.

There was no more than subdued applause for General MacArthur's gains in New Guinea. The stubbornness of Japanese resistance and the long delay in our capture of Buna and Gona added to the awareness that triumph is not quite around the corner. The Richmond Times Dispatch expressed the prevailing view when it asked: "If it has taken from early August until mid-December for us to get and to maintain footholds on remote and lightly defended Pacific islands... how long will it take us to recover the

Dutch East Indies, the Philippines and Wake and to subdue Japan proper?"

The development of the week which proved most heartening to the news interpreters was the announcement that General Zeitzler had replaced General Halder as chief of the German general staff. The dominant judgment was that this shift indicates the Nazification of the German army and the eclipse of the regular military commanders. Some suggested that it signified a change in German military strategy from the offensive to the defensive. The Scripps-Howard newspapers went so far as to state that "Hitler's substitution of a Gestapo 'yes man' as head of the German army in place of the Junker General Halder may be the beginning of the end." Like others, however, this editorial went on to say, "But it is safer to assume instead that the change presages even more vigorous enemy warfare."

LABOR

The press was very nearly unanimous in condemning President Roosevelt's intercession in the Montgomery Ward situation. Mark Sullivan's comment on this score was fairly typical: "Montgomery Ward cannot be considered a war industry. If the President can successfully make this demand on Montgomery Ward, he can make it on any citizen or group."

Similarly, editorial sympathy was very much on the side of the railroad managements and against the demands of the railroad brotherhoods for a pay raise. Most commentators argued that the railroads had suffered severely until the war brought them unexpected prosperity and that now they should have an opportunity to build up needed reserves. The demands of the brotherhoods were taken as an occasion for attacking the "featherbed

rules* which the unions have allegedly maintained in the face of the war effort. Commentators fairly friendly to labor argued that the demand for higher wages would serve only to alienate the public more than ever from workers in general.

The principal argument leveled against the granting of pay increases to the railroad employees was that it would have an inflationary effect. Some newspapers employed this same reasoning to support approval of the lowering of railroad rates.

In comments on labor problems in general, editors continued to inveigh against the iniquities of the 40-hour week. There has been no diminution of the pressure for amendment of the Wage and Hour Law to have overtime pay begin only after a work week of 48 hours.

UNITED NATIONS

The speech recently delivered by Queen Wilhelmina of the Netherlands elicited a good deal of editorial comment on post-war problems. Most of the comment praised the speech highly and accepted it as a workable scheme for the post-war world. The Louisville Courier Journal, for example, called it "a heartening example of the anxious willingness of the world's greatest democracies to make the Atlantic Charter a living reality."

A minority, however, dissented — generally on the ground that pre-war imperial arrangements could never be restored. Attacks on this speech and on Prime Minister Churchill's assertion that the British empire would be preserved have been so sharp as to make some commentators fear serious

dissension between America and her allies. The New York Times warned that "any attempt to dictate terms to our allies instead of to our enemies is sure to be self-defeating." Nevertheless, the discussion of post-war problems has, for the first time, been couched in concrete terms and in regard to fairly specific proposals.

POPULAR REACTIONS

THE WORK WEEK AND OVERTIME PAY

Newspaper agitation for amendment of the Wage and Hour Law is reflected in a widespread popular belief that the weekly hours of labor should be lengthened for workers in war industries. Eighty-three per cent of the public feel that the work week should be 43 hours or more; 47 per cent think that overtime pay should start only after a 48-hour minimum.

In the latter part of November, the Bureau of Intelligence asked a national sample three questions concerning the working hours of war plant employees:

ABOUT HOW MANY HOURS A WEEK, ON THE AVERAGE, DO YOU THINK WORKERS IN WAR INDUSTRIES ARE ACTUALLY WORKING NOW?

HOW MANY HOURS A WEEK, INCLUDING ALL OVERTIME, DO YOU THINK WORKERS IN WAR INDUSTRIES SHOULD PUT IN?

AND HOW MANY HOURS A WEEK DO YOU THINK WORKERS IN WAR INDUSTRIES SHOULD PUT IN BEFORE THEY GET EXTRA PAY FOR OVERTIME?

	Are working	Should Be working	Should work before Overtime Pay
Under 48 hours.....	29%	5%	28%
48 hours	28)	34)	37)
49 to 59 hours	14 } 51	24 } 83	6 } 47
60 hours or more	9)	25)	4)
No overtime pay			14
Not ascertainable	20	12	11

According to the Bureau of Labor Statistics, the concept "war industry" is too elastic for use in the construction of statistics respecting the actual work week. The B.L.S. reports, however, that in September the average work week in all manufacturing industries was 42.4 hours; in the durable goods industries, the average work week was 44.6 .

As the foregoing table indicates, only a minority of the public was under the misapprehension that the Wage and Hour Law restricts war workers to a 40-hour week; more than half of the people interviewed believed that the men in war industries were working 48 hours a week or more. Farmers were more prone than other people to hold the view that the employees of war plants are limited to 40 hours.

Very few persons in any occupational group thought that the average work week should be less than 48 hours. A third of the manual workers themselves felt that the optimum work week is 48 hours; and nearly half of them said that the work week should be more than 48 hours. Farmers, accustomed to working extremely long hours themselves, were considerably more prone than any other occupational group to declare that war plant employees ought to put in 60 hours or more each week.

When estimates of the actual work week are compared with estimates of what the work week ought to be, it appears that 30 per cent of the public believed that workers were putting in as many hours as they should and 40 per cent felt that workers were putting in fewer hours than they should; only six per cent expressed the view that the actual work week is longer than it ought to be, while 24 per cent were without opinions on this score.

About a quarter of the whole sample supported the provision of the Wage and Hour Law that overtime pay should begin after 40 hours. Slightly more than half of the sample desired a longer work week before the commencement of overtime pay, the bulk of these people centering on 48 hours as the proper dividing point. In addition, 14 per cent said that no overtime should be paid at all.

Retention of the 40-hour provision of the Wage and Hour Law was most popular, naturally, among manual workers, least popular among farmers. Even among manual workers, however, a full third felt that overtime pay should begin at 48 hours. Farmers were more prone than other groups to say that there should be no overtime at all or that it should begin only after a work week of 60 hours or more.

Apparently a sense of urgency about the war has impelled the general public to think in terms of a minimum work week of 48 hours. And considerable resistance has developed to the principle of overtime pay before this minimum has been met. The impact upon wage scales of a sudden change in the Wage and Hour Law is perhaps inadequately appreciated.

People are not fully aware, moreover, of the fact that in most essential war

industries the hours of labor are limited only by the availability of raw materials, machinery and plant facilities; in many phases of production, workers are already putting in more than 48 hours a week. The public needs to be informed that workers themselves are not primarily responsible for the length of the work week and that revision of the Wage and Hour Law would mean a cut in their earnings without necessarily increasing the weekly hours of labor.

LABOR REPRESENTATION ON THE WPB

Interviewing conducted with a small national sample in late November indicates that half of the American people feel that organized labor should be represented on the War Production Board:

AS YOU PROBABLY KNOW, THE WAR PRODUCTION BOARD IS A GOVERNMENT AGENCY IN CHARGE OF ALL WAR PRODUCTION IN THIS COUNTRY. DO YOU THINK THERE SHOULD BE REPRESENTATIVES OF UNION LABOR ON THIS BOARD?

Yes	52%
No	30
Don't know	18

Three-fourths of those who wanted labor to be represented felt that it should have as much to say as management. These people comprised 38 per cent of the entire sample.

An effort was made to discover why people felt as they did about this issue. Their responses were carefully analyzed in the light of information they gave about themselves and the viewpoints they expressed on related matters. A smaller sample was questioned intensively.

It was found that some people felt as they did out of a general sense of fair play. They believed that all groups deserve representation on so important a Government agency as WPB. But most people's viewpoints appeared to be even more strongly influenced by three other factors: (1) their general attitude toward labor; (2) their occupation; and (3) union membership.

Many people evidently make little effort to weigh the merits of the specific issue of labor representation on the WPB. Their opinion is based, rather, on their general attitude toward organized labor. The sample was asked a question which in the past has been found to be a useful index to pro- or anti-labor feeling: "Do you think the Government's attitude toward labor unions is too strict, about right, or not strict enough?"

Of those who stated that the Government's attitude toward labor unions is:	This percentage favored labor representation on WPB
Too strict	76%
About right	60
Not strict enough	45

Occupation also plays an important part in determining people's attitudes toward giving labor a voice on the WPB. Forty-four per cent of the executives in the sample, and 38 per cent of the farmers, were opposed to granting labor representation on the WPB. In contrast, only 21 per cent of the industrial workers felt that labor should not be represented on the Board.

Only ten per cent of the union members in the sample felt that labor should not be represented on the Board. Thirty-four per cent of the non-union members were of this opinion.

To get additional insight into the more extreme viewpoints, intensive interviews were conducted with 30 men in the managerial group and 24 labor leaders. Only three of the 30 executives felt that labor should have an equal voice with management on the War Production Board. Seven felt that labor's voice should be heard, but only in an advisory capacity. Twenty felt that labor should not be given any representation whatever.

Most of the businessmen took the position that the management of production was their own prerogative and expressed anxiety about labor's growing power. A number maintained that labor leaders have no managerial ability and do not cooperate well with management. The following remarks, by a San Francisco businessman, are fairly typical:

"Production is the job for management. Some labor leaders are intensely patriotic, but they don't know production problems, and could contribute little. Recent moves to add labor men to the WPS have been merely in the nature of token representation to satisfy labor's demands. I doubt the wisdom or need of even that. There have already been enough concessions to labor."

The labor leaders overwhelmingly took the position that labor deserved equal representation with business on the WPS. Many of those interviewed were bitter because labor has been denied adequate representation for so long. And they at least gave the impression that they would not be satisfied now by mere "token" representation, carrying no real responsibility or power.

They feel that workers, as a result of their practical experience, can contribute to the solution of production problems and deserve a place in the policy-making structure of WPS. The following statement by a militant New York labor leader is typical:

"Labor wants more participation in helping to plan the work. Labor wants to participate in the advance of government at this time. It wants to accept responsibility and not just be tolerated by business. Labor believes our participation in planning and policy making will increase production. Labor feels that it can often see how to coordinate the different processes in manufacturing better than an engineer can, because they are themselves doing the work..."

"We do not believe in casting the managers aside. We believe that it will take the teamwork of all to win the war."

Education and knowledge of the War Production Board appear to exert little influence on people's viewpoints on labor representation. People were given the names of Henderson, Nelson and Jeffers and asked to identify the head of WPS. Only 47 per cent could do so correctly, and some of them may have guessed the right answer. The opinions of the people who did not know that Nelson is the head of WPS were compared with the opinions of those who did. While, as might be expected, the "don't know" answers regarding representation were higher among the former group, the ratio of "yes" to "no" answers was about the same among both groups. Among the relatively well educated people in the sample and the less well educated, too, the ratio of approval to disapproval of the idea of labor representation was about the same.

Unlike some labor leaders and executives, the general public, while tending to favor labor representation on WPS, does not feel strongly about the

question; the issue is not at present a live one. But if it should ever come to a head, these findings suggest that the division of opinion might be just about what it is revealed here. For it does not appear to matter greatly whether people are informed or uninformed about this question. Their opinion is likely to be determined by their general attitude toward labor, their occupational status, and their affiliation or non-affiliation with a union.

DEVELOPING SITUATIONS

SOLDIERS AND CIVILIANS

Army encampments have created serious problems for communities in which they have been established. They have brought about sudden increases in population, together with a disruption of normal community life. Cleavages have developed between the regular residents and the men in uniform.

As a means of studying the impact of Army camps upon nearby communities, the Bureau of Intelligence, in cooperation with the Special Service Branch of the Army, has recently conducted exploratory surveys in three medium to large-sized Army camps near towns of 10,000 to 25,000 population. Camp community problems were known to exist, though they were not considered exceptionally critical, in the localities selected. These were:

Fayetteville, N. C.	-	Fort Bragg
Hattiesburg, Miss.	-	Camp Shelby
Columbus	}	Ind. - Camp Atterbury
Edinburg		
Franklin		
Indianapolis		

Fayetteville, with a long Army camp tradition, used to regard "regular Army men" as riffraff. This attitude persisted when selectees came to Fort Bragg in large numbers in 1940.

Hattiesburg, having profited by the proximity of Camp Shelby in the last war, campaigned to have it reopened in 1940, before America was actually at war.

The Indiana towns had no experience with or desire for an Army camp. Camp Atterbury was a real war camp, opened in the summer of 1942.

In each camp, over \$20,000,000 was spent on construction within a few months. The sudden influx of construction workers, wage differentials and union activities precipitated hostility and suspicion. After the camps were completed, new employment opportunities opened. Unemployment vanished, domestic help became scarce and badly paid jobs went begging.

The stores and restaurants of the towns were overwhelmed. Newcomers, opening businesses "for the duration", appeared and caused disgruntlement among local businessmen by their unorthodox business practices. Civilians accused the merchants of hiking prices; soldiers complained of a two-price system which fleeced men in uniform.

Housing and transportation facilities were badly overtaxed in all of the communities. Rents skyrocketed, and established tenants were displaced, in some instances, by newcomers. Inadequate bus and railway facilities brought soldiers and townspeople into close and uncomfortable contact. Conflicts over jurisdiction arose between town and military police.

The stereotyped notion of the soldier as profligate and loose in morals has been responsible for much of the hostility on the part of civilians. In the smaller communities, soldiers and vice are considered synonymous. Prostitution has burgeoned while attempts to control venereal disease have contributed to the schism between enlisted men and townsfolk; prophylactic stations have been especially productive of ill feeling, since they constitute a violation of traditional reticence and are a glaring public symbol of the worst that the soldier means to small town civilians.

All of the communities studied, with the exception of Indianapolis, blamed the soldiers for an alarming increase in drinking and drunkenness. Dives and juke joints, slot machines and shooting galleries flourished in the camp communities. The soldiers thronged to them, while the townspeople complained that their former places of amusement were crowded and noisy and that decent folk had to stay at home.

All three of the camps surveyed had considerable numbers of Negro troops. Their presence added racial tensions to the other difficulties. Normal friction between white and Negro men in uniform was aggravated by the local practices of segregation and discrimination. To the Negroes, the nearby towns offered almost nothing in the way of recreation or relaxation.

In none of the communities studied were the citizens ready psychologically or practically to cope with the problem of entertaining enlisted men. Locally sponsored hospitality has been confined to a few sporadic gestures, giving way to a shrugging off of all responsibility.

Organized efforts to bridge the gap between soldiers and civilians — particularly those undertaken by the USO — have not thus far met with much success in the communities investigated. Before its actual appearance on the local scene, the USO has regularly been the object of successful drives for funds. Later, however, it has gained, in most places, only undisguised animosity due to its operating methods and to its employment of well paid, but sometimes tactless, personnel recruited from out of town, who have failed to enlist community-wide support or to mould their activities to meet either the character of the community or the needs of the men.

Difficulties cannot fail to arise when large bodies of men in uniform are suddenly placed upon the doorsteps of communities unfamiliar with them and unprepared to meet their needs. But these difficulties can be ameliorated by the encouragement of sympathetic relations between town and camp.

Soldiers interviewed in all of the camps made it clear that they desired contact and companionship with the civilians in the communities near which they were located. Off duty, they often want to get away from fellow-soldiers, to meet civilians and to have some semblance of normal social intercourse. The problem of community-camp relations revolves around the establishment of this sort of friendly association between civilians and soldiers within the limits of the town's abilities.

Information can play an effective part in promoting this sort of friendliness by giving civilians a sense of their responsibility toward the Army men. The problem can best be approached through local efforts and institutions. Initiative must come from the community itself. It must be carried on by members of the community. Effort must be directed toward

making civilians recognize that the enlisted men, though strangers, are themselves members of families and communities akin to those with which the war has brought them into involuntary contact.

AMERICA AND THE POST - WAR WORLD

Americans hope for a world in which they and their children may live free from the threat of war. But they have scarcely begun to think realistically about how this goal may be achieved.

When asked how a better world might be brought into being, 40 per cent of a national sample could offer no suggestions. Only 25 per cent made suggestions of a political or economic nature. People's views about the post-war world are seldom crystallized or held with real conviction.

There is a general realization that isolationism no longer spells security. Fewer than 20 per cent of the American people appear to be firmly opposed to the principle of international collaboration. The isolationists are predominantly people with relatively low income and education and relatively limited contacts.

The views of the people who favor some degree of U. S. participation in world affairs fall into three broad classes. One group of people believes in full political cooperation with other nations. A second group vaguely, but potentially, sympathetic to collaboration, urges simply that the United States "be friendly" with other nations. A third group, including a number recently isolationist, wants the United States to dominate the post-war world.

People's fears appear to be the greatest obstacle to the belief that peace can be maintained through international cooperation. Isolationism is frequently related to mistrust of England and Russia and to anxieties about the economic consequences of close ties with other nations. A tendency to exaggerate the importance of America's contribution to the United Nations' war effort also appears to be associated with isolationism.

The belief that America should join a comprehensive organization of nations is also typically part of a cluster of opinions. Those who hold this view tend to have confidence in America's allies, to be hopeful about the economic future, and to take a fairly realistic approach to war issues. The people most aware of the difficult problems involved in winning both the war and the peace are most willing to endorse the idea of international collaboration.

(These findings summarize a Special Intelligence Report, America and the Post-War World, issued December 16, and available to authorized individuals on request.)

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December 22, 1942
10:16 a.m.

Edward
Stettinius: Hello, Henry.

HMJr: Hello, Edward.

S: How are you, sir?

HMJr: I'm fine.

S: Glad to hear from you.

HMJr: You and Oscar Cox have been calling me. I don't know whether you've talked to each other - whether it's about the same thing or not.

S: Well, now are you - are you in town?

HMJr: I'm right here. I - I got in at one o'clock this morning from Atlanta.

S: When can I see you privately for five minutes?

HMJr: Any time, how's that? When do you want to see me - except....

S: Well, that'll be wonderful. In an hour from now?

HMJr: That would be 11:15?

S: Yeah.

HMJr: That would be perfect.

S: In your office?

HMJr: In my office. There'll be nobody under the table, no dictaphones or anything.

S: Thank you, Henry.

HMJr: How's that?

S: Right, old boy.

HMJr: Thank you.

December 22, 1942
11:40 a.m.

BRITISH DOLLAR POSITION

Present: Miss Kistler
Mrs. Klotz

H.M.JR: Mr. Stettinius called on me and said he had to see me alone.

He told me that as a result of the Vice President calling on Jimmy Byrnes, Jimmy Byrnes told the Vice President he had taken hold of a hot potato by forming this subcommittee to discuss the financial needs of the British Empire, and as a result of which they should put the Budget in control of the thing. They suggested Wayne Coy for chairman of the committee.

Evidently Stettinius thought I would fly off the handle, but it was of no consequence, as far as I am concerned.

Then he was very anxious that he and I should go and see Mr. Hull and try to get this thing settled. I said I would not do it unless the Vice President was also there, because there was no use in discussing the thing unless the Vice President was there.

Stettinius is very much upset because he has to testify on January 11 for additional funds.

So I called up Dean Acheson in order to try to bring him back into the picture and to try to get rid of A. A. Berle. I asked him whether he would call up Mr. Hull and arrange a meeting for tomorrow morning between eleven and twelve, at which would be present Stettinius, the Vice President, and Harry White and myself.

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Then the part that bothered me was this. He said, "Before I came over here I talked to Mr. Ecker about the South African thing." He said, "I asked Harry White, of whom I am very fond, for figures on the South African financial situation as of November 11, and to date we have never had an answer." This is Stettinius talking - trying to throw the whole blame back on White's shop.

So I said, "Well, after all, you could have taken the position we won't give any goods to South Africa - and I gather they have given them forty-five million, lend-lease - until we do hear from the Treasury. But you did not do that. You just went ahead." I said, "Granted that if what you say is true, that White should have furnished these figures to you promptly, the fact still remains that you went ahead and did a lot of business."

His answer was, "Well, South Africa is sort of a part of the whole British Empire, and we can't distinguish between them."

MISS KISTLER: That is that old, fundamental question.

I think that when he said on November 11 they had asked Harry White for figures and had not yet received them: One, what Mr. Ecker asked for was a study on South Africa, which is today being mimeographed. I was to do it and was tied up.

It has been a long time, but I told Mr. Ecker - I had the figures gathered a long time ago - that I could give him by telephone the highlights and the figures of what they held, and what the picture looked like, without the analysis and all the supporting data.

Finally, after being bothered four or five times, and with the delay, I did give--

H.M.JR: Who was bothered?

- 3 -

MISS KISTLER: I was. Mr. Ecker kept calling me and asking for these things, and he has had those figures for at least two weeks. He could have had them immediately when he asked if all he had wanted had been the figures. I mean, what they wanted was a study, you see.

H.M.JR: What I think you had better do is this. I know how those things - six months from now they will say, "We never would have given a dollar if Harry White had given the figures."

So you tell Harry White he had better write a letter - he should write the letter to Stettinius, telling them just what happened, because I can see that Stettinius is trying to look for a goat.

MISS KISTLER: To the extent he has, it is my fault.

H.M.JR: If you have given the figures--

MISS KISTLER: I mean if the project had been done promptly, he would not be able to come in today and--

H.M.JR: What you are telling me is that he has had the figures for over two weeks. I would spell it out with the greatest of detail and let Mrs. Klotz have a copy for my diary. These things come up two years from now, and you can't for the life of you remember.

The other thing is that I have asked for this meeting between eleven and twelve tomorrow, at which time I want White to go with me. I hope to have a little time before that. I have got to be brought up to date by White. If possible, he should let me have a little memorandum tonight - just a thumbnail sketch of what the situation is on the British Empire and Canada, and should we say at this time that they should stop doing any more lend-lease to South Africa.

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For instance, he gave me an example. England asked for two million Turkish towels. He said it was some kind of an obligation that they had. He said, "Let them have them." I said, "If they have got a billion dollars in gold, in American dollars, they could have bought their own Turkish towels." He said that the situation was such they could not turn them down. But there are things like that which they might very well pay cash for.

MISS KISTLER: There was that memorandum we prepared for the meeting. Do you want more than that? We did cover the Empire.

H.M.JR: What you have got to do between now and tomorrow morning - you and Mr. White - is to give me this kind of a memorandum. This is what I want: England, their dollar balances, in lump sum, and don't try to explain it. You could begin to taper off on non-military items. Then South Africa, balance so much - no reason that they should not pay entire cash; then Canada so much. We could begin to taper off on non-military items.

MISS KISTLER: Country by country and an expression of opinion?

H.M.JR: Yes. The fact that Cairo is loaded up with a lot of sterling and does not know what to do with it - I don't think that is our concern.

Do you agree with me?

MISS KISTLER: Yes.

H.M.JR: The fact that they have got a lot of sterling, that is just too bad. But as I listened to these people, I just wondered if maybe we hadn't been a little bit slow, maybe, on advising them to shut off on this thing. I think we are a little bit to blame.

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MISS KISTLER: I do, too.

H.M.JR: I think White and you are a little bit to blame for not bringing this to my attention.

MISS KISTLER: Yes, that is quite possible. We may be.

H.M.JR: I like your attitude, anyway.

Tell White, and he will have a chance to see me this afternoon.

There was one other thing that Stettinius said, that he had had a telephone conversation with Hopkins. He could not even see him. He told him what had happened, but that he, Stettinius, looked to the Treasury to tell him when the balances were too great and that he was relying on us to advise him.

So Hopkins said, "If that is the case" - you see what they are going to do, and that is they are going to go up on the Hill and say, "That is the Treasury's responsibility; they did not say anything."

MISS KISTLER: We were not aggressive enough. Mr. White, as early as June and July, expressed opinions to Ecker and questioned lend-lease to South Africa when it was brought up.

H.M.JR: He had better get into this whole thing.

But I could just see what is going to happen. They will say, "Well, Mr. Morgenthau is the chief fiscal officer."

MISS KISTLER: Of course the unfortunate aspect is that we ever got into that relief thing. Some of this flows from - you remember when Mr. Keynes was here last summer and he wanted five hundred dollars in cash from Lend-Lease appropriation - he wanted a six-hundred-dollar kitty.

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H.M.JR: Six hundred million?

MISS KISTLER: Yes.

(The Secretary held a telephone conversation with Mr. Oscar Cox, as follows:)

December 22, 1942
11:55 a.m.

HMJr: Hello.

Operator: Mr. Cox.

HMJr: Oscar?

Oscar
Cox: How are you, sir?

HMJr: I'm fine.

C: I wanted to tell you two things after that meeting on Friday.

HMJr: Yeah.

C: One was that apparently B.E.W. got worried about it, and have suggested that Wayne Coy head up an Intergovernmental Committee....

HMJr: Yeah.

C:merely as an impartial chairman, with the idea in mind that on specific problems like the dollar balance thing if you were good enough, you'd be the chairman, and so forth.

HMJr: Yeah.

C: Secondly, I think Stettinius is very disturbed about the thing like the South African business and thought he ought to take the bull by the horns and ask you if you wouldn't head up a group for that, so he'll probably be in touch with you if he hasn't already.

HMJr: He has.

C: Good.

HMJr: Well, as a result of his being here, I've asked Dean Acheson....

C: Yeah.

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HMJr:and have done it very advisedly, to ask -
tell Mr. Hull that I'd very much like to call
on him tomorrow with Wallace and with Stettinius
and Harry White and myself.

C: Good.

HMJr: Between eleven and twelve tomorrow.

C: Well, that's fine.

HMJr: And get it on that level.

C: Oh, I think you're very wise.

HMJr: See?

C: Yeah.

HMJr: What else?

C: The only other thing was this screwball idea
I dropped you a note about on the question of
minting gold coin.

HMJr: For minting gold coin?

C: Yeah.

HMJr: I don't think we can.

C: Well, I should think some bright lawyers could
probably figure out a way for you to do it.

HMJr: Well, I suppose the answer is I should ask you
then.

C: No....

HMJr: (Laughs)

C:no, I would say - I would say Randolph
Paul ought to be up to that one....

HMJr: (Laughs)

C:because I'm....

- 3 -

HMJr: You don't think that's too difficult for Randolph?

C: No, sir!

HMJr: Well, you know we can get quite a few more up in Canada if we want....

C: I know, but you've got to look forward to the future thing on this thing, where the European people think a hell of a lot of the American dollar, you know, and it's an educational....

HMJr: Yeah, you're going - you're going to let the people on the - is the Blue Danube or the Volga River have gold coins and....

C: Well, no....

HMJr:T.V.A. but you're not going to let the U.S.A. fellows have them.

C: No, I'm - I'm with Witherow on that.

HMJr: You are with Witherow on this.

C: Well, but I think when you get to the reoccupa- tion of places like Italy or France, American gold pieces will have certain strategic advan- tages not only presently but in the future.

HMJr: Well, with what's left behind in the Treasury, we'll see what we can do....

C: All right, friend.

HMJr:with your screwball ideas.

C: Right.

HMJr: Have you already got an opinion written on this?

C: No, but we start off on the curious premise that anything can be done if you know how.

HMJr: Where'd you learn that?

- 4 -

C: Learned it from you.

HMJr: Okay.

C: Right.

HMJr: ~~Pass~~ - grade "A".

C: Right. (Laughs) Goodbye.

- 7 -

H.M.JR: You might tell Harry White about that last thing, whether we can coin five-dollar gold pieces.

That is that, and you have your work cut out for you for this afternoon. You people have to go out on the end of a limb now and say - I can just see how this thing is shaping up. Hopkins is really responsible; Stettinius is. They have all made a mistake. They will say, "Well, Morgenthau should have told us."

All right.

December 22, 1942
11:30 a.m.

HMJr: Hello.

Operator: Mr. Acheson.

HMJr: Hello.

Dean
Acheson: Yes, Henry.

HMJr: Dean....

A: Good morning.

HMJr: Good morning. Ed Stettinius is here with me now, and we've been talking things over, and he's made the suggestion -- and which I agree -- that he - he - we think that he and I and Wallace and yourself should see Mr. Hull tomorrow on this business and try to get this thing straightened out, because he's saying that his hearings start on the 11th of January - hello?

A: Yes.

HMJr: Now what we'd like you to do is to see if you can't arrange a meeting for Mr. Hull, which he would call, say, between eleven and twelve tomorrow, because I - I can't do it earlier because I'm going to the White House.

A: Uh huh.

HMJr: Hello?

A: Yes, between eleven and twelve.

HMJr: Ed Stettinius lays great stress on the promptness of this meeting, you see?

A: Yes. Do you want to decide anything at this, because I'm - I don't think Mr. Hull will know very much about it.

HMJr: Well, no, the point is sim.. - the point is simply this: how should we proceed in our relationship opposite the British Empire. That's the question.

A: Yes, yeah.

HMJr: I mean should we, for instance, cut - cut down on Lend-Lease to Great Britain? Should we stop doing anything with South Africa?

A: Yeah.

HMJr: Those are the two imminent things. Hello?

A: Yes, sir.

HMJr: Now I'm ready to say that I think that right now the English - Great Britain seems - dollar position seems to be more than ample, and I think that everything should be examined very carefully before - as to whether they couldn't buy some of this stuff with cash.

A: Yes, I haven't had a....

HMJr: And another thing....

A:good look at all the figures, including....

HMJr: What?

A: One of the things I think we ought to go into very carefully is their sterling obligations.

HMJr: Yes, well, what Ed really wants is to have this meeting and then what he'd like is to have - and Mr. Hull says "All right, you fellows go out and work this out and come back." But this would really be a - a committee of - of the principals rather than of a sub-sub-subcommittee.

A: Yes.

HMJr: You see?

A: Yes. I should think that....

HMJr: And also it would bring Wallace into the picture; Wallace has been over to see Jimmy Byrnes about this - I don't know why; and - but it would put it on a level which I think the importance calls for.

A: Yes.

- 3 -

HMJr: And I - I can - Stettinius is sitting here opposite me. He's worried, and I think he has a right to be worried because he's got to face the Congress on the 11th of January.

A: Yes. Now there'd be you and....

HMJr: Stettinius.

A:Stettinius and Wallace and Mr. Hull.

HMJr: Yeah, and yourself.

A: All right.

HMJr: And you can say I called you up and I'm doing it - and I'm doing this thing advisedly through you because I want to bring you back into the picture.

A: All right, Henry, I....

HMJr: I mean I - I mean this isn't just an accident that I'm calling you.

A: (Laughs)

HMJr: And Stettinius feels the same way that I do, because....

A: Fine.

HMJr:he says you're his man over there.

A: All right, I think I can get back into it.

HMJr: And I told him that I thought that you were my man too, but....

A: (Laughs) I'll be both your men.

HMJr: But that was the idea that you were supposed to look after us, and as long as you looked after us the State Department had very little trouble with me.

A: Yeah, you - you were behaving very well for quite....

- 4 -

HMJr: I was behaving....

A:a long time.

HMJr: I was behaving very well - I mean - and just think of all the less headaches they had while you looked after me.

A: (Laughs)

HMJr: So you can tell that to Mr. Hull....

A: (Laughs) Well, I don't - I think I'll skip that part of it.

HMJr: And I - I'll bring White with me, because I have to somebody that knows the figures.

A: Yes. All right, fine.

HMJr: Okay?

A: I'll try to fix it up.

HMJr: Try to make it between eleven and twelve tomorrow. Tell him this is really urgent.

A: Yes.

HMJr: He can see one less ambassador.

A: (Laughs) All right, Henry. I'll - I'll fix it up right away.

HMJr: And - and I included the Vice President, did I?

A: Yes. Should - does he know about it?

HMJr: No, because this just happened across the table right now between....

A: Yes.

HMJr: There's just Stettinius and I sitting here, and - and - and we decided we thought this was the way to do it, and the urgency is Stettinius' testimony.

A: Yes. All right, fine. I'll speak to Mr. Hull now.

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HMJr: Okay.

A: Un huh.

HMJr: But wait... (talks aside: What?) He says the urgency is the testimony asking for new funds.

A: Yes.

HMJr: See? And he says he thinks it - what he said was - earlier - that if he's going to do this there'll be a lot of cabling back and forth, and the whole question comes in at this time, is this a good time to tell England, "You're going to have to pay cash for something" and so forth, and do we want to shut South Africa off from Lend-Lease?

A: Yes.

HMJr: I mean it's - this is high policy stuff and there's no committee with a fellow like Coe sitting at the head of it should even consider this stuff.

A: Yeah.

HMJr: It's just damn nonsense. I mean it's damn nonsense.

A: I - I think it is. I think you - you fellows have got to decide it yourselves.

HMJr: Sure, we got to decide it, and then we got to make up our mind, and in the final analysis the Commander-in-Chief's got to say "yes" or "no" anyway.

A: Yes.

HMJr: But Mr. Hull ought to get in on it now.

A: All right. I will try to get this meeting called about eleven-thirty tomorrow.

HMJr: Right, and I expect to see you there and not a fellow who's about five-foot-two.

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A: (Laughs) All right, you won't see him.

HMJr: All right.

A: (Laughs)

HMJr: Thanks.

A: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 22, 1942

TO Secretary Morgenthau
 FROM Mr. White

1. As of the close of November 1942, British Empire countries (excluding Canada) held \$1.8 billion of gold and U.S. dollars, as follows:

	(Millions)
United Kingdom.....	\$ 930
South Africa.....	590
British India.....	275
New Zealand.....	25
Australia.....	10

In addition, the above countries hold an aggregate of more than \$300 million of private dollar balances in the United States.

On the basis of information available, we estimate that the gold and U.S. dollar holdings of British Empire countries (excluding Canada) will increase a further \$200 million by March 31, 1943.

2. On the assumption that the Empire (excluding Canada) is to be considered as a unit.

Aggregate holdings of \$1.8 billion are likely to prove embarrassing. Certainly they should not be allowed to rise any higher and serious consideration should be given to the advisability of reducing it.

3. On the assumption that the members of the British Empire are to be treated separately:

a. The United Kingdom.

U.K. now has gold and dollar balances of more than \$930 million and her holdings are increasing at the rate of approximately \$30 million a month. I believe that Congress will be reluctant to permit appropriations to be used to increase those holdings much beyond their present level.

Division of Monetary
Research

- 2 -

The British Treasury claims that her sterling liabilities are mounting rapidly and that for this reason, even though her gold and dollar assets are increasing, her net position is not improving.

It is true that Britain's sterling liabilities will doubtless operate to reduce her foreign exchange acquisitions after the war, but we do not believe that this is sufficient justification to continue to permit England to accumulate gold and dollars at the rate of several hundred million dollars a year beyond the current level.

b. Union of South Africa.

South Africa now has about \$600 million -- practically all in gold. She is accumulating it at the rate of \$20 million a month. In the absence of overwhelming political considerations, it seems to us that lend-lease assistance to South Africa would be extremely difficult to justify in view of her ability to pay for what she buys.

c. British India.

India has about \$275 million of gold.

Political considerations may preclude any other policy than that being pursued at the present. Otherwise reexamination of the present policy is in order in view of the amount of gold held by British India.

d. New Zealand and Australia.

The gold and dollar exchange assets of these countries are very small in comparison to other Empire countries. But, as in the case of South Africa and India, if the decision is to consider the Empire countries separately, their dollar exchange position and our policy with respect to them should be reexamined.

Division of Monetary
Research

- 3 -

4. Canada.

Canada's holdings of gold and U.S. dollars have increased steadily since the beginning of 1942 and now amount to about \$500 million. In the absence of any reversal of U.S. Government policy, the prospects are for a continued increase.

In view of the fact that the Canadian Government's holdings of gold and U.S. dollars are now as high as they were at the outbreak of war, we think it is time to consider the advisability of levelling off these holdings and maintaining them at their current levels. In accordance with Dr. Currie's understanding, I am making arrangement to discuss his suggestion with Canadian authorities.

5. Other Countries.

Lend-Lease aid is now being granted to more than a score of countries. Many of these have substantial gold and dollar balances. The data we have on most of them are incomplete. I think that the procedure should be that before any country is given lend-lease aid, that we here should contact the Treasury Department of that particular country with a view to getting a complete picture of the country's foreign exchange assets and balance of payments, as we do in the case of the United Kingdom and Canada. The appropriate officials here would then have before them the information necessary to make policy decisions.

If you will authorize this procedure, I will proceed forthwith.

December 22, 1942
3:21 p.m.

HMJr: Hello.

Operator: Mr. Welles.

HMJr: Hello.

Sumner
Welles: Hello.

HMJr: Sumner?

W: Yes, Henry.

HMJr: Good afternoon.

W: How are you?

HMJr: I'm fine. And you?

W: Good, all right.

HMJr: Sumner, Mrs. Morgenthau had a letter from
Mrs. de Sola Pool....

W: Oh, yes, I know her.

HMJr:about the chi.. - I think there's 700
children of the Youth Aliyah in Tehran that
they're trying to get into Palestine.

W: I know all about that case, Henry. I've been
working on it for two months.

HMJr: Right.

W: The difficulty there is that the Prime Minister
of Iraq....

HMJr: Yes.

W:has not yet been willing, notwithstanding
repeated British representations and very
strong representations from us to permit those
children to go through.

HMJr: Yes.

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W: At one time the British said that they'd arrange to have them sent by plane, but apparently they haven't been able to get the plane....

HMJr: Yes.

W:and we are now working on the proposition with the idea of getting an arrangement made so that they wouldn't stay more than twenty-four hours.

HMJr: In....

W: In Iraq....

HMJr: In Iraq.

W:on the way through.

HMJr: They said something about having a sealed train or something.

W: Yeah.

HMJr: Did Mrs. Roosevelt speak to you about it, because my wife took it up with Mrs. Roosevelt.

W: Not that I - no, she hasn't - not with me directly, no.

HMJr: I see.

W: Well, this first came to my attention about - oh, easily two months ago, and I've been working on it ever since.

HMJr: Well, would it be a lot of trouble if you wrote me a little note and that Mrs. Morgenthau could say that she's - that you're working on this?

W: I'd be delighted to, Henry.

HMJr: Would you do that?

W: Yes, be glad to.

- 3 -

HMJr: And then could she show that to these people?

W: Surely.

HMJr: Well, that would help a lot, and that would show your interest in the matter.

W: All right, Henry, I'll be glad to send it to you this afternoon.

HMJr: Thank you so much.

W: Not a bit. Goodbye.

HMJr: Goodbye.

STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM

The White House 187
Washington

DEC. 22, 1942

...

THE PRESIDENT:

Flew
BLEW DOWN MONDAY AFTERNOON TO ATLANTA HAD SUPPER WITH WALTER
JONES VERY SUCCESSFUL PARTY GOT BACK TO WASHINGTON ONE A.M.
THIS MORNING. HAVING LUNCH WITH BOB DOUGHTON TODAY. LOOKING
FORWARD TO SEEING YOU WEDNESDAY MORNING.

HENRY.

COPY TO MISS KLOTZ.

DEC 22 1942

My dear Senator:

This will acknowledge with appreciation your letter of December 17, 1942, in which you set out the legislative history of the amendment to section 740 (d) of the Internal Revenue Code made by section 228 of the Revenue Act of 1942.

You indicate that the purpose of that amendment was to preserve, in the case of acquiring corporations, for all excess profits tax taxable years the base period established for the first taxable year ending in 1941 under Supplement A as originally enacted. While the Regulations are still in tentative

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form, it is my understanding that they will embody the purpose and legislative intent, as you describe them, with which this provision of the 1942 Act was passed.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Walter F. George,
United States Senate,
Washington, D. C.

CEH:blr
12-22-42

*Photo file in Diary
File to Thompson*

WILLIAM F. WOODRUFF, GA., CHAIRMAN
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United States Senate

COMMITTEE ON FINANCE

Mr. Morgenthau

-2-

December 17, 1942

These provisions were retained in the Revenue Bill of 1942 as passed by the House and as reported by the Finance Committee of the Senate, but paragraph (2) was limited to taxable years beginning in 1941 and a new paragraph (3), reading as follows, was added to cover 1942 and future years:

"(3) If the tax is being computed for any taxable year beginning after December 31, 1941, the four calendar years 1936 to 1939, both inclusive."

While the Bill was under consideration in the Senate, however, Senator Connally felt very strongly -- and I agreed with him -- that a corporation which became an acquiring corporation prior to September 1, 1940, and therefore prior to the enactment of the Excess Profits Tax Act, and which under the provisions of section 740(d) as originally enacted was entitled to a fiscal year base period, should be allowed to retain such base period for future years as well. Senator Connally therefore prepared an amendment adding the following language to section 740(d)(3) as it appeared in the Bill:

"except that, if the taxpayer became an acquiring corporation prior to September 1, 1940, the base period shall be the same as that applicable to its first taxable year ending in 1941."

The effect of this amendment was to preserve the base period established under subsections (d)(1) and (d)(2) of both the Bill and existing law.

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United States Senate
 COMMITTEE ON FINANCE

Mr. Morgenthau

-4-

December 17, 1942

It was so understood by the Conferees. It was intended to have this effect even though an election was made under section 228(f) of the Revenue Act of 1942 to apply the Supplement A amendments retroactively.

I have no doubt that the forthcoming regulations will interpret this provision in accordance with its manifest intent and purpose, but, in order that the Treasury may have as full an understanding as possible of the background of the amendment, I have thought it worth while to give you a complete picture of the steps leading to the enactment of section 740(d) in its present form.

Respectfully,

James F. Garner



GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

DEC 22 1942

To: Mr. Morgenthau

From: Randolph Paul

On October 9, 1942, on the floor of the Senate, Senator Barkley strongly criticized the section which became section 512 of the Revenue Act of 1942. The grounds of his criticism were that the language as it was eventually enacted into law enabled the Joint Committee on Internal Revenue Taxation and the chief of its staff, with the approval of the chairman or vice chairman of the Committee, to circumvent the head of a department by securing information directly from a subordinate board, bureau, or agency.

Senator Barkley introduced an amendment (88 Cong. Rec. D.I. 8268) that would have required the Committee or its chief of staff to secure the information from the head of the Department or independent establishment, agency, or instrumentality concerned. The amendment was defeated after debate by a vote of 74 to 10.

Attached are pages (commencing on page 8268) of the Congressional Record showing the proceedings, debate, and vote.

Attachment



cool. I will support such increases under such circumstances; but this is wholly beside the present point. Any reference to the expansion of the Social Security System itself, and the increase in benefits, is merely a red herring across the trail.

The present point is that the pending amendment says that pay-roll taxes shall not be increased unless and until it is necessary to create a larger revenue to pay larger benefits. That can be done any time in 1943, if and when Congress extends and expands the benefits, regardless of the action taken today on the pending amendment. Today's action simply decides whether the taxes shall needlessly go up before the benefits rise in proportion. That is the issue in a nutshell.

Mr. President, I wish to submit one further fact. I shall not labor the point further with the Senate. I could present testimony ad infinitum, from the best social-security sources in this country, that the collateral use of needless social-security revenues is the most serious possible assault that could be made upon the integrity and perpetuity of the social-security fund. The greatest authority of all upon this subject is the social-security organization in New York City known as the American Association for Social Security, which was operated for many years by Mr. Abraham Epstein, who recently died—an association which has bitterly condemned, from the very moment Secretary Morgenthau first proposed the use of social-security taxes in this fashion, any such diversion of the taxing function.

Mr. President, I said I wished to refer to one further fact. The social-security pay-roll taxes which will be collected in 1943, at 1 percent, leaving the rate where it is at this moment, will be equal to the taxes which Dr. Altmeier and his board estimated 3 years ago they could collect in 1943 at 3 percent on employers and employees alike.

In other words, when we maintain and freeze the rate where it is, we still are producing the revenue which the Social Security Board itself prophesied would require a 3-percent tax in 1943 to obtain.

Mr. President, I leave the issue with the Senate. I shall be quite content, of course, with the verdict. I submit that protection of the tax function of the Social Security System is vital to the maintenance of the social-security principle; and I submit that in the face of the tremendous \$8,000,000,000 burden which we are now placing on the American people, it would be not only senseless, but utterly crude, to add a needless further burden of a 100-percent increase in social-security pay-roll taxes, which, under the definitions of the Secretary of the Treasury himself, is not necessary either to the functioning or the solvency of the fund.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment on page 574, after line 22.

Mr. VANDENBERG. I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. TAFT. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. TAFT. As I understand, a vote of "yea" is a vote to keep the committee amendment in the bill, and freeze the social-security taxes.

The PRESIDING OFFICER. That is correct.

The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. REED (when his name was called). I have a general pair with the senior Senator from New York (Mr. WAGNER). On this vote I transfer that pair to the junior Senator from New Hampshire (Mr. TOSBY), and will vote, I vote "yea."

Mr. THOMAS of Utah (when his name was called). I have a general pair with the senior Senator from New Hampshire (Mr. BARRETT). I transfer that pair to the senior Senator from Rhode Island (Mr. GREEN), who I am informed, if present, would vote "nay." I vote "nay."

The roll call was concluded.

Mr. RADCLIFFE. The senior Senator from Maryland (Mr. THOMAS) is unavoidably absent. Were he present, his vote would be "yea."

Mr. BYRD. My colleague the senior Senator from Virginia (Mr. GLASS) is detained from the Senate on account of illness. Were he present he would vote "yea."

Mr. HILL. I announce that the Senator from Delaware (Mr. HUGHES) is absent from the Senate because of illness.

The Senator from Florida (Mr. ANDREWS), the Senator from Idaho (Mr. CLARK), the Senator from Rhode Island (Mr. GREEN), the Senator from Georgia (Mr. RUSSELL), the Senator from New Jersey (Mr. SMATHERS), and the Senator from New York (Mr. WAGNER) are necessarily absent.

I am advised that, if present and voting, the Senator from Rhode Island (Mr. GREEN), the Senator from New Jersey (Mr. SMATHERS), and the Senator from New York (Mr. WAGNER) would vote "nay."

Mr. McNARY. The Senators from New Hampshire (Mr. BARRETT) and Mr. TOSBY) are necessarily absent. Their pairs have been announced. Both Senators would vote "yea," if present.

The result was announced—yeas 50, nays 35, as follows:

YEAS—50

Aiken	George	Reed
Austin	Gerry	Rosier
Bailey	Gillette	Schwartz
Ball	Guffey	Shipstead
Barbour	Gurney	Smith
Brewster	Herring	Spencer
Brooks	Holman	Taft
Bulow	Johnson, Calif.	Thomas, Idaho
Burton	Johnson, Colo.	Truman
Butler	Kilgore	Vandenberg
Byrd	Lodge	Van Nuys
Capper	McNary	Walsh
Chaves	Mullikin	Wheeler
Clark, Mo.	Nye	White
Connally	O'Daniel	Wiley
Danaher	O'Mahoney	Wills
Davis	Radclyffe	

NAYS—35

Bankhead	Downey	Lee
Barkley	Dovey	Lusk
Bilbo	Ellender	McCarran
Bone	Bath	McFarland
Brown	Hayden	McFellar
Bunker	Hill	Maloney
Caraway	La Follette	Maybank
Chandler	Langer	Mead

Murdock	Pepper	Thomas, Utah
Murray	Reynolds	Tamm
Norris	Howart	Wellman
Overton	Thomas, Okla.	

NOT VOTING—11

Andrews	Green	Tobey
Bridges	Hughes	Tydings
Clark, Idaho	Russell	Wagner
Class	Smathers	

So the committee amendment was agreed to.

Mr. DANAHER. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. DANAHER. Is the bill now open to further amendment?

The PRESIDING OFFICER. There remains to be acted upon a committee amendment which was passed over at the request of the Senator from Oregon. The amendment appears on page 362.

Mr. DANAHER. I desire to offer an amendment when the bill is open to further amendment.

The PRESIDING OFFICER. The Clerk will state the committee amendment on page 352.

Mr. McNARY. Mr. President, the amendment was read by the clerk shortly after the luncheon hour. I have an amendment pending to the committee amendment. Action on it was deferred because of the absence of two Senators who had similar amendments. I do not think it is necessary to read again the committee amendment or the amendment offered by me, but, of course, I have no objection, nor do I desire to make a further statement, in view of the friendly attitude of the Senator in charge of the bill toward my amendment.

Mr. GEORGE. Mr. President, I have not had an opportunity to study the amendment offered by the Senator from Oregon, but I think that the amendment would give to timber a benefit greater than the benefits given to other depletable assets.

Mr. McNARY. Mr. President, in my amendment I desire to have no advantage. I merely want timber resources to be on a parity of equality with other natural resources. If the Senator will suggest any amendment or improvement, I shall be glad to accept it, and let it be worked out in conference. I repeat, I do not want for timber resources anything but parity with the other resources which are specified in the bill.

Mr. GEORGE. I think the amendment the Senator has drafted would give timber an advantage over other depletable resources.

Mr. McNARY. I do not think so. Mr. GEORGE. I have not had time to check it.

Mr. McNARY. I may state that I would not consciously have offered the amendment in such a fashion. The Senator, of course, will perform his duty and in conference remove the advantage, if it exists.

Mr. GEORGE. I shall be glad to let the amendment go to conference for the purpose of ascertaining whether or not the amendment would give timber an advantage over other depletable resources.

Mr. McNARY. I again assert that I do not want to have any advantage.

Mr. GEORGE. So far as I am concerned, I shall be very glad, if the Senate approve the amendment to accept it, with the understanding that it will be studied in conference.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Oregon [Mr. McNew] to the amendment reported by the committee.

The amendment to the amendment was agreed to.

The PRESIDING OFFICER. The committee amendment is open to further amendment.

Mr. GEORGE. Mr. President, there were two amendments carried over, including the one on page 351, which can now be closed.

The PRESIDING OFFICER. The amendment on page 351 is pending as amended by the amendment of the Senator from Oregon.

Mr. GEORGE. That is correct. The PRESIDING OFFICER. Is there any further amendment to the committee amendment on page 351?

Mr. GEORGE. I think there is no further amendment to the committee amendment.

The PRESIDING OFFICER. Without objection, the committee amendment, on page 351, as amended, is agreed to.

Mr. GEORGE. Now, Mr. President, there is a committee amendment on page 353 which was carried over at the request of the Senator from Oregon.

The PRESIDING OFFICER. The Chair is informed that that amendment has been agreed to.

Mr. GEORGE. I think I was in error; that amendment has been agreed to.

Mr. President, the only other committee amendment remaining is that on page 361.

The PRESIDING OFFICER. The amendment will be stated.

The CHIEF CLERK. On page 641, after line 2, it is proposed to insert:

Sec. 24. Joint Committee on Internal Revenue Taxation—Power to obtain data.

Chapter 43 (relating to joint committee) is amended by adding at the end thereof the following new section:

"Sec. 2013. Additional powers to obtain data.

(a) The Joint Committee on Internal Revenue Taxation, on the chief of staff of such committee, upon approval of the chairman, is authorized to secure directly from the Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue),

or directly from any executive department, board, bureau, agency, independent establishment or instrumentality of the Government, information, suggestions, data, estimates, and statistics, for the purpose of making investigations, reports, and studies relating to internal-revenue taxation.

(b) The Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), executive departments, boards, bureaus, agencies, independent establishments and instrumentalities, are authorized and directed to furnish such information, suggestions, data, estimates and statistics directly to the Joint Committee on Internal Revenue Taxation, or to the chief of staff of such joint committee, upon request made pursuant to this section."

Mr. BARKLEY. Mr. President, I offer an amendment in the nature of a substitute for the amendment on page 541,

which has just been stated.

The PRESIDING OFFICER. The amendment in the nature of a substitute will be stated.

The CHIEF CLERK. In the committee amendment on page 541, after line 7, it is proposed to strike out down to and including line 26 and insert in lieu thereof the following:

(a) The Joint Committee on Internal Revenue Taxation, through its chairman, or in the absence of the chairman, its vice chairman, is authorized to secure from the Secretary of the Treasury or from the head of any executive department or independent establishment, agency or instrumentality of the Government, information, data, estimates, and statistics for the purpose of making investigations, reports, and studies relating to internal-revenue taxation.

The heads of the executive departments, independent establishments, agencies, and instrumentalities referred to in the above subsection (a) are authorized and directed to furnish such information, data, estimates, and statistics directly to the Joint Committee on Internal Revenue Taxation upon request made pursuant to this section.

Mr. BARKLEY. Mr. President, I promise not to detain the Senate to exceed a few moments in discussing the amendment in the nature of a substitute.

I am always embarrassed in offering anything that changes the action of the committee of which I am a member, but I have a feeling which I cannot escape that the language in the committee amendment goes further than it ought to go, and so far as I know, further than any language in any law goes with respect to employees of the Congress or the committees of the Congress, having the privilege of circumventing the head of a department and finding out what directly they want to know about anything pertaining to a subject of investigation.

We created the Joint Committee on Internal Revenue Taxation in the act of February 26, 1926. The joint committee is made up of 10 members, 3 from each House. I happen to be a member of the Joint Committee on Internal Revenue Taxation, but if I have ever had a meeting as a joint committee I have no knowledge of it. I do not recall ever having received notice of a meeting, nor do I recall ever having attended a meeting of the Joint Committee on Internal Revenue Taxation. The committee has a force of experts, so far as anyone can be an expert on taxation. As a matter of fact, the Joint Committee on Internal Revenue Taxation is the staff of the committee. They work all the time; they are competent men, and when a tax bill is under consideration they, of course, sit in with the Finance Committee of the Senate and the Ways and Means Committee of the House of Representatives, together with the experts from the Treasury. Sometimes they disagree and sometimes they agree about proposals for taxation, but neither side has any hesitancy in urging the other with respect to the provisions of a tax bill. So far, however, as the joint committee itself meeting and functioning as a joint committee and discussing taxation is concerned, I do not recall that it has oversteered itself in that regard. That may not be the

fault of anybody. We have been content, somewhat, to leave the tax experts employed by the joint committee make the investigations and assemble the data and advise us with respect to tax bills. When there is not a tax bill under consideration, the joint committee really does not function.

The act creating the joint committee authorizes the committee, as such, to make investigations and secure information with respect to internal-revenue taxation. It authorizes it to do it with respect to these matters as a joint committee through the chairman and the vice chairman. The amendment reported by the committee—

Mr. DANAEHR. Mr. President—

Mr. BARKLEY. I yield to the Senator from Connecticut.

Mr. DANAEHR. I inquire who is the chairman of the joint committee, please?

Mr. BARKLEY. The present chairman is Mr. Drexler, chairman of the Ways and Means Committee of the House of Representatives, and the vice chairman is the Senator from Oregon [Mr. Goessel], chairman of the Finance Committee of the Senate.

The language of the committee amendment, for which I am offering a substitute, goes beyond the authority of the joint committee as such. It provides that—

The Joint Committee on Internal Revenue Taxation or the chief of staff of such joint committee—

In the law creating the Joint Committee on Taxation there is no mention of a chief of staff, but we have set up a staff and we have as a joint committee employed and authorized the employment of a chief of staff who is a very efficient and very able tax expert.

The language of the committee's amendment is:

The Joint Committee on Internal Revenue Taxation or the chief of staff of such joint committee, upon approval of the chairman or vice chairman, is authorized to secure directly from the Bureau of Internal Revenue (including the assistant general counsel for the Bureau of Internal Revenue), or directly from any executive department, board, bureau, agency, independent establishment or instrumentality of the Government, information, suggestions, data, estimates, and statistics, for the purpose of making investigations, reports, and studies relating to internal-revenue taxation.

This is precisely the law now being enacted, and merely a law for the tax bill or for this administration, or for the 59th Congress. Whenever the chief of the staff may be in the future, if he can secure the approval of the chairman or the vice chairman—it is conceivable that he might not be able to secure the approval of the chairman of the joint committee in which instance he might go to the vice chairman—if he secures approval, the chief of staff could go, not to the Secretary of the Treasury, head of the Department of the Treasury, but to the general counsel of the Treasury, but to anyone under them, if they might go to any clerk or stenographer

in the Treasury Department without ever consulting the Secretary of the Treasury, the head of the Department, if he could secure the approval of the chairman of the joint committee.

The present chairman and vice chairman of the Joint Committee on Internal Revenue Taxation of course are men who would not conceivably abuse or permit the chief of staff to abuse the authority which we are proposing to confer in the amendment, but this is the permanent danger, it will be incorporated in the body of internal revenue legislation forever, unless it should be repealed. It will apply to all future chairmen and all future vice chairmen of the joint committee.

It is conceivable that under the amendment the chairman of the joint committee might refuse a request of the chief of the staff to go directly to the Bureau of Internal Revenue rather than through the Treasury, or to go to some lawyer in the Internal Revenue Bureau without ever going to the general counsel of the Treasury. The chairman might refuse to do that. Then the vice chairman could ignore the action of the chairman, because the amendment provides that in the absence of the chairman the vice chairman can act. It provides that the chairman or the vice chairman may give this authority.

Not only that, but it applies to all other departments and agencies. Under the language of the amendment as it is in the bill it would be possible for the vice chairman to authorize some chief of staff to go to the Department of Commerce to investigate something in the Department, in the Bureau of Foreign and Domestic Commerce, if he thought it had some relationship to internal revenue laws, without ever going to the Secretary of Commerce and asking his permission, or getting his clearance, or getting through the head of the Department.

I am sure we all realize that the head of a department, if he is to be responsible for the department, is entitled to feel that he is in control of it, that he is at the head of it. By the amendment we would authorize a congressional committee, or an employee of a congressional committee, or any future chairman or any future vice chairman say 50 to give approval to go to any bureau or any division of any department of the Government without ever consulting the head of the department, seeking to obtain facts, estimates, suggestions, data, anything he wanted, with regard to internal-revenue practice.

Mr. DANAEHR. Mr. President, will the Senator yield?

Mr. BARKLEY. I yield.

Mr. DANAEHR. I notice that in the language of the committee amendment there is no suggestion that the demand for information be made upon the Secretary of the Treasury, but rather that the demand be made directly upon the head of the Bureau of Internal Revenue in the first instance.

Mr. BARKLEY. Yes.

Mr. DANAEHR. The Senator the substitute proposed by the Senator from Kentucky would cause the demand to be made upon the Secretary of the Treas-

ury, and it omits any reference to the Bureau of Internal Revenue.

Mr. BARKLEY. Yes.

Mr. DANAEHR. Is it the Senator's purpose to include the Bureau of Internal Revenue in the generic use of the term "Secretary of the Treasury"?

Mr. BARKLEY. Of course, the Bureau of Internal Revenue is a part of the Treasury, just as the Bureau of Customs is a bureau in the Treasury Department. The Bureau of Internal Revenue is a part of the Treasury set-up.

The subject of my amendment is to require that requests for information go through the head of the Department, the Secretary of the Treasury, rather than circumventing him, going around him, and going directly to the Bureau of Internal Revenue, or the General Counsel of the Bureau, who is an assistant counsel in the Treasury under the direction and appointment of the General Counsel, or upon his recommendation.

The object of my amendment is to provide not only as to the Treasury but as to every executive department, at the head of which is a Cabinet officer, that, instead of circumventing them, going directly to some bureau or division or agency within the department, requests shall go formally from the chairman of the Joint Committee on Internal Revenue Taxation, and, in his absence, from the vice chairman of the joint committee, to the head of the department, asking for the information.

The object of a single instance of the chairman or the vice chairman of the joint committee ever asking for information from the Secretary of the Treasury, or from anyone in the Treasury, when the request has been denied, and I do not see why we should in this amendment slap the Secretary of the Treasury in the face and slap the several counsel in the face and say, "Regardless of you, we are going to make it possible for someone to go down into your department and consult a hundred other lawyers down below the grade of general counsel, or counsel all the under secretaries and assistant secretaries and heads of bureaus in the Treasury Department."

The same statement applies to every other executive department at the head of which there is a Cabinet officer.

Mr. DANAEHR. It would still be the Senator's purpose, however, if information really were required from the Bureau of Internal Revenue, and a demand for it were laid upon the Secretary of the Treasury, to have it descend to the Bureau of Internal Revenue and come back up through?

Mr. BARKLEY. That is absolutely correct.

Mr. DANAEHR. I thank the Senator.

Mr. BARKLEY. That is the ordinary way in which such things are done. We all make our requests of the heads of the departments. Suppose the Committee on Foreign Relations desired information with regard to any matter within the keeping or care of the State Department; it would not send a messenger emanating from the Committee on Foreign Relations to the Under Secretary of State or the second, third, fourth, fifth, or sixth assistants to the Secretary of State, or

to anybody except the Secretary of State as the head of the Department.

I am quite satisfied that if the State Department were involved, as the Treasury Department is, or if the Department of Commerce were involved—they are really involved, although they are not named in this amendment—approval would be obtained of the chairman or vice chairman, either of whom, under the terms of the amendment, could appear, even though the chairman might be in his office here in Washington, if the head of the staff, no matter who is now or may be in the future, desired to go to the Treasury Department, or to the Commerce Department, or to the State Department, or to any other department, bureau, division, agency, or instrumentality, under the language of the amendment, he would be authorized to do so without consulting the head of the department. It seems to me it is unnecessary to adopt any such amendment as that proposed, because I am quite satisfied that any request emanating from the chairman of the joint committee, or from the vice chairman, in his absence, would be complied with. Both secured out at the same time, and should not. The vice chairman is supposed to take the place of the chairman when the chairman is unavailable, but under the language of this amendment, even if the chairman of the joint committee were in his office every day of the year, if the vice chairman, whenever he might be in the future, were there, and any bill to authorize the chairman or the vice chairman of the joint committee to go to one of the bureaus or agencies and inquire into anything concerning which he desired information he would be empowered to do so.

Mr. TAPT. Mr. President, will the Senator from Kentucky yield?

Mr. BARKLEY. I yield.

Mr. TAPT. I wonder if the Senator's experience has been the same as mine. If I want any information from the Bureau of Internal Revenue I can get it by calling on Mr. Tarison, or somebody else in the Bureau, and I can get it about ten times as fast as I can by addressing a letter to the Secretary of the Treasury, or calling him on the telephone, and when I receive the information it is the kind I want, whereas when I write a letter to the Secretary of the Treasury and the reply comes back, it usually misses the point, and gives me some entirely different information.

Was it not quite recently that the Secretary of the Navy was highly praised because he abolished the rule which required every Army officer who wanted to talk to a Navy officer to carry on his business through the Secretary of the Navy?

Was the Secretary not praised because he abolished red tape, and made the whole function of government operate with more sense and with greater dispatch?

Mr. BARKLEY. Mr. President, I am not talking about telephone calls which Members of the Senate may make with various department officials. We all can get information in a department by calling up someone, if we know whom to call, but when a formal request goes out from a committee of the Congress of the United

States, it is addressed to the head of a department. The language is contained in the amendment reported by the committee, or the language in the substitute which has been offered by me, would not interfere in any way with any Senator or Representative calling up anyone in the office of the Treasury whom he happens to know, or from whom he wishes to obtain information. I am talking about the formal requests made by committees. The request would be formal if it came from the joint committee.

While the Bureau of Internal Revenue is the only one named, the language in the amendment is sufficiently broad to include all bureaus, and all departments, and its effect would be to circumvent the heads of all departments in Washington, those responsible as members of the Cabinet, by allowing an employee of the Senate and House joint committee to go into every bureau or agency under a Cabinet officer, and secure information. It seems to me to be an unprecedented proposal, and I do not think the circumstances under which it was offered or adopted in the committee constitute a sufficient reason for departing from the rule of comity as between Congress and the executive departments, or justify our saying to a Cabinet officer, "You are no longer in our picture, we do not want to deal with you, we are going down to a little bureau, or agency, or something of that kind, without you knowing about it." I think it is unfair.

Mr. NORRIS. Mr. President, will the Senator yield?

Mr. BARKLEY. I yield to the Senator from Nebraska.

Mr. NORRIS. I do not want the Senator to surrender the floor until he explains what the effect of the substitute would be. He has not yet done so.

Mr. BARKLEY. My substitute would authorize the chairman of the joint committee on Internal-revenue taxation, or, in his absence, the vice chairman, to call upon the Secretary of the Treasury, or any other executive officer, or head of a department, for any data, statistics, estimates, or any other information which the joint committee may desire which has any bearing upon the question of Internal-revenue taxation. My amendment would make it the duty of all those officers to furnish the information to the joint committee, but it would put the responsibility, of course, upon the chairman first to make the request as chairman of the joint committee, and in his absence it would put the responsibility upon the vice chairman to make the request. The request would go in a formal way from the joint committee, as such, to the head of the department or to any agency or branch of the Government. I seek to eliminate the authority given in the amendment by which an employee of the joint committee, if he uses to either the chairman or the vice chairman and gets their consent, can for all time to come go individually down into a department, without the knowledge or approval or the request of the head of the department, and obtain whatever he may want in the way of information, or suggestion or otherwise. That is the difference between the two proposals.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Kentucky (Mr. BARKLEY) to the committee amendment.

Mr. CLARK of Missouri. Mr. President, the object, or at least the effect, of the substitute proposed by the Senator from Kentucky is to destroy wholly and completely an amendment which was adopted in the Committee on Finance after an all-day discussion of the subject and full consideration by a vote of 16 for and one against. Every member of the committee who was present—and I say in all frankness the Senator from Kentucky, who is a member of the committee, was detained on important business elsewhere—every member of the committee present, and 14 were present, voted for the amendment. They listened to the discussion for all of 1 day and the afternoon session from the morning until the afternoon to see if there could be an agreement upon the matter, and finally and unanimously adopted the amendment when the motion was made by the Senator from Pennsylvania (Mr. COWLEY).

Mr. President, the whole nub of this discussion can be stated in this one sentence: Does the Congress of the United States, the policy-making body for our Government under the Constitution of the United States, have a right to have access to information from any governmental source whatsoever that it may see fit to call on? That is the only issue. The committee amendment, as it was reported by the committee by unanimous vote, provides that the agents of the Congress—and the Joint Committee on Taxation—is merely an agent of Congress—shall have access to any information they may desire by going to whatever agency or board or bureau or department they may desire for the information.

Mr. President, the proposal of the Senator from Kentucky certainly would not improve the present practice, and in my opinion it would actually weaken it. As a matter of fact, the committee amendment, so far as the Treasury Department is concerned, merely goes back to what was the law and what was the practice since the Joint Committee on Internal Revenue Taxation was established 40 years after that, until 4 or 5 years ago when a change was secured in the law, setting up the office of the General Counsel in the Treasury Department.

Mr. President, the Senator from Kentucky speaks of slapping the Secretary of the Treasury in the face. There is nothing in the committee amendment which slaps the Secretary of the Treasury or anyone else in the face. There is nothing in the amendment which circumscribes in any way the authority of the Secretary of the Treasury to conduct the affairs of his department, or that of any other department head, or that of any other department. All that the committee amendment does is to authorize the recognized and legally set up representatives of the Congress of the United States, in its policy-making capacity, to go to any governmental agency they please, to get any information they think to be of benefit to the committee of Congress and to the Congress itself in determining policy.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. CLARK of Missouri. I yield. Mr. BARKLEY. Does the Senator from Missouri contend that unless the language of the amendment is adopted, an employee of the joint committee could not, without the consent of the head of a department, go to any bureau or agency in the department?

Mr. CLARK of Missouri. I think he could not, and I think that is what the committee had in mind. I do not share the fear raised in the hurried opinion pointed by the Senator from Kentucky. I think it is a mere's nest—that the vice chairman of the committee would exercise the authority of the chairman if the committee were known to the chairman of the committee. We know the chairman of the committee who have always been chairman of the committee, and who have always been vice chairman of the committee, and I do not think there is anything in the Congress need to hurry a thing in giving either one of the members of the important committee authority to ask information they think is necessary.

Mr. BARKLEY. Why not restrict then in the committee's amendment that the vice chairman shall act in the absence of the chairman as vice chairman in all organizations always do? Why are both given equal power?

Mr. CLARK of Missouri. Because, as the Senator from Kentucky very well knows, the committee is made up of five Representatives, Members of the Ways and Means Committee of the House, and five Senators, members of the Finance Committee of the Senate. These two committees are coordinate in their authority, and so all legislation that passes the chairman and the vice chairman, or coordinate in their authority, it is simply a question of who presides at the meeting of the committee. The Senator from Connecticut says the committee does not meet anyway. If so, it does not seem to me to be of any importance at all who is chairman or who is vice chairman.

Mr. BARKLEY. The committee amendment does not require any approval of the committee. It does not say that the approval of the joint committee shall be required.

Mr. CLARK of Missouri. Mr. President, I contend that the staff of the joint committee, which serves both the House and the Senate, ought to have the right to ask for information either on the approval of the responsible head of the House committee or the responsible head of the Senate committee, because both branches are coordinate bodies of the Congress.

Mr. President, no one has any desire to slap the Secretary of the Treasury or any other Secretary in the face, but sometimes questions arise on which the head of an important bureau may have views at variance with the views of the general headquarters, so to speak, of the department, and the Congress of the United States has a right to the opinions and the facts on which the opinions are based, of the men who actually have in hand the administration of matters.

I would like to mention in the consideration of this very bill. I happened to be chairman of the subcommittee of the Finance Committee which considered the excise tax. The views of the general headquarters contingent, so to speak, and the "brain trust" of the Treasury Department, were expressed at great length to the subcommittee, and it was actually said that the Bureau of Internal Revenue was being represented at that time by a young man whom I did not know. I went out and called up the Commissioner of Internal Revenue who had the actual administration of this measure in mind, and asked him to come up and appear before the committee. He told me he could not do it without the permission of the Secretary of the Treasury. I wrote the Secretary of the Treasury a letter. The Commissioner of Internal Revenue appeared and gave the committee views in direct divergence, just as far as they could possibly be, from the views which had been expressed on his behalf by the Treasury officials whom I had called on. The information he gave the committee, the committee saw fit to make a very radical change in the proposal, in fact to make a complete divergence.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. CLARK of Missouri. I yield.

Mr. BARKLEY. What the Senator says about that particular episode is true, and that is the practice which is indulged in by all departments. The Internal Revenue Commissioners, for example, all have the greatest admiration and respect, and with whom the Senator and I served in one capacity and another in the House, like all assistants under a Cabinet officer, felt that he had no right to speak for the Department unless he was authorized to do so, or unless the Secretary of the Treasury, under whom he served, knew that he was appearing before the committee. There was no delay in getting the information. The Commissioner appeared and gave it.

Mr. CLARK of Missouri. I understand that completely. I was using that as an illustration of the fact that there are very frequently divergent views between the heads of the bureaus or administrative heads and the so-called executive. The reason I mention that is that in the preparation of the bill before us, 375 pages long, the committee had to study a great mass of information. We have a joint staff set up by law for the purpose of giving us the information. Its members are not executive agents. They are the agents of the Congress itself. We should be able to go to the source of the information so as to be certain that we are acquiring the current information, without being dependent upon some other office through which information will be filtered from the subordinate bureau, an office which may send us whatever information it wants to and withhold whatever information it does not happen to agree with.

In that way, Mr. President, the Congress will have access to the official views of the head of the Treasury Department or the Commerce Department or any other department, and through our own staff we will have the right to

check their views; and we will have the facilities for checking them; we will have the right to check statistics, so that when the Ways and Means Committee or the Finance Committee or any other committee proceeds to determine policy we will have means of our own by which we can check information submitted to us.

Mr. President, I say again that by this amendment, which was adopted unanimously by the Finance Committee, no restriction whatever is intended upon the Secretary of the Treasury or the General Counsel of the Treasury or anyone else. It is simply to enable Congress to perform its constitutional duty, in formulating as a policy-making body. I hope very much the substitute amendment will be voted down.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Kentucky (Mr. BARKLEY) to the committee amendment.

Mr. GEORGE. Mr. President, nothing would be further from my mind than to raise any issue whatsoever with the Secretary of the Treasury or the head of any other department or agency of the Government. I regret very much that the amendment seems to have been introduced as indicating a lack of agreement between the present chairman and vice-chairman of the joint committee and the heads of the departments.

So far as the law is concerned, let me read from the law which created the joint committee. I refer to section 6011 of the Internal Revenue Code. Among other things, the joint committee is especially empowered to do the following:

- (1) Investigation: To investigate the operation and effects of the Federal system of internal revenue taxes.
- (2) Administration: To investigate the administration of such taxes by the Bureau of Internal Revenue or any executive department, establishment, or agency charged with their administration; and
- (3) Other investigations: To make such other investigations in respect of such system of taxes as the joint committee may deem necessary.

I happen to be chairman of the Senate Committee on Finance, and vice chairman of the joint committee. I have no desire to seek an enlargement of power, other than for strictly official purposes and duties. I think I can say to the Senator that whatever power is entrusted by law to me at all times is surrendered to me without my having abused it. If there is anything I fear it is the abuse of power. If there is anything on earth that would ever restrain me, it is the fear of the use of power in such a way as to cause anyone reasonably to suppose that I had been willing to abuse it.

I hold in the highest esteem the heads of departments and agencies of Government, and under no circumstances would anyone ever be sent to any department without a respectful request addressed to the department head, and the desire of the joint committee in obtaining information.

I had hoped that the amendment might be so adjusted as not to provoke discussion. I have not had the opportunity to discuss it, but it is now before

the Senate and I wished to make this statement before the vote is taken, merely for the purpose of making it perfectly clear that, in my judgment, there is no occasion for any fear, so far as the present chairman and vice-chairman of the joint committee are concerned, that there will be any abuse of this power if the Senate sees fit to adopt the amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Kentucky (Mr. BARKLEY) as a substitute for lines 8 to 26 in the committee amendment on page 641.

Mr. TAFT. I ask for the yeas and nays.

The yeas and nays were ordered, and the legislative clerk proceeded to call the roll.

Mr. REED (with his name was called). I have a general pair with the senior Senator from New York (Mr. WALKER). I transfer that pair to the junior Senator from New Hampshire (Mr. TOWN), and will vote "Y" only.

The roll call was continued. Mr. HILL. I announce that the Senator from Delaware (Mr. HENSON) and the Senator from Virginia (Mr. CLAY) are absent from the Senate because of illness.

The Senator from Florida (Mr. ANDERSON), the Senator from Idaho (Mr. CLARK), the Senator from Rhode Island (Mr. GARDNER), the Senator from Georgia (Mr. RUSSELL), the Senator from New Jersey (Mr. BRANTZ), the Senator from Maryland (Mr. TOWN), and the Senator from New York (Mr. WALKER) are necessarily absent.

Mr. THOMAS of Utah. I have a general pair with the Senator from New Hampshire (Mr. BRANTZ), but I am advised that if present and voting, he would vote as I am about to vote. I am, therefore, at liberty to vote "NAY."

Mr. MCNARY. The Senators from New Hampshire (Mr. BRANTZ) and Mr. TOWN are necessarily absent. Their pairs have been announced. Both these Senators would vote "YAY" if present.

The result was announced—yeas 10, nays 14, as follows:

YEAS—10		
Buckley	Johnson, Calif.	Reaper
Dawson	La Follette	Tracy
Eastland	McNary	
Ellis	Reese	
NAYS—14		
Allen	George	O'Daniel
Amodeo	Gray	C. McNary
Barkley	Hammond	Overton
Bell	Harley	Rankin
Blackburn	Harley	Reynolds
Borah	Harris	Schweitzer
Brace	Herring	Shoup
Brewster	Johnson, Calif.	Spencer
Brown	King	Stewart
Bulwer	La Follette	Tamm
Butcher	Lang	Thomson, Idaho
Buton	Lodge	Thomson, Ohio
Bush	McNary	Thomson, Utah
Byrd	McNary	Tramm
Capper	McParland	Tubman
Caraway	McPherson	Van Santburg
Chandler	McPherson	Van Hous
Chapman	McPherson	Wallace
Clark, Mo.	McPherson	Wells
Connally	McPherson	White
Donnell	McPherson	White
Dyer	McPherson	White
Elliander	McPherson	White

NOT VOTING—12

Andrews	Green	Tobey
Bridges	Hughes	Tydings
Clark, Idaho	Russell	Wagner
Glavin	Smathers	Wills

So Mr. BARKLEY's amendment to the committee amendment was rejected.

The PRESIDING OFFICER. The question recurs on agreeing to the committee amendment on page 541, after line 2.

The amendment was agreed to.

Mr. GEORGE. Mr. President, I had hoped that we might be able to conclude consideration of the bill today; but it is obvious that we cannot do so without remaining here for 2 or 3 hours longer. I shall ask permission to dispose of certain technical amendments, so that tomorrow we may have the bill before us practically only for the consideration of amendments to be offered from the floor. I hope that is agreeable to the leaders of the majority and the minority.

Mr. McNARY. It is agreeable to me.

Mr. BARKLEY. It is also agreeable to me, although, so far as I am concerned, I think it might be well to proceed for a little while to clear up some underbrush and meet tomorrow and complete the bill.

Mr. GEORGE. Yes; I am sure we can finish the bill tomorrow.

Mr. President, the Senator from Maine asked that certain committee amendments be passed over. Subsequently those amendments were called up, and it was believed that amendments to them would not be necessary. Since then the matter has been checked, and the Senator from Maine desires certain technical amendments agreed to. The amendments have been checked by both the Treasury staff and the joint committee staff, and there is no objection to them. They are entirely technical. The first amendment I offer comes in on page 18, line 17.

The PRESIDING OFFICER. The Chair is informed that the amendment is to a committee amendment which has already been agreed to.

Without objection, the vote by which the committee amendment was agreed to is reconsidered. The clerk will state the amendment to the amendment.

The CHIEF CLERK. In the committee amendment on page 18, in line 17, it is proposed to delete "or"; and in line 18, after the parenthesis, to insert ", or section 736 (b)."

The amendment to the amendment was agreed to.

The amendment as amended was agreed to.

Mr. GEORGE. Mr. President, I should say that all the amendments I am now offering are to committee amendments which have been agreed to. I ask unanimous consent that in each instance the vote by which the committee amendment was agreed to may be reconsidered for the purpose of offering these amendments.

The PRESIDING OFFICER. Without objection, it is so ordered, and the votes by which the committee amendments were agreed to will be considered as having been reconsidered for the purpose

of offering the amendments. The clerk will proceed to state the amendments.

The next amendment was, in the committee amendment beginning on page 386, to insert on page 390, line 4, after the word "subchapter", the following: ", or in the case of a taxable year the return for which was filed prior to the date of the enactment of the Revenue Act of 1943, within 6 months after the date of the enactment of such act."

The amendment to the amendment was agreed to.

The next amendment was, on page 390, at the beginning of line 8, before the word "irrevocable", to insert "made in accordance with such regulations and shall be."

The amendment to the amendment was agreed to.

The next amendment was, on page 390, line 9, after the word "contracts", to insert "past, present, or future."

The amendment to the amendment was agreed to.

The next amendment was, on page 390, line 9, after the word "which", to insert "required or."

The amendment to the amendment was agreed to.

The next amendment was, on page 390, line 12, after the word "subchapter", to insert ", including the computation of excess profits net income in each taxable year of the base period under section 711 (b)."

The amendment to the amendment was agreed to.

The next amendment was, on page 390, line 13, after the word "election", and before the period, to insert "but for purposes of chapter 1, the tax imposed by this subchapter for any prior taxable year on account of the adjustment required by this subsection shall be considered a part of the tax imposed by this subchapter for the taxable year in which such income is, without regard to this subsection, includible in gross income."

The amendment to the amendment was agreed to.

The PRESIDING OFFICER. The question recurs on agreeing to the committee amendment as amended.

The amendment as amended was agreed to.

The next amendment was, on page 392, to strike out lines 4 to 7, inclusive, and insert in lieu thereof the following:

(e) Retroactive application of provisions relative to general relief and income from long-term contracts—

(1) The amendments made by this section to section 722 shall be applicable with respect to taxable years beginning after December 31, 1939.

(2) Subsection (b) of section 736 and so much of subsection (c) as is applicable thereto shall be applicable only with respect to taxable years beginning after December 31, 1941, except that, if a taxpayer, within 6 months after the date of enactment of this act and in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, elects to have such subsections apply retroactively to all taxable years beginning after December 31, 1939, such amendments shall also be applicable to such taxable years.

The amendment to the amendment was agreed to.

The amendment as amended was agreed to.

Mr. GEORGE. Mr. President, I send to the desk and ask to have stated a new amendment to be inserted at the proper place in the bill. Let me state that the Treasury has no objection to the amendment. It is solely for the purpose of eliminating duplications and other imperfections in the net-operating-loss carry-over provisions as they apply to the computations of net excess-profits income.

The PRESIDING OFFICER. The amendment submitted by the Senator from Georgia will be stated.

The CHIEF CLERK. At the proper place in the bill it is proposed to insert the following new section:

Sec. (210). Net operating loss deduction adjustment.

(a) Section 711 (a) (1) (relating to the excess-profits credit computed under section 711) is amended by adding at the end thereof the following new subparagraph:

"(J) Net operating loss deduction adjustment: The net operating loss deduction shall be adjusted as follows:

"(i) In computing the net operating loss for any taxable year under section 122 (a) and the net income for any taxable year under section 122 (b), no deduction shall be allowed for any excess-profits tax imposed by this subchapter; and

"(ii) In lieu of the reduction provided in section 122 (c), such reduction shall be in the amount by which the excess-profits net income computed with the exceptions and limitations specified in section 123 (d) (1), (2), (3), and (4) exceeds the excess-profits net income (computed without the net operating loss deduction)."

(b) Section 711 (a) (2) (relating to the excess-profits credit computed under invested capital credit) is amended by adding at the end thereof the following new subparagraph:

"(L) Net operating loss deduction adjustment: The net operating loss deduction shall be adjusted as follows:

"(i) In computing the net operating loss for any taxable year under section 122 (a), and the net income for any taxable year under section 122 (b), no deduction shall be allowed for any excess-profits tax imposed by this subchapter, the deduction for interest shall be reduced by the amount of any reduction under subparagraph (B) of this paragraph, and the gross income shall be increased by the amount of the adjustment specified by subparagraph (G) of this paragraph to the extent that such adjustment includes interest other than interest described in section 122 (d) (2); and

"(ii) In lieu of the reduction provided in section 122 (c), such reduction shall be in the amount by which the excess-profits net income computed with the exceptions and limitations provided in section 123 (d) (1), (2), (3), and (4) exceeds the excess-profits net income (computed without the net operating loss deduction)."

(c) The amendments made by this section shall be effective as of the date of enactment of the Excess Profits Tax Act of 1940.

Mr. DANAHY. Mr. President, I should like to ask the Senator from Georgia to explain, if he will do so, the type of cases which the proposed amendment is designed to cover.

Mr. GEORGE. The amendment would apply to the excess-profits carry-over provision. The amendment has been submitted to the Treasury. It is intended to eliminate duplications in the

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

December 22, 1942

TO Secretary Morgenthau
FROM Randolph Paul

On Friday evening at the invitation of Mr. Louis Brown, President of the Johns Manville Company, I attended dinner at Mr. Brown's apartment in the Wardman Park Hotel for the purpose of discussing the tax situation with him and with four or five other men who, according to Mr. Brown, would have most to do with the formulation of tax policy in the next Congress. There were six of us at dinner - the other four being Mr. Roswell Magill, former Undersecretary of the Treasury, Mr. Ellsworth Alford, Washington attorney, representing the U. S. Chamber of Commerce, Mr. Chester Cowden representing the National Association of Manufacturers and Mr. John Hanes, also former Undersecretary of the Treasury.

The following will give a general summary of the matters discussed at dinner and in the evening after dinner:

1. There was considerable discussion of the Rum1 plan. I explained the Treasury's substitute for the Rum1 plan presented to the Senate Finance Committee last September which involved reduction of rate brackets by 10 percentage points for 1942, an increase of rate brackets for 1943 by 5 percentage points, and withholding at the source for 1943 at the rate of 15 percent. The effect of this provision is summarized in the letter to the Washington Post, dated December 8, 1942, in answer to the published letter of Louis Bromfield, as follows:

"The Treasury plan would have led to the collection of a large part of individual income taxes at the source for most taxpayers. About three-fourths of all income taxpayers would have been shifted to a substantially current basis, with about two-thirds of their 1943 tax liability collected at source. The taxpayers who would have the largest proportion of their tax liability placed on a current basis are those in the lower income brackets. In other words, the Treasury plan would meet most fully the needs of precisely those taxpayers whose budgeting habits and unfamiliarity with income taxes make a pay-as-you-go system most useful."

- 2 -

All expressed themselves as in favor of going at least this far; some would like to go further, forgiving entirely all taxes for 1942 whatever the rate bracket. Mr. Hanes was the only one who expressed doubt whether this was feasible politically.

2. The size of the program for the next Congress was then discussed. Mr. Cowden expressed the view that the total should be \$60 billion or \$30 billion additional (counting \$30 billion as the present yield). He thought this should consist of \$5 billion in the form of a sales tax with no exemption for food and a flat 20 percent compulsory lending program. I expressed my views against the sales tax and criticized the flat compulsory lending program on the ground that it would be extremely hard on the lower incomes and would represent merely a shift of saving for the upper incomes. Mr. Alvord doubted whether much could be obtained from a sales tax. I also told those present that I thought such a program would be too onerous and with this all but Cowden agreed.

3. We had some discussion of the matter of timing and it was thought advisable by those present to put in the forefront any matters that needed legislation before March 15, leaving other less urgent matters to a separate later bill.

4. We had some discussion of corporate rates. Mr. Hanes expressed the view very strongly that we should have some debt relief. I agreed with this point and said that with proper debt relief and other like provisions I thought the rate could easily go from 40 percent to 50 percent or 55 percent for the normal and surtax combined. Mr. Brown thought 50 percent with debt relief would not be too onerous. The others did not express themselves on this point.

5. Everyone present was strongly in favor of collection at the source.

6. We had some discussion of the spendings tax and Mr. Alvord expressed himself as pretty much against this

- 3 -

tax. The others, I am sure, were against this tax though they did not say so explicitly.

7. Some support was given, particularly by Mr. Alvord, to the so-called individual excess profits tax or tax on increased incomes of individuals, the theory of this tax being that it would reach inflationary incomes directly attributable to the war effort. Mr. Alvord advanced the idea that a levy of this sort might be put in the form of compulsory lending, and I told him that Hanson had also advanced this idea. The others did not argue for this tax, which is somewhat strange. When he first saw me, Mr. Brown strongly advocated the tax, and between that time and the time of the dinner I had given Mr. Brown several copies of a memorandum pointing out the difficulties involved in this form of taxation. Perhaps these memoranda had shaken Mr. Brown's faith in this tax.

8. I think all of the gentlemen present were in favor of some form of compulsory lending, although not all of them would go as far or as high as Mr. Cowden. As I said, the compulsory lending favored by Mr. Cowden would be a straight percentage requirement with no progression in the schedule.

9. Although it is not strictly relevant to the above, we had some discussion of the salary limitation, and opposition was expressed by everyone except myself.

Ret

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE December 22, 1942

TO Secretary Morgenthau
FROM Randolph Paul

The last sentence of the middle paragraph on page 5 formerly read:

"Within the next few months we should be collecting from current levies one-half of the cost of the Federal Government".

After conference between Mr. Bell, Mr. Blough and myself, it was changed to read as shown:

"Within the next few months our receipts under existing revenue laws and under any new fiscal measures adopted by the Congress should approximate one-half the cost of the Federal Government"

RP

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

~~NIGHT LETTER~~

FROM _____

BUREAU _____

CHG. APPROPRIATION Internal Revenue

U. S. GOVERNMENT PRINTING OFFICE 10-1728

December 22, 1942

Mr. Jerry Racket
Technicolor Laboratory
Hollywood, California

AS YOU KNOW IT IS VITALLY IMPORTANT TO THE TREASURY TO GET THE NEW DISNEY TAX FILM DISTRIBUTED AS EARLY IN JANUARY AS POSSIBLE. WE HAVE A TREMENDOUS JOB OF REACHING THE MILLIONS OF NEW TAXPAYERS AND WE FEEL THIS FILM WILL BE ONE OF THE MOST EFFECTIVE WAYS OF GETTING OUR MESSAGE TO THEM. ANYTHING YOU CAN DO TO EXPEDITE THE PRINTING OF THE FILM WILL BE GREATLY APPRECIATED AND WILL BE A REAL SERVICE.

Henry Morgenthau, Jr.
Secretary of the Treasury

FK/egk

Initialed *Hang*

December 23, 1942.

Dear Mr. Swope:

It was very good of you to send me a telegram of congratulation on the Lead campaign record. Thank you for your friendly message.

With the season's greetings, and all good wishes for the coming year,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Herbert Bayard Swope,
698 Park Avenue,
New York, New York.

GEF/dbs

File in Diary

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NSB NEWYORK NY DEC 21 1942 343P

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HON HENRY MORGENTHAU

SECY OF THE TREAS

CONGRATULATIONS ON THE MAGNIFICENT RECORD ON BONDS. IT IS A
TRIBUTE TO YOUR ADMINISTRATION

HERBERT BAYARD SWOPE.

613PM.

DEC 21 1942
10 15
11 25

Handwritten scribble

December 22, 1942

Dear Mr. Kaufmann:

I am glad to know that your fellow Philadelphians are honoring you on January 18th for your services in the War Savings campaign.

We at the Treasury know of the outstanding War Bond advertising that appeared in the Philadelphia newspapers December 7th, and we are most grateful to you who originated the plan and to the Merchants Association which sponsored it.

Your energy and resourcefulness have been an example to merchants all over the country, and I feel that you have been of real service in helping to finance the war.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Arthur C. Kaufmann,
President,
Gimbel Brothers,
Philadelphia, Pennsylvania.

FK/ogk

Copy in Diary

File to Thompson

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of December sales to date with sales during the same number of business days in November and October, 1942

(At issue price in thousands of dollars)

Date	December daily sales	Cumulative sales by business days				December as percent of November
		December	November	October	December as percent of November	
December 1942						
1	\$ 4,116	\$ 4,116	\$ 5,164	-	-	79.7*
2	4,489	8,605	9,272	-	-	92.8
3	10,042	18,647	20,460	\$ 5,045		91.1
4	39,690	58,337	31,309	42,285		186.3
5	16,648	74,984	53,076	52,984		141.3
7	46,424	121,408	62,326	73,919		194.8
8	11,887	133,295	96,366	98,490		138.3
9	17,857	151,152	111,002	117,077		136.2
10	13,607	164,759	146,494	131,593		112.5
11	38,664	203,423	161,929	169,859		125.6
12	17,480	220,903	181,120	179,232		122.0
14	52,056	272,959	188,497	194,811		144.8
15	15,530	288,488	230,083	222,243		125.4
16	22,764	311,252	241,624	239,891		128.8
17	24,848	336,100	262,274	254,201		128.1
18	25,260	361,359	287,409	290,282		125.7
19	17,907	379,266	314,568	312,386		120.6
21	45,716	424,982	327,418	327,928		129.8

December 22, 1942.

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

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. These figures have been adjusted on the basis of wire reports and therefore will not agree with the Treasurer's accounts.

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of December sales to date with sales during the same number of business days in November and October, 1942

(At issue price in thousands of dollars)

Date	December : daily : sales	Cumulative sales by business days				December as : percent of November
		December	November	October	December as	
December 1942						
1	\$ 197	\$ 197	\$ 303	-	-	65.0%
2	329	527	1,115	-	-	47.3
3	2,688	3,214	7,846	\$ 2,218		41.0
4	13,947	17,161	14,720	20,322		116.6
5	12,303	29,464	31,425	24,325		93.8
7	17,522	46,986	34,030	31,922		138.1
8	2,872	49,858	43,940	46,695		113.5
9	9,576	59,434	49,326	55,998		120.5
10	5,651	65,085	58,842	59,711		110.6
11	14,274	79,359	64,157	74,275		123.7
12	7,135	86,495	71,352	76,430		121.2
14	15,430	101,924	73,989	83,857		137.8
15	7,719	109,644	83,246	91,884		131.7
16	5,146	114,789	88,888	98,457		129.1
17	11,654	126,443	97,154	101,252		130.1
18	6,466	132,909	104,487	110,052		127.2
19	7,992	140,901	113,191	115,757		124.5
21	13,451	154,352	116,880	124,610		132.1

December 22, 1942.

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

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. These figures have been adjusted on the basis of wire reports and therefore will not agree with the Treasurer's accounts.

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

TREASURY DEPARTMENT

208

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

December 22, 1942

No luck with Grossman. The original attached letter is sent to you because of the personal references in the second paragraph.

RP

LAW OFFICES OF
GROSSMAN AND GROSSMAN

17TH FLOOR THE N B C BUILDING

CLEVELAND

LOUIS J. GROSSMAN, 1884-1941
MARC J. GROSSMAN
KENNETH D. CARTER
JOHN W. CAMP
HERRY E. HAMILTON
I.V. ROSENMAN

December 17, 1942.

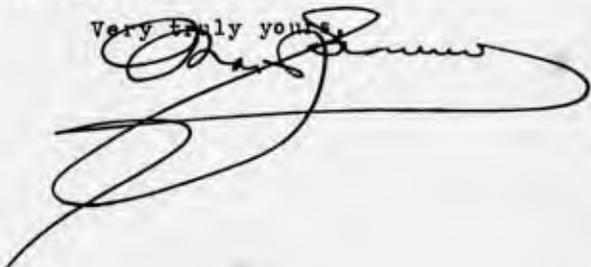
Huntington Cairns,
Assistant General Counsel,
Treasury Department,
Washington, D. C.

My dear Mr. Cairns:

This will confirm my long distance telephone conversation with you, which was prompted by your letter of December 16. As stated, I am not interested in a job as such for the reasons which I explained to you. If however, I can at any time make a contribution to the war effort through the Treasury Department, I am entirely at your disposal.

I have something of a sense of a personal relationship with the Treasury Department because Henry Morgenthau, III, was employed for some time by the Cleveland Metropolitan Housing Authority of which I am Chairman, and in consequence I had occasional contact with his distinguished father.

I greatly appreciate your thought of me.

Very truly yours,


MJG:MR

December 22, 1942

Dear Mr. Davis:

Beginning January 1st Mr. Charles Schwarz, our Director of Public Relations, will be responsible for clearance of speeches with your office, through Mr. Fleming. I shall appreciate your telling Mr. Fleming that Mr. Schwarz will clear Treasury speeches with him and will also handle the clearance in this Department of speeches from other Government agencies which bear on the Treasury's problems.

If certain speeches on policy matters should produce important differences of opinion between departments, Assistant Secretary Herbert E. Gaston will be available for the Treasury and will, I know, be glad to help in any way he can.

Sincerely,

(Signed) H. Morgenthau, Jr

Mr. Elmer Davis,
Director, Office of War Information,
Washington, D. C.

FK/cgk

Copies in Diary
Copies to Schwarz and
Thompson

By Messenger *Randy*
4:12

Mr. Charles Schwarz
Secretary Morgenthau

December 22, 1942.

Beginning January 1st I should like you to be responsible for the clearance of speeches with the O.W.I. Treasury speeches will come to you from Mr. Gaston, who will approve them for policy, and you should then clear them with Mr. Fleming of the O.W.I. I have written Elmer Davis to tell him that other Government speeches requiring our clearance shall be sent to you, for you to circulate with the appropriate people in the Treasury.

H. M. J.

FK:eg

Copy in Diary

Copy to Thompson



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

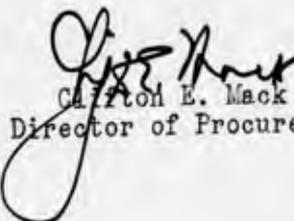
December 22, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended December 19, 1942.

There has been a decline in the dollar volume of lend-lease requisitions cleared to this Office for purchase, due primarily to lack of available shipping and adequate stores for a substantial part of the immediate needs.

The preliminary budget estimates for the balance of this fiscal year (from January 1, 1943, on) indicate an anticipated increased volume of proposed requirements.


Clifton E. Mack
Director of Procurement



LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF DECEMBER 19, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U.K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous Undistributed</u>
Allocations	\$2721.9 (2721.8)	\$1258.4 (1251.4)	\$842.1 (828.2)	\$58.3 (58.3)	\$3.7 (3.7)	\$559.4 (582.2)
Purchase Authoriza- tions (Requisitions)	\$2020.0 (1980.1)	\$1173.8 (1149.8)	\$778.6 (763.5)	\$41.0 (41.0)	- -	\$ 26.6 (25.8)
Requisitions Cleared for Purchase	\$1905.5 (1876.8)	\$1135.7 (1123.5)	\$703.6 (687.5)	\$41.0 (41.0)	- -	\$ 25.2 (24.8)
Obligations (Purchases)	\$1807.3 (1772.8)	\$1074.2 (1060.9)	\$666.9 (646.3)	\$41.0 (41.0)	\$3.3 (3.1)	\$ 21.9 (21.5)
Deliveries to Foreign Governments at U. S. Ports*	\$ 787.7 (778.4)	\$ 623.3 (615.9)	\$137.7 (136.3)	\$20.3 (20.3)	- -	\$ 6.4 (5.9)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of December 12, 1942

DEC 22 1942

Gentlemen:

Attention: Mr. H. L. Sanford

Reference is made to your letter of December 15, 1942, relative to the arrangement for the purpose of supplying the Republic of China with U.S. dollar exchange as outlined in your letter of July 14, 1937, as amended, to the Central Bank of China.

You are hereby authorized and requested as fiscal agent of the United States to send the following cable to the Central Bank of China:

"With reference to your cable No. 31 requesting a further extension of the arrangement between us for purpose of supplying Republic of China with dollar exchange the Secretary of the Treasury has authorized us as fiscal agent of the United States to modify further paragraph 6 of our letter of July 14, 1937 as modified by deleting 'December 31, 1942' wherever such words and figures appear in such paragraph as modified and inserting in lieu thereof 'June 30, 1943'. Please confirm your agreement to such modification of the arrangement."

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Federal Reserve Bank of New York,

New York, New York.

Photo file in Diary

File to Thompson

JHC/gps
12/17/42

FEDERAL RESERVE BANK
OF NEW YORK

FISCAL AGENT OF THE UNITED STATES

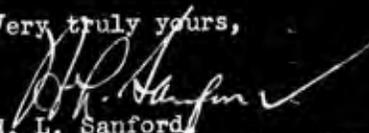
December 15, 1942.

S i r : Attention: Mr. E. M. Bernstein

We are pleased to enclose a copy of a cable received today from the Central Bank of China requesting an extension, for six months, of the arrangement for the purpose of supplying the Republic of China with dollar exchange as outlined in our letter of July 14, 1937, as amended.

Please advise us of your wishes regarding the request of the Central Bank of China for a further renewal of the arrangement.

Very truly yours,


H. L. Sanford,
Manager, Foreign Department.

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

Enc.

C O P Y
INCOMING CABLEGRAM
December 15, 1942

Chungking, December 15, 1942.

Federal Reserve Bank of New York
New York
No. 31

Referring to 1937 agreement between you and us we wish
to extend for further 6 months Please consult Treasury and advise.

Central Bank of China

HIGH-LIGHTS OF THE WAR NEWS
(10:00 A. M.)

Russia

Red Armies on the central Don front swept forward 15 miles toward Rostov on the retreating Nazis who abandoned much of their equipment.

India

1. British continued to advance unopposed in Burma and occupied Alethang-Yow, 11 miles south of Maungdaw and 45 miles from the strategic port of Akyab.
2. Japs attacked Calcutta for the second time in 36 hours doing only slight damage.
3. U. S. planes attacked Lashio, terminus of the Burma Road.

The Pacific Area

1. Using tanks and planes, Allies captured one of two small Jap air strips in the Buna section of New Guinea.
2. Heaviest fighting now centers in Cape Endaiadere section, about 2 miles from Buna mission.
3. Allies also are closing in from all sides on Japs on Sanananda.
4. Japs have been using aerial bombs unsuccessfully in combats with flying fortresses, Air Force Headquarters disclosed.

North Africa

1. Rommel continues his retreat at an average rate of 15 miles a day. The vanguard is reported at Misurata, 120 miles from Tripoli. Montgomery's forces in pursuit were believed to be on the outskirts of Sirte, more than 170 miles west of El Agheila.
2. Rainy weather has confined the Allies for the most part in Tunisia to air activity.
3. However, the French column which took Pichon is now near Kirouan, only 32 miles from the Axis-held port of Sousse, Tunisia. Seventy-five miles to the south, a second French column, advancing from Gafsa, is reported within striking distance of Sfax on the Tunisian coast.

4. Reports from London yesterday indicated that the Axis is moving forces from their station at Tripoli, diverting men and materials even from the Russian front, and concentrating a huge convoy in French Mediterranean ports in order to make an all-out stand in Tunisia.
5. Having an all-out fight in Tunisia seems to be the plan of both Allies and Axis. General Eisenhower has evolved the strategy, Allied Headquarters revealed, of chasing the Afrika Corps into Tunisia where the British Eighth Army close on its heels could unite with Allied forces already in Tunisia for a grand assault on the Axis.

R. A. F.

R.A.F. planes swarmed over Germany again last night leaving huge fires burning in Munich.

China

American bombers smashed the Jap base of Tengchung in the southern Yunnan province, encountering little resistance.

11:00 A. M.

Commandos from British First Army have attacked Tunisia from the sea last week and penetrated to within 5 miles of Bizerte, Reuters reported today.

AFTERNOON SUMMARY OF WAR NEWS

The Pacific Area (Navy Noon Communique)

1. Army flying fortresses carried out 3 raids on Jap bases in the Solomons. In one raid on Jap shipping on Bougainville Island in Buin area, one Jap cargo vessel was struck and thought to be sinking. The other 2 attacks were directed against the Jap air base at Munda on New Georgia Island, about 150 miles northwest of Guadalcanal.
2. U. S. bombers and fighters heavily attacked shore installations on Kiska Island in the Aleutians, causing explosions near a submarine base. All U. S. planes returned.

Tunisia (General Report)

Little important land action has taken place in last 10 days. Allies are holding Germans in check at a series of strong points while reinforcements and supplies are being brought up to assure the success of an offensive once it is launched. Air battles over Tunisia have taken a sudden turn in favor of the Allies. U. S. planes have dropped 1,000,000 pounds of bombs on Axis targets within a seven-day period and British Beaufort night fighters have almost driven Axis night bombers from the skies. Result--while Axis bases are receiving a terrific pounding, major Allied supply bases are able to function with little disturbance.

China

Premier of Manchukuo General Chang Ching-Hui, Chinese Quisling, was reported by Chinese High Command today to have poisoned all members of his family, shot and killed a Japanese advisor and five high-ranking officials of this puppet government, and then committed suicide because he was "unable to stand any longer the Japanese oppression", the Chinese High Command reported today.

England

Scattered German planes, taking advantage of low clouds, carried out nuisance raids against England today.

Axis

The Germans are constructing new defense works on the

Belgian North Sea coast in anticipation of an Allied invasion of the continent, according to reports received by the Belgian Government in London today.

BRITISH MOST SECRET
U.S. SECRET

OPTTEL No. 441

Information received up to 7 A.M., 22nd December, 1942.

1. NAVAL

MEDITERRANEAN. 21st. Two ships in convoy reached MALTA.

TOULON. Now estimated that 3 large destroyers, 3 destroyers, possibly two 6 inch cruisers and possibly 7 submarines are undamaged either afloat or in dock.

2. MILITARY

LIBYA. On 20th our advanced troops were 7 miles west of SULTAN.

RUSSIA. On Central Front heavy fighting continues. In Middle Don Russian thrust is now within 20 miles of important railway junction at MILLEROVA.

3. AIR OPERATIONS

WESTERN FRONT. 20th/21st. 514 tons of H.S. and incendiary bombs dropped at DUISBURG. Many large fires in centre of town, dock area and near railway centre.

21st. Light and fighter bombers attacked railway and canal targets in N. FRANCE. Four enemy aircraft crossed SUSSEX Coast, some machine-gunning.

21st/22nd. 136 bombers (12 missing) despatched to MUNICH. Fairly thick cloud over target but 75% of aircraft bombed estimated position of town.

LIBYA. 19th/20th. Wellingtons bombed M.F. in BEURAT EL HSUN area and fighter bombers attacked similar targets further west on 20th.

20th/21st. Wellingtons dropped 12½ tons of bombs on TUNIS and LA GOULETTE with good effect.

INDIA. 20th. 16 Blenheims successfully bombed MAGWE airfield.

20th/21st. 9 enemy aircraft attacked CALCUTTA area causing slight damage.

December 23, 1942
9:53 a.m.

HMJr: Henry, this is my story. Ed Stettinius came over to see me yesterday about this whole question of - of balances of the United Kingdom, you know?

Vice President Wallace: Oh, yes.

HMJr: And what would we do, and so I said I thought the thing to do was for you and Mr. Hull and Stettinius and Harry White and I to get together.

W: All right.

HMJr: Now we got - oh yeah, and Dean Acheson.

W: Good.

HMJr: So I spoke to Dean yesterday. I only got this message late last night, that Mr. Hull will be very glad to come with the rest of us and call on you this morning.

W: Well, that's fine.

HMJr: Between eleven and twelve.

W: That'll be swell. It's - I think it's an - I think it's the best answer.

HMJr: And so we'll do it at that level.

W: I think that's the best way to handle it really.

HMJr: Now is - are you available between eleven and twelve?

W: Yes, I'd like to be through by twelve if I could.

HMJr: Well, why not - let's set it for eleven o'clock.

W: We'll set it for eleven o'clock then.

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HMJr: Well, now if you don't hear from me again,
I'll call Mr. Hull right away....

W: Fine.

HMJr:and arrange that we go up there - be at,
I take it - at the Capitol? Hello?

W: That'd be - that'll be good, and make it in
the Capitol office.

HMJr: Is - at - at the Capitol office.

W: That's fine.

HMJr: Okay, Henry.

W: So it'll be.

HMJr: Thank you.

December 23, 1942.

Conference in Vice President's Office
December 23, 1942
11:00 A.M.

Present: Vice President
Secretary Hull
Secretary Morgenthau
Mr. Stettinius
Mr. Dean Acheson
Mr. White

The conference was an outgrowth of a request by Mr. Stettinius that Secretary Morgenthau and Secretary Hull and himself confer to decide the question of further lend-lease aid to South Africa and also discuss the British dollar position and related matters.

Secretary Morgenthau said that Vice President Wallace ought to be in on the meeting and suggested the meeting be held in Vice President Wallace's office. It had been left that Dean Acheson would get the meeting together but Dean Acheson telephoned Mr. White Tuesday evening stating that Secretary Hull had been unable to reach Secretary Morgenthau and Secretary Hull had asked him (Acheson) to inform Mr. White that Secretary Hull would be glad to participate in the meeting wherever it was held but did not feel that he should ask Vice President Wallace to a meeting in his (Hull's) office.

The next morning Secretary Morgenthau telephoned Mr. Wallace and arranged the conference.

Mr. Stettinius opened the meeting by stating that he had to appear before Congress in a couple of weeks for additional appropriations and he felt a decision had to be made before that meeting as to whether or not to permit the United Kingdom's dollar balances to increase since, he said, they had now reached almost \$1 billion. He also said that a definite policy had to be determined with respect to lend-lease aid to South Africa. South Africa had already got \$45 million in lend-lease aid and he felt that possibly they should not get any more. In fact, he wondered what he was going to say in justification of the \$45 million they had already been given, in view of the fact that South Africa now had \$600 million and was increasing her holdings. He stated there were political and possibly military questions involved and a decision should be made by some one.

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Mr. Stettinius said that he had been given to understand that the British had stated that \$600 million was the goal to shoot at so far as the British dollar balances were concerned and when he had been to London they had likewise stated \$600 million was the objective.

Mr. White remarked that was very interesting. He asked whether the British mentioned the \$600 million to Mr. Stettinius when he was in London. Mr. Stettinius replied that they had, he had talked to Mr. Catoe and Mr. Keynes and they had both mentioned the \$600 million figure. Mr. Stettinius stated that they had asked for \$600 million when they had only \$200 million and now that they have over \$600 million they ought to go back and reduce it to \$600 million by whatever measures were most feasible. He stated that it would be a great thing if the U. K. could give lend-lease in reverse to the United States of 100 million in sterling which the Army could spend for its needs in England which it now finds difficult to buy on a lend-lease in reverse basis. He thought that would make an excellent impression on the Congressional Committees.

Secretary Hull began by saying that there is no intention on his part to in any way interfere with any of the responsibilities with respect to imports and exports which B.E.W. had. He said that the Treasury had the prime responsibility for financial, monetary and business matters and in fact, he remembered the Debt Commission appointed by the President had the Secretary of the Treasury as Head. He said Lend-Lease had been placed in charge of lend-lease arrangements by the President, that he was concerned only where the matter touched a question of definite foreign policy.

Mr. Wallace said that the B.E.W., having the responsibility for exports and for purchases of materials in foreign countries, was concerned with the problem because what was done on lend-lease had a bearing on the export situation and the dollar position and necessarily would have some influence on the terms under which they bought some of the strategic raw materials in the countries who were receiving lend-lease aid. It was because of that fact that it seems to be one large problem that the committee was appointed of B.E.W. technical men who would present the facts.

Secretary Hull stated that he thought they ought to get all the facts before them, so that they could then make a decision on the matter. Secretary Morgenthau said he did not quite understand what additional facts were wanted before a decision was made on the South African question. He said that he was ready at this time to say that from purely a financial point of view there didn't seem to be any justification for lend-lease aid to South Africa. He said there may,

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however, be circumstances which he doesn't pretend to know about -- political questions, military questions -- which might justify continuation of aid, but so far as their financial situation was concerned, he didn't see any justification for continued assistance. England's financial dollar position, too, seemed to him to be reaching a point at which we might well call a halt unless there were certain political considerations which would indicate another procedure. He said he did not know whether this would be a wise time to say to England or South Africa that we are going to whittle down our assistance to them. He would not be in a position to know what the political considerations are and Secretary Hull would be able to answer that.

Secretary Hull repeated it seemed to him the thing to do was to get all the facts, set them before this group, and then they could be in a position to make a decision. Mr. Wallace replied that was exactly what the subcommittee he appointed was supposed to do but Dean Acheson had expressed some reservation at the meeting and that he had told Dean Acheson he would be glad to see Hull at any time to talk it over because if that arrangement wasn't satisfactory he would be glad to work on any arrangement that was satisfactory. Secretary Hull replied he didn't know about this Committee. Whereupon Mr. Acheson reminded him he had mentioned it to him yesterday. Secretary Hull said: "Oh, that Committee. It seems to me that -- if I might say so -- If I had been you, Henry, I would have just called up Henry and Ed and have them take care of it." Mr. Wallace then said that he had had a meeting at which Mr. White represented the Treasury Department and Mr. Acheson represented the State Department and he assumed they spoke for the Treasury Department and State Department and if they didn't, they shouldn't be on the Board. Whereupon Secretary Hull said he didn't want to comment since he wasn't at the meeting (sic).

Mr. Wallace mentioned the letter he and others had received with respect to the effect of lend-lease operations on some of the exports. He said that some exporter saw an opportunity of doing business in South Africa and was complaining and seemed to be more or less a spokesman for a group of the exporters. The position this exporter took was that when they sold goods to South Africa, they had all kinds of difficulty getting priority on shipping, etc., but when this identical goods wanted by the identical concerns in South Africa was handled through lend-lease, lend-lease would do much better on priorities. As a consequence our exporters were being squeezed out of foreign markets. Mr. Hull thought that that was a bad thing and it needed attention. The Vice President pointed out that was the way he felt and that is why he suggested this Committee be formed and take up the matter.

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Secretary Morgenthau then said he wanted to bring the discussion back to the point at issue which was "where do we go from here?" He repeated his earlier statement with respect to his view on the South African situation and added it is not clear to him where we go from here. He asked who was going to get the military viewpoint.

Mr. Hull said: "Well, there ought to be a Committee of these men here; Treasury and Lend-Lease ought to get the facts and then we can make a decision." Mr. White stated the Committee which had been appointed by the Vice President at the B.E.W. meeting were the men who would in any case be the ones who would get the facts. The Vice President wanted to know why it wouldn't be alright for that Committee to get the facts. Mr. Stettinius said he had to go before Congress and he would like a decision on the matter. Mr. White replied it wouldn't take very long to get a report on South Africa and U.K. Stettinius said there were also other countries we had to go into.

On the South African business, Stettinius said: "It was one thing to say we shouldn't give them any more, but how about the \$45 million we have already given them?" Secretary Morgenthau replied: "Stop worrying about Stettinius and let's get on with this." Stettinius said: "I am worrying about the Administration, not myself." Secretary Morgenthau replied he was trying to make progress, he still didn't see why we can't make a decision here on this. He said: "Let's take the South African question." Secretary Hull replied: "We haven't got the facts, we don't know what the military there will need." Stettinius interrupted: "You mean that we stop lend-leasing military goods too?" Secretary Morgenthau said he didn't know there was any distinction made between lend-lease goods going for military and lend-lease goods going for civilian use. He didn't know any one had set a policy that we would continue to send lend-lease goods to any country irrespective of the fact that they had enough to pay for them. Secretary Morgenthau asked Secretary Hull if he knew of any such policy. Secretary Hull said: "No, I never knew of such policy." Stettinius replied that there were substantial amounts going, including trucks, searchlights. Secretary Morgenthau then stated that it was his understanding that there was no distinction drawn between goods to be used by the civilians and by the military authorities under lend-lease arrangements.

Secretary Morgenthau then again returned to the main question saying that a decision would have to be made. "Somebody's got to make the decision" he said, "as to whether or not we should continue to send goods to South Africa on lend-lease. Secretary Hull suggested

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that Lend-Lease and the Treasury get together and submit the facts upon which they could make a decision. Mr. Wallace suggested that was what the committee he had appointed previously was supposed to do. Secretary Hull thought that the Committee did not need to be as broad as the one that was appointed.

It was finally decided that Stettinius, Acheson, White and Coe should prepare a report with recommendations to be submitted to the same group on the following Wednesday. It was agreed that Mr. Wallace would get in touch with Secretary Stimson and ask him to have either Mr. Patterson or Mr. McCloy join the group to make the study. It was also agreed that Mr. White should act as Chairman of that committee.

The meeting adjourned about 12:15, scheduled to meet the following Wednesday at the Vice-President's office at 11:00.

H. D. White

DEC 23 1942

Dear Mr. Stettinius:

Enclosed is a copy of the memorandum on the Foreign Exchange Position of South Africa, prepared in pursuance of Mr. Eaker's request.

I regret the delay, a large part of which as you may appreciate, has been due to the inadequacy of the data at hand. A careful study of the document will reveal that we had to rely almost entirely on published data.

It is my understanding that the meat of the memorandum was given to Mr. Eaker over the telephone some time ago. I have discussed the South African situation with him several times during the past few months and have indicated that lend-lease assistance to the Union of South Africa, in view of her large and growing gold resources, seemed to be unjustified.

Sincerely yours,

(Signed) H. D. White

H. D. White,
Assistant to the Secretary.

Mr. E. R. Stettinius, Jr.,
Administrator,
Office of Lend-Lease Administration,
515 22nd Street, N.W.,
Washington, D. C.

Enclosure

TNK-af 12/23/42

U.S. Treasury Department
Division of Monetary Research

FOREIGN EXCHANGE POSITION OF SOUTH AFRICA

Summary

1. At the outbreak of war in September 1939, South Africa reported holding \$222 million of gold. We do not know the precise amount of other foreign exchange assets held by South Africa at that time but from the information available it appears they totalled less than \$50 million.

2. By October 30, 1942, South Africa's reported gold holdings had risen to \$582 million, or by \$360 million since the outbreak of war. This is the largest known increase for any country outside the United States.

The increase in gold reserves is believed to represent the entire increment in South Africa's holdings of foreign exchange assets during this period; holdings of sterling and dollar balances and of other foreign exchange assets have admittedly been kept at a minimum necessary to carry on business and are believed to be no larger in aggregate than they were three years ago.

3. In addition to the \$360 million increase in reported gold holdings, South Africa has repatriated \$162 million of U.K.-held South African Government securities and a reputedly substantial but unknown amount of British-held South African gold mining stock. The sum of these two items is admitted by South African officials to be a measure of the improvement which has taken place in South Africa's international financial position since the outbreak of war.

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- 2 -

4. South Africa is the one Allied country in a position to do so, which so far as we know, has not extended loans or granted gifts to Great Britain as a means of financing that country's overseas deficit. Instead, the records show that South Africa's contribution has been limited to Britain's capacity to pay or her willingness to resell U.K.-held South African securities.

5. The prospects are for continued improvement in South Africa's balance of payments position. On the one hand, sharply curtailed merchandise imports, resulting from the tight shipping and supply situation, lend-lease assistance from the United States, and reduced interest and dividend payments following the security repatriation operations decrease South Africa's payments to foreigners. On the other hand, favorable price and market conditions for minerals, metals, and wool, increased receipts from shipping services and refugee expenditures, and continued gold production at or near peak levels operate to increase South Africa's receipts from foreigners and/or her holdings of foreign exchange assets.

6. War expenditures for the South African Government have been unusually low. It not only spent far less per capita for war purposes during the fiscal year 1941-42 than did the governments of the United Kingdom, Canada or the United States, but it budgeted a smaller increase for the current fiscal year than either of the other three countries. The South African Government expects to spend \$320 million for war purposes in the current fiscal year, or \$30 per capita. Even if allowance is made for the extremely low standard of living and income of four-fifths of the population, the

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estimated per capita war expenditures of the Union Government during the current fiscal year fall far short of the forecast per capita disbursements of Canada, the United Kingdom or the United States.

7. The favorable financial position and prospects of South Africa raise important policy questions for this Government.

- a. Should gold held by South Africa be treated as part of Britain's gold and dollar assets?

If the \$360 million of gold added to South Africa's reported reserves since September 1939 had been made available to the United Kingdom, then Britain would have been able to finance that much more of her gold and U.S. dollar needs to the present time or else her gold and U.S. dollar holdings would be \$360 million larger than they now are, or 1.3 billion instead of \$930 million (excluding the 105 million of Belgian gold). South Africa's retention of part of her gold output may permit British Empire countries as a whole to acquire larger U.S. dollar exchange holdings than if the gold were all transferred to the United Kingdom.

- b. What should our Lend-Lease policy be toward South Africa?

Lend-Lease exports to South Africa did not assume substantial proportions until May 1942. Since then, 40 percent of our exports to South Africa have been on Lend-Lease account, all on a non-reimbursable basis, and one-

- 4 -

half of these through September were non-military items, principally metals, manufactures and machinery. It is our understanding that all military supplies, metal manufactures and steel going to South Africa are now being obtained under Lend-Lease. We understand further that the present intention is to extend Lend-Lease assistance to cover shipments of lubricating oils to South Africa. The information we have is that the continued extension of Lend-Lease assistance is contrary to the wishes of many members of the South African Government; that it is being done in pursuance of the wishes of the British Government; and that it may be being used as a means of obtaining otherwise unavailable supplies from this country needed to operate the South African gold mines.

It is difficult to understand the justification of sending \$32 million of Lend-Lease goods to the Union of South Africa in view of the increasing gold reserves, the generally favorable international financial position, the relatively low war expenditures and the meager war effort of the country.

FOREIGN EXCHANGE POSITION OF SOUTH AFRICA*

1. Foreign Exchange Position of South Africa at the Outbreak of War.

On September 1, 1939, South Africa reported holding \$222 million of gold.

Other foreign exchange assets held by South Africa are believed to be small. We do not know what they amounted to in September 1939, but the information available indicates that they totalled the equivalent of only \$40-\$45 million as follows:

	(In millions)
Discounted foreign bills.....	\$ 28
Reserve Bank balances held abroad (est.)....	3
Private balances in U.S.....	3
Overseas long-term investments (est.).....	<u>5-10</u>
Total.....	\$ 40-45

The figure of discounted bills is the amount reported held by the South African Reserve Bank on September 1, 1939. They apparently consist largely of sterling bills and constitute a second line reserve used to meet extraordinarily large demands for payments to foreigners. The Governor of the Reserve Bank in his annual address to the stockholders in July 1940, stated that the bank falls back on these discounted overseas bills "whenever we have to meet extra large demands for sterling, for instance when mining dividends have to be paid."

*Prepared by T. H. Kistler
Treasury Department, Division of Monetary Research

December 20, 1942.

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The estimate of Reserve Bank balances held abroad at the outbreak of war is based upon figures, published in the annual reports of the Reserve Bank, of Reserve Bank balances held with overseas central banks and of Reserve Bank balances employed under the guarantee of the Bank of England, as of March 31, 1939 and March 31, 1940. The balances represent the Bank's "overseas till money". They are kept at a minimum consistent with efficient operations.

The figure of South African private balances in the United States is the amount of deposits reported held on October 11, 1939 by banks in the Second Federal Reserve District for the account of South Africans. Any balances which may have been held at that time by banks outside the Federal Reserve District of New York for South Africans are thought to have been small. No balances were then held by the Federal Reserve Bank of New York for the account of either the Government or the Reserve Bank of South Africa.

The Department of Commerce estimates that as of 1937, residents of British Africa held about \$3 million of long-term investment in the United States. (Reports made to the Treasury on TFR-300 forms indicate much larger holdings; preliminary estimates of U.S. securities held for South African account on June 14, 1941 total \$19 million. It is expected that some part of the large discrepancy between the Department-of-Commerce estimate and the figures reported on TFR-300 forms represents the transfer of British and European holdings of foreign assets to South African accounts in order to prevent their capture by the enemy or, perhaps, avoid their requisitioning for sale by the British Government. Any such holdings would, of course, be

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considered by the American reporting institutions as held for South African account, even though the ultimate beneficiaries reside outside that country.)

South African overseas investments outside the United States are believed to be negligible. Estimates, prepared by the South African Government, of that country's balance of international payments for the years 1934 - 1937 include nothing for interest and dividend receipts on South African investments in overseas industrial and financial ventures and only \$300 thousand to \$1 million a year for interest on obligations of overseas governments held by residents of that country. These figures compare to estimated interest and dividend payments to foreigners of \$90-\$95 million annually during this four year period.

B. Present Foreign Exchange Position of South Africa.

On the latest reporting date for which we have information, namely on October 30, 1942, South Africa's reported gold holdings totalled \$582 million. That is, South Africa has increased its known gold reserve over one and one-half times since September 1939; this is the largest acknowledged increase during this period, both in absolute and in relative terms, for any country outside the United States.

The uniqueness of South Africa's position lies in the fact that it is the one Allied country in a position to do so which, so far as we know, has not extended loans or granted gifts to Great Britain. The increase in gold reserve is believed to represent practically all, if not all, of the increase in South Africa's holdings of foreign exchange assets since the

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outbreak of war. We know that South Africa's holdings of some categories of foreign exchange assets other than gold are larger today than they were in September 1939, but the information at hand indicates that on balance South Africa's holdings of foreign exchange assets, exclusive of gold, are roughly one-third smaller today than they were three years ago. The increases which have occurred in these assets seem to have been dictated entirely by South Africa's need for larger working balances abroad to handle overseas transactions under changed conditions wrought by war developments.

South Africa's holdings of foreign exchange assets other than gold are estimated to be as follows:

	(In millions)
Reserve Bank balance held overseas (est.)...	\$ 9
Other balances in the U.S.....	6
Discounted foreign bills.....	5
Oversens long-term investments (est.).....	<u>5-10</u>
Total.....	\$25-30

Reserve Bank Balances Held Overseas. The estimate of Reserve Bank balances held overseas is based upon figures published in the annual report of the Reserve Bank for the fiscal year ending March 31, 1942 and upon data received from the Federal Reserve Bank of New York. It is comprised of Reserve Bank balances held with overseas central banks and of Reserve Bank balances employed under the guarantee of the Bank of England.

The three-fold increase in these overseas Reserve Bank balances since the outbreak of war is accounted for primarily by the depositing of funds

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with the New York Federal Reserve Bank in June 1940. The balance in this account has fluctuated only a few thousands of dollars from week to week; it has been consistently reported each week to be about \$5 million. This deposit was made at the time of the shift in South Africa's sources of supplies for certain essential goods from Europe to the United States. The absence of wide fluctuations indicates that the account is not used for clearing purposes. It does not seem to be used even as "till money" such as is the case of the South African Reserve Bank balances held in London. The increase in these latter balances may also have been prompted by the rise in the volume of financial and business transactions conducted between South Africa and the United Kingdom. Although reported to fluctuate widely from day to day, the balances held in London by the South African Reserve Bank at the end of each of the last three fiscal years show a steady increase, as follows:

As of	(In millions)
March 31, 1940.....	\$ 2.7
1941.....	3.3
1942.....	3.7

South African Reserve Bank balances held outside the United States and the United Kingdom do not seem to have increased since September 1939. This is indicated by the figures below of South African Reserve Bank balances held with overseas central banks -- i.e., South African Reserve Bank balances held outside of London.

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South African Reserve Bank Balances Held
With Overseas Central Banks

<u>As of</u>	<u>Total</u>	<u>Held with New York Federal Reserve Bank</u>	<u>Held with all other Overseas Central Banks - i.e., outside U.S. and U.K.</u>
(In thousands)			
March 31, 1940.....	\$ 652	\$ --	\$ 652
1941.....	5,684	5,032	652
1942.....	5,576	4,994	582

Other Short-Term Balances Held in the United States. This item includes all other short-term banking funds reported held in the United States for the account of South Africa. The figure is taken from capital movements data reported to the Treasury by the twelve Federal Reserve Banks. It is the sum of \$4.1 million of banking funds reported held for South African account on October 31, 1942, by banks, other than the Federal Reserve Bank, in the Second Federal Reserve District, and of \$1.7 million of balances reported held by all banks in the other eleven Federal Reserve Districts on August 31, 1942, the latest date for which we have data.

South African short-term balances in this country outside the Federal Reserve Bank of New York have likewise fluctuated little during the period for which we have data. The table below sets forth the available Treasury capital movements data on South African short-term banking funds in the United States, on a quarterly basis for the period October 1939 - June 1942, and monthly June 1942 to date:

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As of the end of	South African Reserve Bank Deposits with N.Y.F.R.B.	Other South African de- posits in N.Y.F.R.D.	South African deposits out- side N.Y.F.R.D.
(In millions)			
1939, Oct. (11).....	—	\$ 3.2	
1940, Mar.....	—	4.7	
June.....	5.0	5.4	
Sept.....	5.0	3.5	
Dec.....	5.0	1.9	
1941, Mar.....	5.0	2.9	
June.....	5.0	3.2	
Sept.....	5.0	6.2	
Dec.....	5.0	3.2	
1942, Mar.....	5.0	5.4	
June.....	5.2	2.8	
* * * * *			
1942, June.....	5.2	5.9	1.0
July.....	5.3	3.9	.8
Aug.....	5.1	5.2	1.7
Sept.....	5.1	4.8	
Oct.....	4.9	4.1	
Nov.....	5.1		
Dec. (9).....	5.2		

The monthly figures shown for June 30, 1942 to date are not strictly comparable with those shown for the earlier period. The quarterly figures, October 1939 through June 1942, cover only deposits reported held by banks in the Second Federal Reserve District. The monthly series of data since June 30, 1942 cover all short-term banking funds reported held in the United States for South African account. Moreover, because of the wider definition of "foreigner" to include "all those in the United States (except other

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reporting institutions) to the extent that they are acting on behalf of, for the account of, or for the benefit of, institutions or individuals domiciled outside the United States", the figures reported for June 30, 1942 onward include some funds which were previously treated by the reporting institutions as domestic. This is borne out by the fact that \$2.9 million of the \$3.1 million difference between the amount reported held for South African account by banks in the Second Federal Reserve District on the old unrevised reports as of July 1, 1942 and the amount reported so held on the revised forms as of June 30, 1942, is in so-called "official" funds. The definition of "official foreign" account was broadened to include funds of diplomatic and consular establishments and all branches or departments of foreign central governments, such as various Ministries, Stabilization Funds and other government exchange authorities, and all other agents and agencies of foreign central governments, including purchasing commissions located in the United States; under the old definition such deposits were treated as domestic.

Prior to June 30, 1942, the Treasury had no data of South African short-term banking funds held outside the Second Federal Reserve District. As the above table indicates, the balances were probably of insufficient proportions.

Discounted Foreign Bills. These consist primarily, if not entirely, of British Treasury bills held by the South African Reserve Bank. Reported current holdings are only a small fraction of the amount held during the early months of the war. With two or three exceptions, associated with

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large scale inter-government financing operations, the Reserve Bank's weekly reported holdings of discounted foreign bills have not passed the \$5 million mark since the summer of 1940; during the first three months of the current year they amounted to only about \$1.5 million. The most conspicuous exception was in the late fall of 1941, when holdings were temporarily increased in connection with the large repatriation of British-held South African securities; the mechanics of this operation are described in Section C below. In another instance, at the close of the fiscal year 1942, the Bank's holdings were temporarily inflated by the investment in British Treasury bills of funds transferred by United Kingdom authorities to meet British war expenditures in the Union. This is the explanation given, in the annual report of the Reserve Bank for the fiscal year ending March 31, 1942, for the increase in the Bank's holdings of discounted foreign bills on March 31, 1942 over March 31, 1941. The effect of this is reflected in the following reported figures of the Reserve Bank's holdings of discounted foreign bills:

	(In millions)
March 31, 1941.....	\$ 2.9
March 27, 1942.....	1.8
March 31, 1942.....	24.2
April 2, 1942.....	20.4
April 10, 1942.....	18.2
April 17, 1942.....	9.1
April 24, 1942.....	4.2
May 1, 1942.....	3.9
May 29, 1942.....	3.5

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Overseas Long-Term Investments. This is the same estimate given for South African overseas long-term investments at the outbreak of the war. We have no further information on this item but it is believed that there has been no significant change during the past three years. Foreign assets of non-South Africans may have, as we indicated above, been transferred to South African accounts since September 1939, but any such transfers do not involve an improvement in South Africa's international financial position. Like Canada and other debtor countries, South Africa is expected to have decreased its foreign indebtedness instead of increasing its overseas long-term investments. This impression is supported by statements made by officials of the central bank and government. In the annual report for the fiscal year ending March 31, 1942, the governor of the Bank states that the repatriation operation in December 1941 had...."mopped up" the bulk of our favorable balance of payments for the year and as the Union may remain in this happy position for a long while I hope the Government, Municipalities, Public Bodies or private firms will follow up last year's example and use local funds to redeem South African liabilities overseas."

C. Repatriation of Overseas-Held South African Securities.

South Africa has repatriated \$162 million of U.K.-held South African Government securities as well as a substantial but unknown amount of U.K.-held South African gold mining stock. The initial reduction in the Union Government's external debt was effected in July 1940 through the repayment of a \$32 million government issue which matured in London. Repayment was made

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from the South African Reserve Bank's holdings of overseas discounted bills. (See table on page 12 below).

The second official repatriation operation took place in December 1941. It was the counterpart of the special sale of \$130 million of gold to the United Kingdom. (Under the Emergency Finance of September 9, 1939, the Union Government, as from August 31, 1939, buys through the South African Reserve Bank all the gold produced in the Union.) As the continued rise in South Africa's gold reserves permits a repetition of this transaction, it may be worthwhile to review the different steps taken, as reported by the South African Reserve Bank:

- (a) The South African Reserve Bank took over the requisitioned U.K.-held securities at the price paid by the Bank of England, in payment for the \$130 million of gold transferred to the British Government.
- (b) The South African Treasury issued a 3% loan in South Africa, the proceeds of which are earmarked for the purchase from the Reserve Bank of the Union stock acquired by it in London.
- (c) As these new securities are sold in South Africa, the Treasury redeems the repatriated stock held by the Reserve Bank. By the close of August 1942, all but \$31 million of this "ex-London" stock had been repurchased and cancelled by the Union Government.

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In the last annual report of the South African Reserve Bank, the following accounting is given of the December 1941 repatriation operation, as of March 31, 1942:

(In millions)

South African Reserve Bank had purchased \$125 million of U.K.-held Union Government stock for.....	\$ 130.0
Of this amount, the Treasury, by March 31, 1942, had retired out of proceeds from the sale of the new internal loan and out of interest on the non-redeemed "ex-London" bonds, a total of.....	<u>62.7.</u>
This leaves the Reserve Bank's holdings of "ex-London" stock, as of March 31, 1942 at....	67.3
Other stocks held by the Reserve Bank as of March 31, 1942 totalled.....	<u>6.9</u>
Value of investments of the Reserve Bank, as shown in the annual statement of assets, as of March 31, 1942.....	\$ 74.2

Both official repatriation operations have been clearly, and so far as we know, accurately reflected in the public statements of the Reserve Bank's assets. This is due to the dual function performed by the Reserve Bank -- namely, as depository of the official foreign exchange assets of South Africa and as the Foreign Exchange Control Board.

The table below gives the Reserve Bank's holdings of gold, discounted foreign bills and investments as of various dates, selected to reveal the role of the Reserve Bank in official repatriation operations.

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As of the last weekly reporting date in:	Gold	Discounted Foreign Bills	Invest- ments
(In millions)			
1939, March.....	\$ 221	\$ 30	\$ 7
August.....	222	26	11
December.....	249	32	10
1940, March.....	272	32	10
April.....	279	33	7
May.....	298	33	7
June.....	302	6	39
July.....	305	6	38
August.....	308	3	38
September.....	314	3	38
October.....	328	3	38
November.....	351	3	14
December.....	367	3	14
1941, March.....	401	2	7
June.....	427	3	6
August.....	436	4	7
September.....	450	5	7
October.....	422	47	7
November.....	400	78	7
December.....	366	1	114
1942, March.....	397	2	79
June.....	468	4	43
September.....	552	4	28
October (23).....	576	4	28

Public utterances of South African Government and Reserve Bank officials reveal a strong desire in high government and financial circles to take full advantage of the present opportunity to reduce that country's external debt. Repatriation operations are viewed both as a step toward international financial security, and as a means of combatting the threats of

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inflation within the Union. The replacement of external debt by internal issues, draws from the public money which would otherwise be available to spend on consumption goods.

The absence of any data on the amount ~~of non-Government~~ South African securities repatriated since the outbreak of war, precludes bringing estimates of foreign investments in South Africa up to date. Published data available on the Union Government's external debt show that it has been reduced from the equivalent of \$425 million on March 31, 1940 to the equivalent of about \$244 million two years later. So far as we know, there has been nothing to change this figure substantially since that latter date.

Estimates made in the Treasury at the close of 1940 placed British investments in South Africa at roughly \$1.3 billion -- \$400 million in government securities, \$600 million in gold mines, and \$325 million in other mines and enterprises in South Africa. These holdings have been reduced by something more than \$162 million by the repatriation of overseas-held South African securities.

British investments constitute the bulk of the overseas holdings of South African assets. The Department of Commerce estimates American direct investments in British South Africa at the close of 1940 to have totalled only \$73 million, or only 5 percent of the estimated value of British investments in the Union of South Africa alone.

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D. Improvement in South Africa's International Financial Position Since the Outbreak of War.

The accumulation of gold, together with the repatriation of South African securities held overseas, measure the improvement in South Africa's international financial position since the outbreak of war. The known amounts of these two items total over \$500 million — \$360 million increase in reported gold holdings and a known \$162 million of repatriated securities.

Prior to the outbreak of war, South Africa's production and exports of gold was roughly sufficient to meet the net payments due from South Africa to other countries on merchandise and service account. This is revealed by the table below setting forth net payments or net receipts for the principal items in South Africa's balance of international payments for the three years, 1935 - 1937. The figures are those given in the League of Nations balance-of-payments study for 1938, converted at the rate of \$4.90 per South African pound.

	1935	1936	1937
Net balance due to or from (-) South Africa on account of			
	(In millions)		
Merchandise.....	\$-239.6	\$-292.5	\$-332.2
Interest and dividends.....	- 92.6	-106.9	-104.9
Other services.....	- 26.9	- 28.1	- 35.2
Gold.....	£349.8	£405.2	£406.1
Net balance due on current account...	- 9.3	- 22.3	- 66.2
Long-term capital movements (net)....	- 16.9	- 49.8	£ 21.7
Residual, probably largely short- term capital movements.....	£ 26.2	£ 72.1	£ 44.5

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We do not have iterized data for the years following 1937. However, we do know that since the outbreak of war not only has \$360 million of newly-mined South African gold not been needed to meet that country's customary adverse balance of international payments but that there has been a balance due to South Africa from foreigners sufficiently large to permit the repatriation of more than \$162 million of South African securities held overseas.

In his report to the stockholders of the Reserve Bank in July 1940, the Governor stated that a small reduction in South Africa's merchandise imports combined with a somewhat higher value of South African exports to make that country's balance of merchandise exports in 1939 (including all the gold produced in the Union as gold exports from the Union) about £41 million (\$200 million at \$4.90 per South African pound), as compared to about £26 million in 1938 (\$125 million at \$4.90 per South African pound). He stated further that South Africa's increased ability to pay for overseas commitments, other than payments for merchandise, such as for interest and redemptions, freight, commissions, insurance, etc., is reflected in the Bank's increased holdings of gold and foreign exchange. The South African Reserve Bank's gold holdings rose \$29 million during the calendar year of 1939 and \$51 million during the fiscal year ended March 31, 1940.

It is true that South Africa's merchandise imports were lower in value in 1939 than in 1938, and that the value of South Africa's merchandise exports was higher in the latter year than in the former. (See tables

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below, pages 20, 21, 22). But equally important as this reduction in the excess of merchandise imports in accounting for the rise in South Africa's gold holdings, is the \$23 million increase in South Africa's gold production, 1939 over 1938.

South Africa's excess of commodity imports was larger in 1940 than in either 1938 or 1939. The \$122 million increase in the Reserve Bank's reported gold holdings during that year indicates that South Africa's means of payments for these merchandise imports expended by more than the \$43 million reported rise in gold production, 1940 over 1939. The improvement in South Africa's balance of payments position may have reflected a decrease in demand for foreign exchange to pay for interest and dividends or for other services received from foreigners, but it may also have reflected a large capital inflow; it seems reasonable to assume that the transfer of property to South African accounts for safekeeping reached a peak in 1940 and that a part of these assets consisted of gold and banking balances.

Since 1940, a number of additional factors have come into play to improve South Africa's balance of payments position. First, the extremely tight shipping situation combined with the increasingly critical supply problem is forcing a sharp curtailment in South Africa's overseas imports. Merchandise imports from the United States so far this year are running less than half as high as a year earlier. Because of the unusual position occupied by the United States in South Africa's import trade in 1941, it is possible that the relative decline in total South African imports is

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not so great. However, it seems reasonable to assume that a substantial drop has occurred.

Secondly, an increasingly larger portion of the smaller volume of U.S. exports to South Africa is being paid for out of lend-lease funds. This is true of \$15 million of the \$35 million of merchandise exported from the United States to South Africa, May through September 1942. Adjusting for this fact, United States exports to South Africa requiring payment in dollars totalled only \$20 million, May through September 1942, as compared to about \$70 million during the same period of 1941. It is reported that all military supplies, machinery, metal manufactures and steel exported from this country to South Africa are procured under lend-lease and that all lubricating oils are soon to be. If South Africa does not make available to Great Britain an amount of dollars or gold equivalent in value to lend-lease assistance received from the United States, then the effect of such assistance is to increase South Africa's gold and foreign exchange holdings by that amount.

Thirdly, security repatriations reduce the amount South Africa must pay to foreigners for interest and dividends. We do not have sufficient data to hazard a guess as to how much of a reduction has been effected to date.

These three factors operate to reduce South Africa's payments to foreigners. In addition, there are a number of factors tending to increase South Africa's receipts of foreign exchange. First, is the favorable price and market outlook for her minerals, metals and wool. The British Government has contracted to buy the Union's exportable surplus of wool for the

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duration of the war and one year thereafter; at what price is not known.

Secondly, the closing of the Mediterranean has meant sharply increased income to South Africa for use of her port facilities and from the sale of ship stores.

Thirdly, South Africa has received foreign exchange income from expenditures of refugees finding a temporary haven within her boundaries. We have no information as to the size of these expenditures, but they are large enough to be the subject of official comment.

Finally, continuation of South African gold production at current levels would increase still further South Africa's ability to add to her foreign exchange resources. So far this year, the equivalent of three-fifths of South Africa's reported gold output has been added to the Reserve Bank's holdings. Continuation of the current rate of South African gold production appears probable in the absence of any curtailment of imported supplies.

The three tables below show the changes in the geographical distribution of South Africa's merchandise import and export trade, 1938 - 1941. The figures are official South African trade data. The import figures are exclusive of government stores and gold specie. Imports of the latter were relatively small during prewar years; imports of the former totalled S/£8.6 million in 1940 (\$34 million at £4.00 per South African pound) and S/£5.9 million in 1939, the last two years for which published data are available.

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Merchandise Imports of South Africa, Exclusive of
Government Stores and Gold Specie,
by Principal Geographic Areas,
1938 - 1941

	1938	1939	1940	1941
	(Millions of S.A. £s)			
United Kingdom.....	37.2	34.7	34.6	29.7
Canada & Newfoundland.....	3.0	3.6	8.5	6.7
Other British Empire.....	<u>5.8</u>	<u>7.2</u>	<u>10.7</u>	<u>13.7</u>
Total, British Empire.....	46.0	45.5	53.8	50.1
United States.....	16.5	17.3	23.6	38.4
Other non-British Empire.....	<u>23.6</u>	<u>22.6</u>	<u>19.1</u>	<u>12.4</u>
Total, non-British Empire..	<u>40.1</u>	<u>39.9</u>	<u>42.7</u>	<u>50.8</u>
Total - all countries.....	86.1	85.4	96.5	100.9

The principal shifts in South Africa's sources of supply, 1941 as compared to 1938, were between the various members of the British Empire, on the one hand, and between the various countries outside the Empire, on the other. The proportion of total imports supplied by each of these two groups of countries has varied little since the outbreak of war. As was to be expected, the United Kingdom lost both relatively and absolutely, while the United States surged ahead as a principal supplier of South African imports. As indicated above, the rise of South African imports is expected to be reversed this year.

The increase in South Africa's exports has also occurred in shipments to the United States and to British Empire countries other than the United Kingdom and Canada. The figures below do not include receipts from wool or from exports of gold bullion. Wool exports totalled S.A.£7.2 million

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in 1939, the last year for which data were published; receipts from wool are believed to have been higher during the more recent years.

Merchandise Exports of South Africa, Exclusive of
Gold Bullion and Wool,
by Principal Geographic Areas,
1938 - 1941

	1938	1939	1940	1941
	(Billions of S.A. Ls)			
United Kingdom.....	9.7	11.3	13.8	9.4
Canada & Newfoundland.....	.4	.7	.3	.2
Other British Empire.....	<u>2.1</u>	<u>2.7</u>	<u>4.5</u>	<u>7.4</u>
Total, British Empire.....	12.2	14.7	18.6	17.0
United States.....	.7	1.3	3.0	5.4
Other non-British Empire.....	<u>6.3</u>	<u>6.5</u>	<u>4.7</u>	<u>2.8</u>
Total, non-British Empire.	7.0	7.8	7.7	8.2
Total - all countries.....	19.2	22.5	26.3	25.2

The increase in South Africa's excess of imports, 1941 over 1938, is more than accounted for by the rise in her unfavorable balance of merchandise trade with the United States. The sharp fall in United States exports to South Africa so far this year combined with the extension of lend-lease assistance to cover part of the smaller volume being shipped, has already wiped out the increase in South Africa's merchandise import surplus vis-a-vis the United States, 1941 compared to 1940.

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South Africa's Excess of Merchandise Imports
by Principal Geographic Areas,
1938 - 1941

	1938	1939	1940	1941
	(Millions of S.A. £s)			
United Kingdom.....	27.5	23.4	20.8	20.3
Canada & Newfoundland.....	2.6	2.9	8.2	6.5
Other British Empire.....	<u>3.7</u>	<u>4.5</u>	<u>6.2</u>	<u>6.3</u>
Total, British Empire.....	33.8	30.8	35.2	33.1
United States.....	15.8	16.0	20.6	33.0
Other non-British Empire.....	<u>17.3</u>	<u>16.1</u>	<u>14.4</u>	<u>9.6</u>
Total, non-British Empire.	33.1	32.1	35.0	42.6
Total - all countries.....	66.9	62.9	70.2	75.7

These are the latest South African trade data available. U.S. trade figures indicate that United States imports from South Africa have continued to expand. However, as revealed by the table below, the greater part of the increase recorded so far this year represents goods shipped to this country for bonded warehouse. They consist largely, if not entirely, of British-owned South African wool being stored in this country under agreement with the Reconstruction Finance Corporation. To this extent, figures of United States imports from South Africa do not accurately reflect dollar receipts of that country.

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United States Merchandise Trade with the
Union of South Africa,
1938 - 1942

U.S. Exports to South Africa	U.S. General Imports From South Africa	U.S. Excess of Exports or Imports (-)	U.S. Imports for Consump- tion from S.A.
(In millions)			
1938.....\$ 70.0	\$ 15.9	\$ 54.1	\$ 15.9
1939..... 69.1	28.7	40.4	27.8
1940..... 103.8	47.3	56.5	46.0
1941..... 186.9	66.2	120.7	60.7
1941, Jan-Sept.... 124.6	39.9	84.7	24.7*
1942, Jan-Sept.... 54.9	75.8	-20.9	36.6*

* January through July. General imports from South Africa totalled \$66 million, January through July 1942, and \$28 million during the same period of 1941.

Less than 500 thousand of lend-lease goods were exported to South Africa in 1941 and only 874 thousand during the first four months of 1942. Lend-Lease exports to South Africa have assumed significant proportions only since May of this year. Since then, however, they have accounted for over two-fifths of our exports to that country; they averaged \$3 million a month, May through September, as compared to \$4 million of exports monthly on commercial account. Lend-Lease shipments to South Africa in October are reported to be \$15 million, or roughly as much as all lend-lease exports to that country up to then.

Of the \$32 million of lend-lease goods exported to South Africa through October 1942, \$20 million were military items and \$12 million were non-

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military goods, principally metals and manufactures and machinery and parts.

Motor vehicles and parts, iron and steel, aircraft and aircraft parts, machinery, textile manufactures and petroleum products account for two-thirds of the total value of U.S. goods exported to South Africa in 1941. The table below gives the principal categories for the years 1940 and 1941.

	1940	1941
	(In millions)	
Motor vehicles and parts.....	\$16.9	\$25.8
Iron and steel.....	19.4	28.7
Airplanes and parts.....	4.1	16.0
Machinery and equipment.....	15.5	25.3
Cotton and rayon textiles.....	8.6	23.8
Petroleum and petroleum products....	6.3	5.5
Total U.S. exports to S.A.....	\$103.7	\$186.9

Diamonds, wool, furs, strategic metals, and hides and skins dominate our import trade with the Union of South Africa. They account for all but a small portion of our total purchases from that country. This is revealed by the table below, which gives U.S. figures of imports for consumption from South Africa by principal categories of commodities, for the three years, 1939, 1940, and 1941.

	1939	1940	1941
	(In millions)		
Diamonds.....	\$15.1	\$20.9	\$23.7
Wool.....	2.3	7.5	11.5
Furs.....	2.8	7.8	11.3
Ores, metals and alloys.....	4.3	5.6	6.1
Hides and skins.....	1.4	1.9	4.0
Total U.S. imports from S.A.....	\$27.8	\$46.0	\$60.7

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E. Fiscal Position of the Government of South Africa.

In spite of South Africa's extremely favorable international financial position and in spite of the advantageous geographic location, the expenditures of the Union Government have been kept at an unusually low level. Furthermore, expenditures for other than war purposes account for an exceptionally large proportion of the relatively small Government disbursements -- 43 percent during the current fiscal year as compared to less than 10 percent in the case of the United States and 15 percent in the case of Canada and the United Kingdom.

The Union Government spent far less per capita for war purposes during the fiscal year 1941-42 than did the Government of either the United Kingdom, Canada or the United States. It also budgeted for a smaller increase for the current fiscal year than did the Governments of these three countries. The South African Government's estimated expenditures on war account, April 1942 - March 1943, total the equivalent of \$320 million, or only \$30 per capita.

This is only a fraction of the per capita war expenditures of the other three governments. Even if allowance is made for the extremely low standards of living and income of the non-Europeans, who comprise four-fifths of the population of the Union, and per capita war expenditures are calculated on the basis of 2 million Europeans, the figure is only \$160. As shown by the table on page 26 below, this is less than one-third as much as the projected per capita war expenditures of the United States Government for the current fiscal year, less than one-half as much as the British-expected

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per capita war expenditures, and only a little more than one-half as much as Canada expects to spend for war account during the current fiscal year on a per capita basis.

Expenditures and Receipts of Union Government
of South Africa

	1939-40	1940-41	1941-42 (prel.)	1942-43 (est.)
	(Millions of U.S. \$, Converted at Rate of 1 S.A. £ = \$4)			
<u>Expenditures</u>				
Defense.....	19	240	288	320
Other.....	<u>270</u>	<u>240</u>	<u>216</u>	<u>239</u>
Total.....	289	480	504	559
<u>Expenditures from Revenue</u>				
<u>Account</u>				
Defense.....	12	82	115	160
Other.....	<u>173</u>	<u>175</u>	<u>180</u>	<u>193</u>
Total.....	185	257	295	353
<u>Expenditures from Loan</u>				
<u>Account</u>				
Defense.....	7	158	173	160
Other.....	<u>93</u>	<u>65</u>	<u>36</u>	<u>46</u>
Total.....	100	223	209	206
<u>Revenue charged to Revenue</u>				
<u>Account</u>	182	257	318	353
<u>Sources to finance expenditures on loan account, sundry capital receipts, etc.</u>				
Capital receipts, etc.....	34	45	32	32
Borrowing.....	66	178	177	174

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Expenditures of the Governments of Union of South Africa,
Canada, the United Kingdom, and the United States;
(Preliminary figures for 1941-42 and
estimates for 1942-43 in millions of U.S. dollars)

	War Expenditures	Other Expenditures	Total
<u>A. Expenditures in Absolute Figures</u>			
Union of South Africa			
1941-42.....	\$ 288	\$ 217	\$ 505
1942-43.....	320	239	559
Canada			
1941-42.....	2,162	489	2,651
1942-43.....	2,997	513	3,510
United Kingdom			
1941-42.....	16,483	2,788	19,271
1942-43.....	18,150	3,172	21,330
United States			
1941-42.....	25,953	6,538	32,491
1942-43.....	78,000	7,183	85,183

B. Expenditures on a Per Capita Basis

Union of South Africa (10.5 million)			
1941-42.....	27	21	48
1942-43.....	30	23	53
Canada (11 million)			
1941-42.....	197	44	241
1942-43.....	272	47	319
United Kingdom (46 million)			
1941-42.....	358	61	419
1942-43.....	395	69	464
United States (132 million)			
1941-42.....	197	49	246
1942-43.....	591	54	645

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The public debt of the Union Government of South Africa increased by roughly one-third during the first three years of war. The proportion of the debt held overseas has been reduced from roughly one-third as of March 31, 1939 to about one-sixth on March 31, 1942.

Gross Debt of the Union Government
of South Africa

As of March 31	External Debt	Internal Debt	Total
	(Millions of U.S. \$ at \$4 per S.A. £)		
1939.....	404	711	1,115
1940.....	425	740	1,165
1941.....	393	752	1,345
1942.....	244	1,256	1,500

per capita
The public debt of the Union of South Africa at the close of the last fiscal year was less than one-fourth as high as that of either the United States or Canada and about one-eighth as large as that of the United Kingdom. The relatively smaller deficit to be financed out of borrowing during the current fiscal year will make the discrepancy in the per capita debt figures even greater. In fact the discrepancy is expected to be so large that even if the South African population is taken at 2 million -- the European constituent, the per capita debt burden of the Union Government is about \$160 less than that of the Federal Government of the United States.

F. South Africa's War Effort.

The relatively low level of government expenditures on war account, the continuance of gold production at peak levels, and the absence of any evidence of a reversal in policy established by the British and South African

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Governments at the outbreak of war, that newly-mined South African gold constitutes a primary sinew of war, all suggest that South Africa's war effort falls considerably short of the possible maximum. This situation exists in spite of the strategic importance of that country as an intermediate source of supply to the Allied armies in North Africa and the Far East.

A study made by the Board of Economic Warfare Mission to South Africa reveals that there is considerable room for diversion of men and materials from the production of gold to more essential war activities, such as the production of aircraft bombs, ammunition, armored cars, explosives, textiles, boots and various base metals.

December 23, 1942
12:28 p.m.

HMJr: Mrs. Morgenthau had a long talk with Bacher this morning.

Harold Graves: Yes.

HMJr: He sought the interview. She didn't. Pending my hearing the story from her, see....

G: Yes.

HMJr:I want everything held in abeyance. I don't want to sign up with Bill Murray or anything, see?

G: All right.

HMJr: And I also want to go - aside from everything else, I have another angle and that's the question of do we want to spend \$5,000 a week for a program?

G: Yes, sir.

HMJr: So you call up Odegard in New York and don't make - tell him not to make any commitments because I may want to discontinue the whole damn thing.

G: Yes, sir, I'll do it.

HMJr: And also I - I just don't know, so he shouldn't make any commitments that I can't get out of.

G: Yes, sir, I'll see that he understands.

HMJr: And if you don't mind, if you would just type out a little something and send it in to Mrs. Klotz to give me, just what the cost of these programs are.

G: Yes, I have verified the figures that - I gave you the figures last night and they turned out to be about right.

HMJr: Well, that's all right.

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G: And I'm going to get a memorandum -- it's on its way now.

HMJr: Well, give it....

G: It gives the complete story, and I'll send it to Mrs. Klotz.

HMJr: I'm leaving at sharp two.

G: Yes, sir.

HMJr: But, in the meantime, call up Peter in New York - and not to make any contracts with Bill Murray or anybody else pending a chance that you and Peter and I can sit down and talk about it.

G: Fine. I'll take care of it.

HMJr: If you don't mind.

G: Yes, sir.

HMJr: Thank you.

G: Goodbye.

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copy to Mr. Bell
12/23/42

December 23, 1942

My dear Mr. President:

I naturally was disappointed not to have been able to see you this morning, but I learned from Grace Tully the reasons for your postponing your return to Washington.

The Morgenthau family had planned to go home this afternoon to spend our Christmas on the farm, and I am sure that you would not want me to change our plans; hence, this letter.

You will find enclosed herewith three memoranda. The first one is our suggestion for your Budget Message which has been submitted to both Senator George and Congressman Doughton. The other two memoranda give a report of the visits which Paul, Blough and I had with these two gentlemen.

You will remember that when we discussed how to present the tax problem to the Congress that you and I agreed that it would be best to have you diagnose the case in your Budget Message without making any specific recommendations as to how to cure the patient. After we had met with both George and Doughton we all agreed that the Budget Message should be confined to general language, whatever specific recommendations you may wish to have made later. May I remind you that you said, in discussing this matter, that it is much better to let them set up the Nine Pins and have you knock them down rather than to let them do the reverse. We here in the Treasury agree with you that this is good strategy and that you will get quicker and more satisfactory tax legislation if this procedure is followed.

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Grace Tully has kindly consented to put this material in your hands tonight, and I would like very much to discuss it with you on the phone tomorrow at your convenience.

Yours sincerely,

(Signed) Henry

The President,

The White House.

Enclosures

December 21, 1942

During the coming fiscal year we face two related fiscal problems, one on the budgetary front and one on the economic front.

On the budgetary front the fiscal problem is to supply the funds required to pay for the war. Tax legislation of the past three years, and particularly of 1942, has greatly increased revenues. But expenditures for war have increased vastly more. Taxes under existing law will raise less than one-third of the amount needed to pay for Federal expenditures in the fiscal year 1944. We should finance the war to a far greater extent by means of taxes. Taxes will be easier to pay during the wartime period of expanded money incomes than they are likely to be after the war.

On the economic front the fiscal problem is to pay for the war without further increases in prices and the costs of living. The people of the United States will have billions of dollars more income than they have had in the past, and there will be billions of dollars less

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goods to buy. More than half of our production is going directly to the war effort. Less than half is available for civilian use. Every effort will be made to keep the supply of civilian goods and services as large as is consistent with a maximum war effort and to make them available when and where they are needed most. There will be enough for health; there will be enough for efficiency; but there will not be enough goods available at present prices for the dollars people have to spend.

The excess dollars should be absorbed through taxes or increased saving. The spending of those dollars would have results which are alarmingly clear. Present shortages would be intensified and new shortages would appear. Prices and the cost of living would rise at an accelerating rate. A mad scramble for goods might ensue. Black markets would be difficult to prevent. Distribution of goods would be cruelly unfair. The war effort might be dangerously hampered.

The tragedy of inflation can be prevented; it must be prevented; and it will be prevented if we take the steps necessary to meet the danger.

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We have already taken many vital steps. We have increased taxes and stimulated voluntary saving, thus withdrawing income from the spending stream. We have set price ceilings, thus at least temporarily putting the brakes on the spiral of rising prices. We have stabilized wages and salaries, thus restraining the rise of business costs and the increase in money incomes. We have placed limits on consumer credit and have brought about a great amount of debt repayment. We have rationed some essential, scarce goods to assure everyone a necessary minimum and to help protect price ceilings.

We must go further.

We must greatly increase taxes. We must greatly increase net savings. We must extend rationing to all goods for which shortages now exist or impend. These measures are interrelated. Each increase in taxes and each increase in savings will lessen the upward pressure on prices and reduce the amount of rationing and other direct controls we shall need.

This twofold fiscal problem calls for action of wartime

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proportions. I have endeavored to make clear that higher taxes now are the best way to pay for the war and to do so without inflation. Certain broad principles should guide us in raising the additional revenue we need. These principles include the encouragement of maximum war production, the protection of a basic minimum standard of living, the fair and equitable distribution of the financial cost of the war, and the prevention of excessive profits from the war effort.

A revenue program in harmony with these principles will retain the individual income tax as the backbone of our revenue system. The rates should be increased from top to bottom and special privileges and loopholes should be eliminated.

We must adapt the income tax to war needs. We should collect a substantial part of the individual income tax currently out of incomes when they are paid. This will make the tax easier to bear; it will bring the money into the Treasury more quickly and more certainly; while at the same time it will remove the money from the spending stream before it can be used to bid up prices.

- 5 -

The social security system should be expanded and extended to add to the economic security of the nation, especially in the post-war period. This measure, justified on its own merits, would also facilitate the financing of the war.

The amount and kinds of taxes Congress adopts will have a bearing on other fiscal measures it will need to take. Whatever the type of action, time is of the essence. New measures should be passed and put into operation promptly. Within the next few months our receipts under existing revenue laws and under any new fiscal measures adopted by the Congress should approximate one-half the cost of the Federal Government.

(Senator George suggested the addition of the following:

"To facilitate the work of the Congress, I have directed the Secretary of the Treasury to submit more specific proposals at the pleasure of the Congress")

Secretary Morgenthau

December 22, 1942

Randolph E. Paul

Subject: Conference with Senator George regarding
the 1943 Revenue Bill.

At a conference in Atlanta, Georgia, December 21, between Senator George, Secretary Morgenthau and Messrs. Paul and Blough, various questions bearing on revenue legislation for 1943 were discussed. A memorandum (copy of which is attached) which the Secretary was considering for presentation to the President in connection with the Budget message was read and discussed.

Senator George expressed the following ideas in connection with the memorandum and 1943 revenue legislation:

1. The general approach taken in the memorandum would be preferable to outlining any specific program in the President's Budget message. However, Senator George suggested an addition indicating that the President "would direct the Treasury Department to present more specific proposals at the pleasure of Congress." (The quoted words are Senator George's exact words.)
2. Senator George expressed general agreement with the idea of the last paragraph of the attached draft statement, that the Treasury should within a few months be collecting half its expenditures from current "levies". It was explained that the word "levies" was meant to include not only taxes, but also such measures as forced lending. Precise figures were mentioned in this connection. The Senator said he had heard that the Budget would run \$100 billion for the fiscal year 1944. We confirmed this figure, and it was understood that the gross collections under this formula would have to total about \$50 billion.

3. Compulsory lending would be desirable. It was not clear to Senator George whether the Congressional sentiment for compulsory lending would accept a program sufficiently great to make up for the loss of voluntary bond sales with some additional net gain. He did think, however, that the total, which Congress would provide from taxes and compulsory lending, would be larger than any total it would provide from taxes alone.
4. In response to a question Senator George said he thought it might well be desirable to select a few important items and try to get a separate bill covering them through very quickly. Collection of the income tax by withholding at source at very substantial rates would be one such item.
5. There was no discussion of the Ruml plan at the meeting; this plan might be an item of the type mentioned in 4 above. Mr. Paul furnished Senator George with a copy of a recent letter to the Washington Post describing the Treasury's plan of September, 1942, for putting taxpayers on a current basis.
6. Discussing a comment of Mr. Louis Brown that Mr. Brown would be willing to see corporate tax rates go to 50 percent under certain conditions, Senator George agreed that such an increase might well be made if there were proper debt relief and (he emphasized) a post war credit.
7. The Senator's tentative view was that Congressional sentiment probably continued hostile to a spendings tax and that it would be desirable, if possible, to achieve the objectives of the spendings tax in some other manner.
8. Senator George affirmatively suggested that the Treasury should consider what its attitude would be in case Congress insists on a sales tax, "as it well may". The Secretary replied that this question

- 3 -

should be submitted to the President. Senator George indicated that he did not think that the failure to pass a sales tax was psychologically blocking other fiscal steps.

9. Senator George said he favored an extension and expansion of the Social Security program, but that unless it was handled separately he thought it would cause great delay in the passage of the tax bill because of the many disparate views as to principles and details.
10. Senator George favored the idea of having a group from the Senate Finance Committee and the Ways and Means Committee, including Republicans, discuss the 1943 tax program with the President at an appropriate time. He also thought it would be a good idea to have some preliminary discussions between members of the two Committees and the Treasury in advance of any discussion with the President.

(Initialed) R.E.P.

December 22, 1942

Secretary Morgenthau

Randolph Paul
Roy Blough

Subject: Conference with Chairman Doughton on
revenue legislation.

A conference was held at the Treasury, December 22, between Chairman Doughton, Secretary Morgenthau, and Messrs. Paul and Blough. Secretary Morgenthau said that he would like to have Chairman Doughton read a memorandum which he was submitting to the President as a suggestion of what the Budget Message should contain on fiscal matters. The Secretary said he had talked with Senator George and that Senator George had liked the general approach and had made some suggestions; that the Senator had suggested that meetings with Congressional leaders be held prior to an extensive conference with the President on revenue legislation.

The memorandum for the President was then read to Chairman Doughton, who made the following comments:

1. Chairman Doughton approved the view that the Budget Message should be general in character and should not go into details of a tax program, as this might seem too much like dictating to Congress in the performance of its legislative function.
2. Chairman Doughton said he was disappointed in the effects which the price legislation had had on the course of retail prices, and that so far as he could see they had been going up steadily without restriction.
3. Chairman Doughton said that he was not in favor of taking up social security legislation, and did not believe that any one of the continuing members of his Committee was in favor of it. He said if such legislation came up and the Committee did decide to consider it, perhaps six months would

- 2 -

be required; and that, in his opinion, nothing of any importance would be reported out by the Committee, or, if reported, would be passed by the House.

4. It was Chairman Doughton's belief that if one-third of the Federal expenditures were met by taxes, the country would be doing extremely well. As to compulsory lending, he stressed the adverse effect on the volunteer program, without indicating directly his own views on whether such lending should be adopted and, if so, at what rates.

5. Chairman Doughton said he thought there were some people who could stand increased income taxes, but that he was fearful that increases in rates would be too burdensome on others. He said he was in favor of taxing as far as was reasonable without destroying enterprise or bankrupting people with heavy obligations. He did not specify, however, at what income levels he thought the income tax could be increased, or how much.

6. Chairman Doughton did not indicate any views with respect to collection at source, the Ruml plan, the spendings tax, the sales tax, or other matters. He said that this was not the time to discuss details of the tax program.

(Initialed) R.E.F.

" RB

RB:mv

DRAFT

My dear Mr. President:

I naturally was disappointed not to have been able to see you this morning, but I learned from Grace Tully the reasons for your postponing your return to Washington.

The Morgenthau family had planned to go home this afternoon to spend our Christmas on the farm, and I am sure that you would not want me to change our plans; hence, this letter.

You will find enclosed herewith three memoranda. The first one is our suggestion for your Budget Message which has been submitted to both Senator George and Congressman Doughton. The other two memoranda give a report of ~~Paul~~ ^{Paul} ~~Blough~~ ^{Blough} the visit^s which Paul, Blough and I had with these two gentlemen.

You will remember that when we discussed how to present the tax problem to the Congress that you and I agreed that it would be best to have you diagnose the case *in your budget message* without making ^{any} specific recommendations as to how to cure the patient. After we had met with both George and Doughton we all agreed that ^{Point A} ~~this is the best procedure~~. May I remind you that you said, in discussing this matter, that it is much better to let them set up the Nine Pins and have you knock them down ^{rather} ~~than~~ ^{let them} do the reverse.

- 2 -

We here in the Treasury agree with you that this is good strategy and that you will get quicker and more satisfactory tax legislation if this procedure is followed.

Grace Tully has kindly consented to put this material in your hands tonight, and I would like very much to discuss it with you on the phone tomorrow at your convenience.

Yours sincerely,

A

The budget message should be confined to general language, whatever specific recommendations ^{you} may ^{wish to} have ~~to~~ made later.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE DEC 23 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Loan Flotations in the United States During
Previous Wars

There is attached hereto the clipping from the New York Herald-Tribune on the means of financing past wars which you gave me at a staff meeting last week. There is also attached a marked copy of Investment Banking for December 1942, upon which the clipping was based. The article in Investment Banking is substantially correct, but a few errors have crept into the Herald-Tribune article. For example, the original article describes one of the loans floated in the War of 1812; the newspaper account takes this to be the only loan.

A somewhat more detailed summary of borrowing operations in previous wars follows.

Accurate details on the financing of the Revolutionary War are unobtainable. Authorities differ as to amounts. Domestic financing took the form principally of inflationary issues of currency the aggregate specie value of which has been variously estimated at amounts ranging from \$36 millions to \$70 millions. In addition, domestic loans of an aggregate specie value of about \$11 millions were floated through domestic loan offices. Loan commissioners received 1/8 of 1 percent commission. Loans from foreign governments amounted to slightly more than \$10 millions, of which \$6.4 millions came from France; \$3.6 millions from the Netherlands, and about \$0.2 millions from Spain. The loans from France were granted more for political reasons than in consideration of the interest return. The Dutch loans, on the other hand, were purely business transactions.

The War of 1812 was an unpopular one particularly in the northern financial centers and this factor may have accounted for the financial difficulties encountered by the Treasury. Borrowing, including a loan of \$11 millions authorized before the declaration of war, and two loans

Secretary Morgenthau - 2

after the treaty of peace amounted to about \$125 millions. Of this sum, \$56 millions consisted of Treasury notes which were receivable for public dues and were transferable by endorsement and thus were able to perform most of the functions of currency.

The \$11 millions loan authorized in March 1812, about 3 months before war was declared, bore 6 percent interest, was issued at par, and was successful. In 1813, however, a loan of \$16 millions at 6 percent had to be floated below par and subscription books had to be reopened a second time. Four other loans were floated at varying discounts and interest rates. Figures on amounts of money borrowed are further confused, however, by the fact that payment was made frequently in bank notes of varying degrees of depreciation -- a situation which has not existed since the creation of the National Banking System in 1863. The House Ways and Means Committee estimated, in 1830, that, measured in specie, the proceeds of more than \$80 millions of borrowing, other than notes and temporary certificates, during the War of 1812 was only \$34 millions.

In the Mexican War, which was as popular as the War of 1812 was unpopular, a net indebtedness of \$49 millions was created. All loans were floated at or above par for 6 percent bonds. In one loan operation bids were received for \$58 millions on an offering of \$18 millions. No mention is made in the Annual Reports of the Secretary of the Treasury of the services of E. W. Clark and Brothers (credited in the attached clipping with raising the money for the Government), but the firm is listed among the successful bidders for the loans of 1848 to the amount of \$950,000 for a loan of \$18 millions. Corcoran and Riggs of Washington were awarded \$14 millions of this particular loan for their own account, that of Baring Brothers and Co., and others.

The finance of the Civil War was again marked by currency inflation. Specie payments were suspended at the end of 1861. Small denomination, demand Treasury notes had already been issued to the amount of \$60 millions in 1861, and, under authority of an Act of February 25, 1862, \$150 millions of United States notes, noninterest-bearing and legal tender, were issued early in 1862. This amount was later augmented by other issues to an aggregate of nearly \$500 millions (including \$27 millions of paper subsidiary currency, "shinplasters"). In addition, Treasury

Secretary Morgenthau - 3

notes bearing interest (some of it compound interest) were issued to the amount of approximately \$400 millions. These, too, were legal tender. Long-term borrowing was chiefly on the basis of 5 - 20 year and 10 - 40 year bonds, the former at 6 percent and the latter at 5 percent. Approximately \$775 millions of these bonds were issued in the period 1861-65.

The Civil War marks the first large scale popular financing of the United States Government. This was the operation for which Jay Cooke became famous. Cooke made use of 2,500 subagents who canvassed the country on behalf of the "Five-twenties" and again for the 7.3 percent notes of 1864 of which \$671 millions were issued. All in all, the financing operations in which the Cooke organization was active yielded somewhat more than \$1,000 millions. Cooke received a commission of 1/2 of 1 percent on the first \$10 millions of subscriptions and 3/8 of 1 percent on everything over that amount, in selling the "Five-twenties".

It should be noted that the foundation of the National Banking System in 1863 with a national bank note circulation of \$300 millions authorized, all of which must be backed dollar-for-dollar by United States Government securities was helpful in selling bonds.

The financing of the Spanish-American War in 1898 posed no important financial problems.

During the first World War, in 1915, an Anglo-French loan of \$500 millions was sold in this country. The original amount projected had been \$1,000 millions, but bankers felt that this was more than could be floated successfully.

After our own entrance into the war, five popular loans were floated, aggregating over \$20 billions. Subscriptions came to about \$24 billions. The oversubscriptions were greatest on the first two loans and least on the last two. On the First Liberty Loan, subscriptions were allotted only to the amount requested, oversubscriptions being allotted on a graduated basis, subscriptions of \$10,000 and under being allotted in full. In the Second Liberty Loan, a portion of oversubscriptions was accepted, while in the last two Liberty Loans and the Victory Loan the full amount subscribed was allotted.

Secretary Morgenthau - 4

Details of the Liberty and Victory loans are given in the following table:

Loan	Tax- exemption:	Coupon rate (percent):	Amount (billions of dollars)
First Liberty, 1932-47	Full	3-1/2	2.0
Second Liberty, 1927-42	Partial	4	3.5
Third Liberty, 1928	Partial	4-1/4	3.9
Fourth Liberty, 1933-38	Partial	4-1/4	6.6
Victory notes, 1922-23	(Partial	4-3/4)	4.4
	(Full	3-3/4)	
			20.4

The bonds of the First Liberty loan were fully tax-exempt, in keeping with the pattern established by previous Government security issues. The imposition of heavy surtax rates on income, however, made complete tax-exemption undesirable, and subsequent Liberty loans were made partially tax-exempt and the coupon rates were increased. In the Victory loan, subscribers were given a choice between fully tax-exempt notes at 3-3/4 percent and partially tax-exempt notes at 4-3/4 percent.

Bonds of the First and Second Liberty loans were made convertible into the higher-coupon bonds of later loans on the ground that investors might withhold subscriptions unless assured that they would be eligible to receive the best rate available.

Liberty and Victory loans were anticipated by the issuance of certificates of indebtedness, in an aggregate amount of \$17.0 billions. In this way the difficulty of anticipating future financing requirements was avoided. Certificates were accepted subsequently in payment for bonds. Quotas for bank purchases of these certificates were established by the Federal Reserve Banks under general instructions issued by the Secretary of the Treasury.

Sales of Liberty bonds and Victory notes were promoted by a variety of devices designed to produce widespread popular response. "Four-minute speakers" urged bond purchases at nearly all public gatherings. Individuals were

Secretary Morgenthau - 5

subjected to strong social pressures from a variety of directions to induce them to subscribe their quotas. However, no commissions were paid for the sale of these securities. The number of subscribers to each loan is given (in millions) in the following table:

First Liberty	4
Second Liberty	9
Third Liberty	18
Fourth Liberty	23
Victory notes.....	12

Attachments

NEW YORK
Herald Tribune
 DEC 12 1942

Wall Street Comment

The Inflation Gap

Is the "Inflation Gap" overrated? There are more and more persons who are beginning to wonder whether this is not another of those fatalistic fetiches on which inflation fears have been nursed now for a decade. One by one these various notions have fallen by the wayside; and it is not inconceivable that the same thing will happen to the currently popular creed. The plain fact is that although there has been an inflation gap for more than a year now—that is to say, a gap between the amount of spendable income and the amount of goods available for purchase—it can be demonstrated that all the inflation we have had to date can be accounted for by purely political phenomena—namely, by the refusal of the Administration to take a firm attitude on wages and farm prices and by its refusal to make any attempt to tax, as such, income in the lower brackets generated by the war effort.

War Finance Over the Years

Thumb-nail sketch of American war-time financing as amputated from "Investment Banking" for December: The Revolution: Financed by "the best salesman of all time for 'the American way,'" Benjamin Franklin, who raised \$11,710,000 abroad. War of 1812. The only issue for this unpopular war, one of \$18,000,000, was a failure, with the underwriters forced to take \$10,000,000 of it—at 88 for 68. Mexican War. E. W. Clark & Co., of Philadelphia, raised the money for the government by selling bonds to a few wealthy individuals. Civil War. With Europe unfriendly to the Union, Jay Cooke, who had had his

initial experience with Clark in the Mexican War, was appointed Government Loan Sales Agent. Hired the 5,000 progenitors of the Victory Loan Fund salesmen and canvassed the country on a house-to-house basis. Sold more than \$2,000,000,000 in securities at somewhat less than par for 68. World War I. In 1915 the idea of a \$1,000,000,000 loan for the Anglo-French mission was regarded as so big as to be out of the question, and it was reduced by half. But by 1917, with the financial community all over the country putting its shoulder to the wheel, a \$2,000,000,000 Liberty loan brought \$3,000,000,000 in subscriptions, and by 1918 it was found possible to raise almost \$7,000,000,000 in a single (fourth Liberty loan) drive.

Given to Mrs. Hoo
 by Secy at Staff
 Meeting on 12-14-42
 M.L.

December, 1942

Investment Banking

"picked out the biggest ones and started firing," and, as the U.S.S. Boise did, will keep on firing until they have taken care of them all.

THE REVOLUTION—Benjamin Franklin, probably the best salesman of all times for the "American Way," sold \$11,710,000 bonds abroad, mostly in France and Holland. (Canny English investors readily forgot their enmity to the States and held most of these bonds when they were paid off.)

Other than bonds sold abroad, some \$40,000,000 were sold domestically. They were to a great extent issued by the states, and Alexander Hamilton, first Secretary of the Treasury, laid the firm foundation of United States credit the world over by getting the federal government to assume the debt—at a scale-down in interest.

WAR OF 1812—A \$16,000,000 offering to finance this unpopular war received subscriptions of only \$6,000,000 from the public. Stephen Girard, John Jacob Astor, and David Parrish, capitalists of the day, took the balance at 88 for 6s.

MEXICAN WAR—E. W. Clark & Co., of Philadelphia, were the government's bankers in financing this war; sold moderate amounts of bonds to a few wealthy individuals.

CIVIL WAR—In 1861, with Europe unfriendly to the Union and with "the market exhausted and the ability to raise money feared," Jay Cooke, who got his initial experience with E. W. Clark & Co. in the Mexican War financing, was appointed "Government Loan Sales Agent."

Cooke hired 5,000 salesmen who "over-ran the countryside, every hamlet and farm, appealing to every living person." His posters and circulars (with pictures of eagles and mothers on one side—popular songs on the other) "were in every railroad station, court house, hotel, factory, toll house, post office, on every tree and telegraph pole."

He sold more than \$2,000,000,000 of bonds, averaging less than par for 6s.

SPANISH AMERICAN WAR—No special financing was necessary. The public debt increased only \$200,000,000.

WORLD WAR I—The financial district was one of the few elements in the nation "prepared" when war was actually declared in April 1917. There was no demoralization. Europe called it "uncanny." Earlier, in 1915, the proposal of a \$1,000,000,000 loan for the Anglo-French mission did seem staggering and was cut to \$500,000,000, but by mid-1917 the American market had absorbed almost \$3,000,000,000 of repatriated American securities.

It was not fully realized in 1917, however, that a "nation of investors" had been created. There was some pessimism, "fear that a \$2,000,000,000 Liberty Loan would never succeed." Sceptics said, "The American people are not thrifty, have not been given the habit of buying government securities."

But financial houses all over the country shut up shop so far as ordinary operations were concerned, put all their drive behind the \$2,000,000,000 offering, and got \$3,000,000,000 in subscriptions.

The same technique sold in one three-week period in the fall of 1918 what is until now the world's largest security issue, \$7,000,000,000, the Fourth Liberty Loan.

Who Sold the Bonds in Other Wars?

On SEC Rule

On October 31 the IBA's comments on a rule proposed by the SEC staff for regulation of the over-the-counter markets, designated Rule X-15C1-10, were submitted to the Commission. Included was a special analysis of the way in which markets for municipal securities would have been affected. Copies were sent to all members and are available to others upon request.

volved in this drive may be obtained by comparing it to the total of approximately \$9,000,000,000 which was raised through the sale of new issues of stocks and bonds of domestic corporations in 1929. In contrast to this assignment for one month, the largest amount of new corporate financing in any one month during 1929 was \$1,500,000,000.

In the meantime, however, the capacity of the market to absorb securities has expanded, and the nation's investment resources are adequate to take care of the demands that will be made upon them, if inflation of prices is not allowed to skyrocket the costs of the war.

Proof of Bond-Buying Ability

One indication of the country's ability to buy bonds is evidenced by the record level of bank deposits. Total bank balances of individuals, partnerships, and corporations are currently in excess of \$65,000,000,000, as compared with \$34,000,000,000 at the low point in 1933, and only \$50,000,000,000 at the previous peak in 1929. It is obvious, from these figures, that many of them have money in the bank over and above any reasonable reserve needs. It is part of our job to induce them to put all in excess of minimum current balance requirements into Victory Loan securities.

Another indication of the nation's so far untapped investment resources is contained in the record-breaking current volume of individuals' savings and the fact that the money is being held in currency or in checking accounts to a great extent.

A study made public recently by the SEC indicates that the total income of individuals during the three months, July, August, and September, 1942, exceeded all living expenses by \$11,400,000,000. This is at the rate of almost \$4,000,000,000 a month,

the fastest accumulation of surplus buying power in all history.

Of this \$11,400,000,000, the people used an estimated \$1,950,000,000 to buy or to pay off installments on automobiles and other durable goods. They used \$210,000,000 to pay on mortgages or make down-payments on new homes. Other debts were paid down \$830,000,000, and \$1,370,000,000 was put into insurance (including social security), building and loan associations, and similar savings plans.

This left a balance of \$7,040,000,000, with which they bought only \$2,800,000,000 worth of government bonds and barely \$40,000,000, on balance, of other securities.

A net balance of \$4,200,000,000 was retained out of this three-months' income and held in currency or in checking accounts.

This accumulation of idle money has gone on steadily for some time and at a swiftly accelerated rate recently. As installment purchases are eliminated, old debts are paid off, and new durable goods disappear completely from the markets, this tendency is accentuated. Such large surpluses in currency and in checking accounts obviously constitute the most unstable element in our financial situation and the greatest inflationary threat.

Pick Biggest Buyer and Fire!

Converting these excess accumulations of cash and these idle balances into government securities is the first objective of the Victory Loan drive. The broad diversification as to rate of return, maturity, redemption provision, and purpose, of the various issues being offered makes available a sound investment for any type of funds in any amounts.

The investment bankers have broadened their lists of prospects, and in the words of Captain Edward J. (Iron Mike) Moran,

W42WASH B188 NY 23-229P

MORGENTHAU

MR. KILBY
ROOM 761 1/2 TREASURY

Rec'd
310 289

Mr. A. B. ...

1942 DEC 23 DM 2 40
FEDERAL

THE VICTORY FUND COMMITTEE OF THE SECOND FEDERAL RESERVE DISTRICT SENDS YOU ITS CONGRATULATIONS ON THE OUTSTANDING SUCCESS OF THE DECEMBER TREASURY FINANCING. IN THIS FIRST BIG DRIVE OF THE WAR THE AMERICAN PEOPLE HAVE RESPONDED TO YOUR CALL FOR FINANCIAL SUPPORT OF THE WAR EFFORT IN A WAY WHICH SHOULD GIVE YOU REAL PERSONAL SATISFACTION AS WELL AS THE SATISFACTION WHICH COMES FROM DISCHARGING THE DUTIES OF YOUR HIGH OFFICE

ALLAN SPROUL

CHAIRMAN.

1942 DEC 23 PM 2 40

W43K IN B188 FIRST LINE MAKE READ SECOND FEDERAL RESERVE DISTRICT B.

Expenses of Loans A&E

BOOK OF 12 (other names attached)

December 22, 1942

Messrs. Paddock and Stubbs and all Members of
the Victory Fund Organization,
First Federal Reserve District,
Boston, Massachusetts.

I should like to express to all members of the Victory Fund organization my warm personal thanks for the splendid assistance rendered by all of you to the Treasury in the successful December drive. Your earnest and able response to this call of your country is an inspiring example for everyone on the home front. I feel sure that your holidays of the next few days will be all the more satisfying because of this service. May your Christmas be enjoyable and may the New Year bring our country safely and victoriously through this time of trial.

HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY.

GK:dwb:FK:cgk

*also sent to Chairman
Exec Mgrs of Victory
Fund in the 12
Federal Reserve
Districts.*

INTERNATIONAL BUSINESS MACHINES CORPORATION
590 MADISON AVENUE
NEW YORK

OFFICE OF
THE PRESIDENT

December 23, 1942

Honorable Henry Morgenthau, Jr.
Secretary of the Treasurer of the United States
Treasury Department
Washington, D. C.

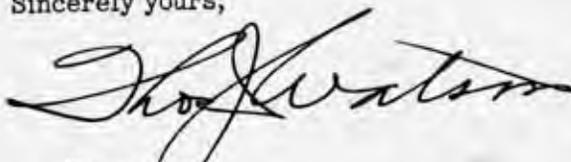
Dear Mr. Secretary:

Mr. Thomas H. Lane has forwarded to me the certificates which you so generously awarded me and our Company. I thank you personally and on behalf of International Business Machines Corporation, and want you to know that it has been a real pleasure and privilege for me and all members of our organization to work with you and your staff and you can always count on us for our cooperation and help to the extent of our ability.

I take this opportunity to congratulate you on the outstanding record you have made in handling the financial affairs of our country, which I realize in these trying times is a gigantic task.

With my good wishes to you and yours for the holidays and the coming year, I remain

Sincerely yours,



President

TJW:ef



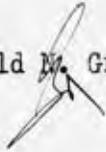
TREASURY DEPARTMENT
WASHINGTON

December 23, 1942

MEMORANDUM FOR MRS. KLOTZ:

In accordance with a request this morning from Mr. Morgenthau, I hand you the attached report showing the cost of our radio programs.

Harold M. Graves



OFFICE
SECRETARY OF TREASURY

1942 DEC 23 PM 3 09

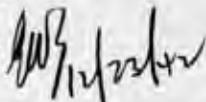
TREASURY DEPARTMENT

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 23, 1942

TO: Mr. Graves

FROM: Mr. Sloan



In accordance with your request, there is detailed below the cost to the War Savings Staff for radio programs now running in the interest of War Savings Bonds.

1. We have a thirteen week contract with the Blue Network for a one-hour program entitled, "Over Here". The total contract cost is not to exceed \$78,000, and includes the cost of the script, and the union scale for musicians, actors and writers.
2. We have a twenty-six week contract for a half hour program entitled, "Bondwagon" with Station WOR, Newark, New Jersey. The cost is approximately \$500 per program and expenditures are being made for the same items listed above.
3. We are now producing an average of three "Treasury Star Parade" transcriptions each week. Each of these cost approximately \$1500, or a total of \$4500 per week. Again, these expenditures are for the items listed above, and for stamping of sufficient records to cover distribution to radio stations.
4. We are now making transcriptions of "Treasury Song Parade" which are recordings by popular singers with messages promoting War Bonds and Stamps included. We have made 120 such programs, 8 programs being on each record, or a total of 16 records to date. The cost at this time has been \$32,000. I understand from Mr. Callahan that we have received more favorable comments from the radio stations on these recordings than any other thing we have furnished heretofore.
5. There are many programs promoting War Bonds and Stamps which are given to the Staff at no expense, such as, the present programs on Saturday and other nights during the week of the orchestras of Horace Heidt, Alvino Rey, Little Jack Little and Tommy Dorsey.
6. I also understand that there is under consideration by Mrs. Morgenthau and Professor Welch, a series of transcriptions entitled "Golden Eagle". We have spent to date \$1200 for four transcriptions which are being used now for experimental purposes to determine if this series would be beneficial.

*See Mrs. Morgenthau
 re: nothing of
 it.
 J.M.S.*

*Personal
in H.M. file*

December 23, 1942

Dear Irv:

I am glad to learn from you that the "Message to the American Farmer" and our War Bond booklet are not missing R.F.D. boxes up your way.

I appreciate your good words about the theme of the message. Farmers are already finding that War Bonds make a good place to store their cash crop, so I feel confident our seed is being planted in fertile soil.

Merry Christmas and all the other good wishes of the season to you and yours.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Irving W. Ingalls,
American Agriculturist,
Savings Bank Building,
Ithaca, New York.

FK/cgk

File in Diary

December 23, 1942.

Dear Irv:

I am glad to learn from you that the "Message to the American Farmer" and our War Bond booklet are not missing any R.F.D. boxes *up your way.*

I appreciate your good words about the theme of the message. Farmers are already finding that War Bonds make a good place to store their cash crop, so I feel confident our seed is being planted in fertile soil.

Merry Christmas and all the other good wishes of the Season to you and yours.

Sincerely,

Mr. Irving W. Ingalls,
Advertising Manager,
American Agriculturist,
Savings Bank Building,
Ithaca, New York.

DEC 22 1942

297

AMERICAN AGRICULTURIST
The Farm Paper of the Northeast

ADVERTISING DEPARTMENT—BOX 514

SAVINGS BANK BUILDING, ITHACA, N. Y.

December 17, 1942

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

Dear Henry:

Your down-to-the-earth letter—
A MESSAGE TO THE AMERICAN FARMER—together
with the War Bond booklet found its way to
the R.F.D. box on my farm at Trumansburg.

Your theme "Victory must be
planted like any crop and it takes many tools
to cultivate it, too" says a whole lot
quickly. I am sure this letter will really
register with farmers in this section and
keep them buying War Bonds to the limit.

With the Season's Best to you and
yours.

Sincerely,
AMERICAN AGRICULTURIST

Irving W. Ingalls
Irving W. Ingalls
Advertising Manager

IWI:MM

December 23, 1942.

My dear Mrs. Reid:

Mr. George Wanders is now returning to you after his tour of duty here with us. Mr. Wanders was most helpful in preparing the publicity for the Victory Fund drive, and I can't begin to tell you how much we appreciated your lending him to us. He is an extremely able and patriotic gentleman.

Sometime in March we will start our next Victory Fund drive, and I sincerely hope that you will let us have him to assist us in a similar manner at that time.

Again thanking you for the loan of Mr. Wanders and wishing you a very Merry Christmas and a Happy New Year, I remain

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Ogden Reid,
New York Herald Tribune,
New York, New York.

CC in Diary

NEW YORK
Herald Tribune

December 28, 1942

Dear Mr. Secretary:

It was a pleasure to hear that all had gone well with Mr. Wanders' work for you in the Treasury and we are extremely glad to have him back. When you know more definitely about the time when you will need him in the spring we shall appreciate having a little notice so that we can plan ahead.

With very many thanks for your letter and the best of wishes to you and Mrs. Morgenthau for a better New Year, I am

Sincerely yours,

John Royce Reid

The Hon. Henry Morgenthau Jr.

TREASURY DEPARTMENT
COMPTROLLER OF THE CURRENCY
NAT BANK EX SAL & EXP

DAY LETTER DECEMBER 23, 1942

HONORABLE PRENTISS M. BROWN,
ST. IGNACE, MICHIGAN.

IN ACCORDANCE WITH THE REQUEST CONTAINED IN YOUR TELEGRAM OF DECEMBER 21, CAREFUL REVIEW HAS BEEN MADE OF THE DECISION DENYING THE APPLICATION OF THE MICHIGAN NATIONAL BANK FOR BRANCHES IN DETROIT AND BAY CITY. I VERY MUCH REGRET THAT WE CAN NOT MEET YOUR WISHES IN THIS MATTER BUT BE ASSURED IT IS NOT BECAUSE OF ANY LACK OF APPRECIATION OF YOUR CONTRIBUTIONS TO THE PUBLIC SERVICE. STOP. OUR POSITION BOTH AS TO DETROIT AND BAY CITY FOLLOWS PRECEDENT IN THE OFFICE OF THE COMPTROLLER OF THE CURRENCY AND RESTS UPON SOUND BANKING PRINCIPLES. EXISTING BANKING FACILITIES IN DETROIT ARE ADEQUATE. THIS CITY HAS THE SERVICES OF TWELVE BANKS WITH ONE HUNDRED OFFICES AMPLY SUFFICIENT TO MEET THE REQUIREMENTS OF CREDIT AND OF COMPETITION. STOP. IN REGARD TO RELEASE OF CLOSED BANK DEPOSITS IN BAY CITY THESE DEPOSITORS HAVE ALREADY RECEIVED 75 PER CENT OF THEIR CLAIMS AND IT IS OUR OPINION THAT IT IS PREFERABLE TO PRESERVE THE INDEPENDENT STATUS OF THE NATIONAL BANK OF BAY CITY RATHER THAN TO PERMIT ITS ABSORPTION AS A BRANCH EVEN

SHEET No. 2

AT THE EXPENSE OF SOME FURTHER DELAY IN LIQUIDATION.
AN ADDITIONAL FACTOR IN OUR DECISION IS THAT THE WHOLE ISSUE
OF EXPANSION OF BRANCH BANKING IN MICHIGAN WILL BE PRESENTED
TO THE MICHIGAN STATE LEGISLATURE WHICH MEETS ON JANUARY 6,
1943. ~~OBVIOUSLY THE APPROVAL OF THESE BRANCHES AT THIS TIME
WOULD BE OPEN TO CRITICISM.~~

H. MORGENTHAU, JR
SECRETARY OF THE TREASURY

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WU67 327 (SUBJ TO CORRECTION 326)

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HON HENRY MORGANTHAU

SECY OF THE TREAS

DEAR MR SECRETARY I AM GREATLY DISAPPOINTED AND ~~DISCOMFORTED~~ DISTURBED ABOUT THE DECISION IN THE BRANCH BANK MATTER. STOP THERE IS A PARAMOUNT PUBLIC INTEREST IN THE BAYCITY MATTER IN THE RELEASE OF LONG HELD CLOSED BANK DEPOSITS AND IN THE CONTINUANCE OF ADEQUATE BANK FACILITIES STOP IN THE DETROIT CASE IT HAS PUBLIC ~~APPEAL~~ APPEAL OF GREAT CONCERN TO DEPOSITORS AND BORROWERS STOP. THE TWO LARGER DETROIT BANKS ARE OWNED BY TWO GREAT CORPORATE GROUPS THEY ARE WELL MANAGED BUT ADEQUATE COMPETITION IS VITAL IN THE PUBLIC INTEREST STOP I ~~AM NOT~~ THINKING OF BANKER INTERESTS BUT OF THE CUSTOMER INTEREST STOP I VENTURE TO SAY I KNOW MICHIGAN AND ITS FINANCE STOP I KNOW THIS ASSENT ON YOUR PART TO A RIGHT GIVEN BY STATUTE AND ASSENTED TO BY YOUR DEPARTMENT IN MANY OTHER CASES SOME AS LATE AS

END SHEET 1.

H. P. ...

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WJ67 SHEET 2 STIGNAC MICH HON HENRY MORGANTHAU

THE LAST FEW WEEKS ACCORDING TO THE AMERICAN BANKER MAGAZINE
VERY CLOSE TO CALIFORNIA WILL BE IN THE PUBLIC INTEREST STOP
THE OPPOSITION COMES FROM THOSE WHO ARE THE PRESIDENTS BITTER
ENEMIES STOP ENEMIES OF BOTH HIM AND HIS PROGRAM STOP THERE
IS STILL TIME STOP THE DELAY HAS NOT BEEN ON THE ~~APPLICANTS~~
APPLICANTS PART BAYCITY WAS REQUESTED LAST MAY DETROIT LAST
SEPTEMBER STOP THE FIRST NATIONAL RECEIVERSHIP WAS CLOSED AFTER
MONTHS OF EFFORT ON MY PART AGAINST OPPOSITION IN THE DEPARTMENT
DUE TO A FEELING THAT THE PUBLIC WOULD NOT APPROVE STOP SINCE
THAT SALE THERE HAS BEEN ABSOLUTELY NO PUBLIC AND SO FAR AS
I KNOW NO PRIVATE COMPLAINT THERE HAS BEEN THE WIDEST PUBLIC
APPROVAL STOP MY JUDGMENT WAS PROVEN IN THAT CASE IT WILL BE
IN THIS ONE STOP YOU HAVE BEEN GOOD ENOUGH TO COMMEND SOME OF
MY PUBLIC SERVICE STOP IN THIS MATTER I AM SURE THAT MY LAST
REQUEST OF YOU AS A SENATOR IS ON THAT SAME PLANE OF THIS
PUBLIC INTEREST STOP I RESPECTFULLY URGE RECONSIDERATION AND
APPROVAL IT IS VITAL I SHOULD HAVE YOUR REPLY BY WEDNESDAY

PRENTISS M BROWN.

621PM.

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WASHINGTON

December 23, 1942.

Dear Mr. Secretary:

Just a note of Christmas greetings and best wishes for the New Year with congratulations on the outstanding performance of the Treasury Department in 1942. Your work is a very vital part of our war effort, and I speak for the entire Army in thanking you for your strong support.

May the New Year bring you even greater successes.

Faithfully yours,

A handwritten signature in dark ink, appearing to read "William H. Taft". The signature is fluid and cursive, with a large loop at the end.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.