February 27, 1943
9:20 a.m.

FINANCING

Present: Mr. Bell
Mr. Graves
Mr. Buffington
Mr. Odegard
Miss Elliott

H.M.JR: What I wanted to ask of the War Bond crowd was whether you were satisfied with the telegrams that came in from the State chairmen or State administrators.

MR. GRAVES: I thought they were very good. Did you see them?

H.M.JR: No, I haven't had a chance to see them.

MR. GRAVES: With one or two exceptions, there was a complete approval on the part of the War Savings people of this program, and those one or two exceptions, I think, were not quarreling with the thing, but with some of the details. For instance, our people in Rhode Island referred to the days of Roger Williams and said they seceded from Massachusetts once and didn't like to be put back under Massachusetts. But, there was almost unanimous acceptance of this other part of War Savings.

H.M.JR: Any loose--

MISS ELLIOTT: I don't quite agree with that, Mr. Graves.

H.M.JR: All right, where do you--

MISS ELLIOTT: There were about nineteen who said yes without reservation - made no comments. About four had very definite reservations to violently oppose -

Regraded Unclassified
Mr. Clement of Alabama, and Mr. Clark of Iowa. Then there were about four or five that had - they accepted it with very definite reservations.

When I got through reading them, I had the definite feeling that it was imperative that underneath it all there ran through them, as I read them and thought about it, Mr. Graves, the feeling that it would be extremely easy to create the feeling in these administrators that this might destroy the War Savings Staff program.

Now, those telegrams that said, "Yes," said, "We will cooperate." Then I went back through them again and listed them, and there were so many that had reservations with that word cooperate that I had the feeling that it was awfully important that these administrators get assurance that there is no intention in any way in this plan of destroying the War Savings Staff. Those who were violently opposed brought that up.

MR. GRAVES: You have seen some telegrams that I haven't then. I saw no telegram from Mr. Clement.

MR. ODEGARD: You saw the Clark one?

MR. GRAVES: No.

MR. ODEGARD: That was the only decidedly unfavorable one.

H.M. JR: Harold, if you don't bring it to my attention--

MR. GRAVES: I don't know where these telegrams have gone. I assumed they had all come to me. I did not see that one or Mr. Clark's.

MISS ELLIOTT: I saw these late yesterday afternoon.

H.M. JR: I had Mr. Bell's office send them up to Miss Elliott.

MR. GRAVES: They have not come to me. I have seen no telegram from Alabama or Iowa.
MISS ELLIOTT: I got very well acquainted with Mr. Clement in Alabama, and he is really violent on the subject. He wrote a very long telegram. There were nineteen of those that said yes.

H.M., JR: What about - leaving Mr. Clement out, what about the others?

MR. ODEGARD: The only wires I saw were those in your office, Harold, and there were only one or two that seemed to me at all unfavorable.

MR. GRAVES: That is right. Apparently there are some telegrams that have come here that have not come to me.

MR. BELL: That is the way I read them.

H.M., JR: Have you got them under your arm now?

MISS ELLIOTT: Yes, sir.

MR. BELL: I haven't read them all, but the ones I did read I thought were very cooperative.

MISS ELLIOTT: I read all of them, and teacher-like I took them down and listed each one under the heading of the State. Then I made a summary of the yes's, no's, and the reservations, as one would do.

MR. BELL: I don't think they are all in.

MISS ELLIOTT: The States not in are Northern California, Connecticut, Ohio, Texas, and Alaska and Washington, D. C.

This is just a brief summary. Nineteen just said, "Yes, we will cooperate." Four want F and G bonds back. They are willing to go into this, but they want the F and G bonds back, and gave a very definite reason for it.

Four stated that they would go on and that it wouldn't make any difference in their plans, apparently,
because they have been working together. They have worked as a unit anyhow. I was surprised to see Mr. Griffith in Kansas make that statement.

Then, Indiana recommends that this be adopted for the duration, and I would interpret their telegram to mean that we would abolish the War Savings Staff’s continuous program, except pay-roll savings, and go into this kind of program permanently.

MR. ODEGARD: Mr. Fleming?

MISS ELLIOTT: No, Mr. Pulliam.

The Vermont man and one other believe that this procedure will definitely kill the War Savings plan. One interpreted it to mean that the War Savings plan not only will do it, but it just automatically is going out, and that this a complete reorganization and change.

Only one definitely states that we ought to make it clear, but these other imply that the War Savings Staff will go on.

Then the one, that is Mr. Clement of Alabama, is just completely and absolutely and violently opposed to it.

H.M.JR: Who can I look to in the War Savings Staff besides Miss Elliott who is going to analyze these telegrams and then do something about it?

MR. GRAVES: I should, of course.

H.M.JR: It seems so to me.

MR. GRAVES: I apparently have been by-passed as to some of these telegrams.

H.M.JR: Outside of the one - there is only one other that you haven’t seen?
MISS ELLIOTT: I would think there are a good many he hasn't seen.

MR. ODEGARD: I saw them all in there, and I don't think there were more than half a dozen that I saw all together.

MR. GRAVES: I have seen more than that.

These telegrams have come to you?

MR. BELL: No, they go to Gamble, are distributed to you fellows, and then wind up--

MR. GRAVES: Where?

MR. BELL: ... they merely wind up in my office after the War Savings Staff has seen them.

MR. GRAVES: I had better collect them, Mr. Morgenthau.

H.M.JR: It seems so to me.

MR. BELL: The Secretary asked my secretary to get them in a folder after they had been seen.

MR. GRAVES: There were two sets of telegrams; one went out - the one you are talking about - over your signature. Then I sent out one over mine; and perhaps the ones that I have seen, that were, without exception, favorable, were the ones answering my own telegram.

H.M.JR: Well--

MR. GRAVES: I will get them.

H.M.JR: I can't read them all; it is impossible. I don't have the time. But, I called this meeting because I sensed that they couldn't all be favorable. Therefore, I asked you - that is what I am asking you to do - I asked Miss Elliott yesterday afternoon whether she had seen them, and she said that she hadn't, so I asked Mr. Bell to send
them up to her. I want them kept in one place so that whenever I want them they are there. It seems to me you had better get busy this morning.

MR. GRAVES: I will get them.

MR. BELL: That is one from Tom Hughes. That came in last night. (Telegram handed to the Secretary.)

H.M.JR: Of course he never should have been appointed.

MR. BELL: While he is against it, he says that if the decision is made he will cooperate.

H.M.JR: He should never have been appointed.

MR. BELL: There is one telegram I recall seeing that recommended to the Secretary that he reverse the process and put the whole matter of selling securities under the War Savings Staff instead of under the Federal Reserve setup.

MR. ODEGARD: Who is that?

MR. BELL: I don't remember the name. That may have been Iowa.

MISS ELLIOTT: Three, I think, were willing - feel it is necessary to have this for the April drive, as I interpreted their messages. They feel that it is imperative to put the whole program under, insofar as the details within the State - not set up a Treasury War Finance Committee in the State, but let that go through the State administrator's office and use the same facilities and all work together there, but let the direction come from here as to the way they will work together, which seems to me is a very good idea if we are not going to have conflicts in the States.

I feel very definitely, Mr. Secretary, after reading these telegrams and thinking about them a long time, that it is almost imperative that the State administrators have some absolute assurance that this is not developing a
trend in the direction of abolishing War Savings. I think it is going to be easy to get that across to them.

H.M.JR: Well, I don't want to say anything more, but, I mean, a meeting like this shouldn't have to take place. I have to push you fellows to look after your own State chairmen and State administrators.

MR. ODEGARD: Mr. Secretary, none of this material has ever come to me, either in routine--

H.M.JR: Look, I can't be office boy around here, and I am not going to be office boy. I mean, I am fed up on being office boy around here. I have Harold Graves, I have you (Odegard), and I have Gamble. You are all vocal, you all have your feet, you all can get around. There is a telegraph room. I am not going to deliver the telegrams personally. They are there, and I cannot be office boy.

MR. ODEGARD: That is quite right, sir.

H.M.JR: I just can't do it. I knew something was wrong, and I am not going to have this thing crumble under me because somebody doesn't want to get busy.

Now, if you want to see this thing crumble, O.K., but please tell me.

MR. GRAVES: I certainly am the last man to want to see it crumble, Mr. Morgenthau. I want anything but to see it crumble.

H.M.JR: All right.

MR. GRAVES: I supposed that Mr. Bell was showing you these telegrams.

H.M.JR: My gawd, if I can get them from Mr. Bell's office and if Peter wanted to see them you can ask for them, Peter, just the way I do.

MR. ODEGARD: That is right.
H.M. JR: I mean, you can come back at me - it is only fair. You could take the initiative and say, "Where are those telegrams?" You knew they went out. You collaborated in writing them. You knew they would be back Thursday, and here it is Saturday.

MR. ODEGARD: That is right. I did see some of them. I didn't see all of them.

H.M. JR: I mean, let's all call a spade a spade. If there is a movement here right under my feet to let this thing crumble because it isn't going to be looked at, I am entitled to know it.

Now, what about it, Harold?

MR. GRAVES: There is no such movement.

H.M. JR: Harold, you are sitting there not doing anything about it.

MR. GRAVES: I didn't know you wanted me to do anything about it.

H.M. JR: What is the purpose of sending them out?

MR. GRAVES: As I said, they were in Mr. Bell's hands. I assumed he would be showing you these telegrams.

H.M. JR: I mean, the purpose of sending them out is to give these fellows a chance to come back at me - come back at you. And now they have come back, and of course, some of them are dissatisfied. There is the question of explaining it. I have been working with Bell on these bank presidents. They misunderstood something, and we got busy and we have taken care of it - we explained it. But we have asked you (Buffington) what your people - if there was anything to do, and you told me it was all right, didn't you?

MR. BUFFINGTON: Yes.
H.M.JR: Have you seen your telegrams?

MR. BUFFINGTON: Yes, sir.

H.M.JR: Is anybody there, George, that shouldn't be--

MR. BUFFINGTON: I beg your pardon?

H.M.JR: Is there something that I should do?

MR. BUFFINGTON: There are one or two still interested in not having the committee operation - would prefer having it with no committee formalized, but they all understand you decided that.

H.M.JR: If I am unfair, damn it, come right back at me, but this is serious stuff. I mean, you people keep telling me we have taken so long to build it up and here it is - all right, a telephone call from one of you three people here, including Gamble, or if necessary, a telephone call from Bell, can explain some of this. That is all I have been doing for two weeks. But unless somebody brings it to my attention and rubs my nose in it, I don't see why I should have to take the initiative.

MR. BELL: Apparently there is a misunderstanding along the route because I haven't read them all. I tried three times to read them and haven't gotten through them. I assumed they were being analyzed by either you (Graves) or Gamble, and then they were coming to me for holding until such time as the Secretary might want to call for them. Apparently that hasn't been done.

H.M.JR: Where do we go from here?

MR. GRAVES: I will get these telegrams from Mr. Bell and make an analysis of them.

H.M.JR: I would like Peter, if you would read them please.
MR. ODEGARD: I would like to very much.

H.M. JR: And Gamble read them.

MR. GRAVES: I suspect he has.

H.M. JR: And Miss Elliott read them, and then if you would do something about them today; and then if you need me, or need Mr. Bell, I am available. But don't let's let this thing crumble because nothing is done about it.

Am I unfair, Harold?

MR. GRAVES: Well, no, except that, as I say, I assumed that Mr. Bell was going to take up with you all the answers to your telegrams.

H.M. JR: Well, I don't want to go over it again, but I can't understand why you and Odegard - Peter - should assume that.

Now let's - so that the responsibility for seeing that these men and women are kept happy rests first with you (Graves) and then also with Peter and Miss Elliott and Gamble. Right?

MR. GRAVES: Right.

H.M. JR: Will you four people accept it?

MR. ODEGARD: Sure. We will try to keep them happy.

H.M. JR: Well, I mean, I am here - I am available. You can go after me.

MISS ELLIOTT: Mr. Secretary, may I ask this question here, to clear up one thing. I think I understand it perfectly. There is nothing in this plan or in this move, and so forth, that in any way ought to be interpreted as a move to destroy War Savings Staff?

H.M. JR: Let me answer that.
MISS ELLIOTT: I mean the policy of the voluntary savings program - the whole fundamental policy.

H.M.JR: I will attempt to answer it, and you keep questioning me until you say you are either satisfied or not satisfied.

This is what is in my mind; I think I have told you people - if I haven't, I have been neglectful - that I was looking for somebody to come in here to help us at the top - who would head up this thing under Bell and me. I think I have such a person; I will know Monday. We were going to combine these two organizations for the April drive under complete authority in the field of the presidents of the Federal Reserve Banks who would be responsible to me. To one side would be pay-roll deduction, but in the field for this drive, each of the presidents of the Federal Reserve would be the boss in his district. What we are going to do after April, I don't know.

Now, one of the reasons that I don't know, is that I don't know what is going to happen to compulsory savings. I don't know what is going to happen to deduction-at-source. But I do want, and I feel that there is room in the United States for a volunteer plan of buying bonds.

MISS ELLIOTT: That is what my question implied; whether or not--

H.M.JR: And my own feeling is that even though there is deduction-at-source, even though there is compulsory savings, there still will be a place for a volunteer plan. As somebody was talking to me last night - I can't remember who it was - he was saying - they were explaining to some Frenchmen, or something, that there were fifty million people in this country that bought bonds on a volunteer basis, and they said if that could be gotten across to the people in Europe - I know who it was - it was the financial advisor to the Papal delegate - Sullivan was telling me - or Swiss. He was telling him,
and he wouldn't believe it was so. He was asking, "Wouldn't there be repudiations--" and all that. How can there be when there are fifty million people? He said, "If that could be gotten across, nothing would convince them as to the solidarity of America as much as that." He said he mentioned it around - Sullivan - but he hadn't gotten anywhere.

All I can tell you is I still believe in it. I am trying to do an organization job because we have such a tremendous selling job. I still think there will be a definite place - and should be a definite place - for volunteer buying of bonds.

If I haven't satisfied you, you question me as much as you want.

MISS ELLIOTT: That is the answer I wanted, because there are some people who interpret a change of this - and some of these telegrams indicated that - that is why I think it is imperative that it be understood that you still feel that as a Treasury policy we should have this voluntary savings program, now. Of course, what Congress will do, that, of course, is in the lap of the gods. Nobody knows what they may do as far as legislation is concerned.

H.M.JR: I have said that consistently, and Harold knows, I was very hesitant to have the Kansas City meeting - I can't remember the date of that--

MR. GRAVES: October 26.

H.M.JR: On account of what might happen, and I wanted to be fair. I was very reluctant to have it as far back as that, because I said, "I don't know whether it is fair to go out and talk to these people." When I came over to talk to the women I was reluctant because I didn't want to tell them one thing and have something else happen.
But the only reason I got excited and angry this morning was, I think it would be the best answer to anybody, because, damn it, I want to keep the War Savings organization going and I get mad when I see that the people are dissatisfied and you top people don't do something about it.

Now, how could you get - if I didn't feel that way, why would I get angry? If I didn't care, I wouldn't get angry. It seems to me that my own spontaneous response this morning to what I considered was neglect is the best answer that you get that I want to keep the organization going. If I didn't care, I wouldn't get angry.

Is that a good interpretation, psychologically, or is it not?

MR. ODEGARD: I think that is very reasonable.

H.M.JR: Sincerely, I mean, if my innermost--

MR. ODEGARD: Certainly, if you didn't give a damn--

H.M.JR: If my innermost thoughts weren't that I wanted to keep it, would I have gotten mad?

MR. ODEGARD: I shouldn't think so.

H.M.JR: And my stomach hadn't dropped, either - I mean, that is my spontaneous answer. I don't know how I could give you a more honest response. I don't want the thing crumbling between my fingers.

So that is that. If you would get them all - I don't know how they are routed - for a while everything went to Mr. Gamble. I don't know, but certainly they are available if they are asked for.

MR. GRAVES: I will get them.
Alabama: J. H. Lyons (Wire answered by Marc Clement)
Absolutely opposed. Sees in this plan the destruction of the War
Savings Staff program. Advises about the same procedure as was
followed in December, 1942. (I have great admiration for Mr.
Clement. I believe he is a real liberal. He believes in the
voluntary program. On a recent trip to Alabama, I learned that
he fears the influence and power of certain financial leaders.
His opinions are worth more than the ones from Administrators who
seem merely to agree - without analysis.)

Alaska: Ernest Gruening
No reply.

Arizona: William Stuart
Received message. No comment.

Arkansas: R. G. Paschal
Yes. No analysis.

Northern California: James G. Smythe
No reply.

Southern California: Howard D. Mills
Yes. Enthusiastic.
Thinks F and G Bonds should be returned to War Savings
Staff. Needs these Bonds during interim - which
indicates that he thinks the War Savings Staff program
will be continuous.

Colorado: Ralph Nichols
Yes. Two agencies have been working as a unit.

Connecticut: Thomas Hewes
No reply.

Delaware: Donald Ross
Yes. Promises complete cooperation.

District of Columbia: H. L. Rust
No reply.

Florida: John L. Fahs
Yes. Desires that F and G Bonds be restored to the War Savings Staff.
### Alabama: J. H. Lyons (Wire answered by Marc Clement)
Absolutely opposed. Sees in this plan the destruction of the War Savings Staff program. Advises about the same procedure as was followed in December, 1942. (I have great admiration for Mr. Clement. I believe he is a real liberal. He believes in the voluntary program. On a recent trip to Alabama, I learned that he fears the influence and power of certain financial leaders. His opinions are worth more than the ones from Administrators who seem merely to agree - without analysis.)

### Alaska: Ernest Gruening
No reply.

### Arizona: William Stuart
Received message. No comment.

### Arkansas: R. G. Paschal
Yes. No analysis.

### Northern California: James G. Smythe
No reply.

### Southern California: Howard D. Mills
Yes. Enthusiastic. Thinks F and G Bonds should be returned to War Savings Staff. Needs these Bonds during interim - which indicates that he thinks the War Savings Staff program will be continuous.

### Colorado: Ralph Nichols
Yes. Two agencies have been working as a unit.

### Connecticut: Thomas Hewes
No reply.

### Delaware: Donald Ross
Yes. Promises complete cooperation.

### District of Columbia: H. L. Rust
No reply.

### Florida: John L. Fahs
Yes. Desires that F and G Bonds be restored to the War Savings Staff.
Georgia: Marion Allen
Received message. No comment.

Hawaii: Fred H. Kane
Yes. (P and C Committee out there - not a Victory Fund Committee)
Better means of communication should be worked out with them.

Idaho: John R. Viley
Yes. No analysis.

Illinois: Norman B. Collins
Yes. (Calls attention to fact that President of Federal Reserve
is not in favor.)

Indiana: Eugene C. Pulliam
Yes. Wants plan adopted for all financing for the duration.
Message seems to indicate that he is not in favor of continuous
War Savings Staff program. Payroll Savings will continue without
a War Savings Staff promotion program.
Advises that this is the opinion of the entire War Savings Staff
in the Indiana office.

Iowa: Vernon L. Clark
Will cooperate, but not in favor of plan. Believes it will kill the
Iowa state program in War Savings Staff.
Wants Victory Fund Committee and War Savings Staff both under his office.
Victory Fund Committee - sell special issues.
War Savings Staff - sell E, F and G Bonds.
(His opinion is valuable. One of the best organized states in the War
Savings Staff. It would be a great blow if voluntary savings were
discontinued. Clark and his associates have done an excellent
educational and selling job in Iowa.)

Kansas: Evan Griffith
Yes. Two agencies have been working together. Suggests AAA and
other farm organizations on the committee.

Kentucky: Ben Williamson
Yes. No analysis.
Louisiana: Leon G. Tujague
Yes. No comments except willingness to cooperate.

Maine: Clinton Clauson
Yes. Will cooperate. No analysis.

Maryland: Walter Ruth
Yes. No analysis.

Massachusetts: D. J. Doherty
Will cooperate in April. Thinks it imperative to make it clear that War Savings Staff will continue to be directed by the State Administrators of the War Savings Staff.

Michigan: Frank N. Isbey
Yes. No analysis.

Minnesota: Arthur Reynolds
Yes. No analysis.

Mississippi: Eugene Fly
Yes. Desires E, F and G Bonds allocated to War Savings Staff.

Missouri: Dan Nee
Yes. No analysis.

Montana: W. H. Bartley
Yes. Gives approval of plan.

Nebraska: Leon J. Markham
Will cooperate. Message indicates he thinks that this is intended as a plan to kill War Savings Staff. Critical of plan. Does not think volunteers can or should sell special securities. Does not think Victory Fund Committees would sell E Bonds. Not interested. In reality, he favors December plan.

New Hampshire: Winthrop Carter
Yes. Believes the new set-up will help War Savings Staff Program.
New Jersey: John E. Manning
Yes. No analysis.

New Mexico: Steven P. Vidal
Yes. But state should be under one Federal Reserve Bank President.

New York: R. C. Patterson, Jr.
No comment. Recommends Walter Gifford National Sales Director.

North Carolina: Charles H. Robertson
Yes. No comments, except preparing lists to put plan into operation.

North Dakota: R. R. Wolter
Yes. No analysis.

Ohio: Roy D. Moore
No reply.

Oklahoma: H. C. Jones
Yes. No analysis.

Oregon: David Eccles
Yes. No comment except willingness to cooperate.

Pennsylvania: Benjamin Ludlow
Yes. No analysis except general agreement with plan.

Rhode Island: Roderick Pimrie
Believes in unified command. Wants a state War Finance Committee - not regional. Opposes having Federal Reserve Bank President direct Rhode Island (State Rights). No conflict in Rhode Island between War Savings Staff and Victory Fund Committees.

South Carolina: W. P. Bowers
Yes. Will cooperate. No analysis.
South Dakota: Charles A. Christopherson
Yes. Will cooperate. No analysis.

Tennessee: Jo Gibson, Jr.
Yes. Seems confused, since he states they will continue E Bonds and Payroll Savings program.

Texas: Frank Scofield
No reply.

Utah: Charles Mabey
Yes. No analysis.

Vermont: Fred C. Martin
Will go along with plan. Is confused. He thinks this means abolishing War Savings Staff program.

Virginia: Robert F. Nelson
Yes. Two agencies have been working as a unit. In April campaign, E Bonds should be emphasized.

Washington: Saul Haas
No reply.

West Virginia: E. R. Mowbray
Received message. No analysis.

Wisconsin: Frank Kuhl
Yes. Have been working as a unit. War Savings Staff and Victory Fund combined.

Wyoming: A. E. Wilde
No reply.
A. Affirmative answers:

19 - Agree with plan, but give no indication why they agree. If these people should hear that some people think the War Savings Staff might be destroyed by this change in technique, I am not sure what their answers would be.

B. Affirmative answers with reservations and comments:

4 - Agree to plan, but desire F and G Bonds given back to the War Savings Staff.

4 - This will not change their policy, since they have united with Victory Fund Committees in the financing work.

1 - Agrees, but wants this April plan to be permanent.

1 - Will cooperate, but believes it means the destruction of the War Savings Staff program.

2 - Agree, but believe it will kill War Savings Staff program.

1 - Agrees, but interprets the plan to mean that the War Savings Staff is abolished.

1 - Agrees, but thinks the Secretary should make it clear that the War Savings Staff is to continue.

C. Negative:

1 - Absolutely opposed to plan.

D. No opinion:

2 - Simply acknowledge receiving the message.

E. No messages from:

Northern California
Connecticut
Ohio
Texas
Washington
Alaska
District of Columbia

These are very important states. Their reasons for not answering should be known.
The number agreeing without analysis is not encouraging to me. I fear that they are yes people and have not really thought this through. I would give more weight to their statements if they had given reasons for their answers.

We should not ignore the replies with reservations. These men should be brought into Washington for a conference. For example, Mr. Clark, who has done one of the best organizing jobs in the country, may see dangers in this that are real. These men are nearer to the public than we are, and they know what the effect on the morale of the people would be if suddenly they learned that the voluntary program is dead.

I would give more consideration to the opinions of Clark and Clement than I would to Pulliam. Clark and Clement are willing to do a hard job, and they believe in the War Savings Staff policy. I have never thought that Pulliam did believe in it.

I continue to think that it should be made perfectly clear to the War Savings Staff officials in the states that the Treasury has two financing programs—one to secure the necessary billions for war expenses, and the other to spread the debt and to give millions of people an opportunity to assist (according to their ability) in financing the war. Also an opportunity to build up a reserve for the future. It should be made clear that both programs will be continued (unless Congress kills War Savings Staff) and that this change in technique does not mean that the Treasury plans to drop the War Savings program. In my opinion, it will be a very easy thing to spread the fear that the people are to be deprived of the opportunity to buy Bonds.

There is a growing feeling in the Washington staff that the War Savings program is to be abandoned. This can be controlled if they are assured that while it may be necessary and expedient to change the machinery of procedure, that this does not mean that the Secretary of the Treasury desires to kill the War Savings program.

I think it is important for us to remember that these messages have come from men who have not had the benefit of all the discussion which has been going on here in the Washington office.
February 27, 1943
11:59 a.m.

HMJr: Hello.
Operator: Nelson Rockefeller.
HMJr: Hello.
Nelson Rockefeller: Hello, Mr. Secretary.
HMJr: Hello, Nelson.
R: How are you today?
HMJr: Fine.
R: Good. I called back to let you know that after some very nice talks on the phone with Mr. Welles and Mr. – and the Ambassador, Spruille Braden....
HMJr: Yes.
R: ....that we got our men off last Tuesday. They're down in Cuba now....
HMJr: Oh, really?
R: ....working on this situation, and we should have a report for you, with the whole thing pretty well crystallized, by early next week.
HMJr: Oh, you sent somebody down?
R: Oh yeah, we've got two men down there; left here Tuesday; and they've been there now three or four days.
HMJr: Wonderful.
R: So that we're going to have this, and I want you to know how much we appreciate your interest and help in it.
HMJr: Well, if - if something comes out of it, you and I'll have to talk - go down there and take the first sailboat ride.
R:  (Laughs) Boy, and there're a lot of times when I'd like to be in a sailboat too. (Laughs)

HMJr:  Can you get the engines?

R:  Well, I think we can. We first - we've - why, I hope we're going to get twenty engines of a little heavier horse-power though than for these boats. We're planning to build forty boats in Brazil.

HMJr:  Oh.

R:  Five hundred tons.

HMJr:  Well, that's good.

R:  And the Brazilians can make steam engines....

HMJr:  Oh.

R:  ....for twenty of them. They've got a production capacity down there - which they will use - and build them and use on our design but for their own account.

HMJr:  Will these be river craft?

R:  No, they'll be coastal boats.

HMJr:  Coastal boats.

R:  Yeah, coastal freighters that will do about ten knots.

HMJr:  Oh, wonderful.

R:  Which isn't bad. They're pretty - pretty handy and they can keep out of submarine danger by - by plying along the shore.

HMJr:  Well, keep me posted, will you?

R:  You bet I will. I just wanted you to know on this one, and - and thanks ever so much, and I'll let you know when these fellows come back. Perhaps you'd be willing to spend a minute or two....

HMJr:  I'd love to.
R: ....to get their report.

HMJr: I'd love to.

R: Okay.

HMJr: Thank you.

R: Thanks loads. Goodbye.
February 27, 1943
12:00 m.

FINANCING

Present: Mr. Bell
Mr. Graves
Mr. Gambie
Mr. Buffington
Mr. Odegard
Miss Elliott
Mrs. Klotz

H.M.JR: What I want to say is this: Graves and I had another talk, and he and I both misunderstood what the other person wanted. He felt when I had these people in here a week or ten days ago and told them to go ahead by groups, that he and Buffington would, so to speak, keep out of it.

You heard the explosion this morning, and I want you to get the aftermath now.

He thought he was to continue letting the people alone. That wasn't my understanding and I felt that I couldn't understand why he didn't pick up and help me with these people. He said he didn't understand that that was what I wanted. I can see where he thought that Bell was going to do this for me. So I can see where Harold could understand that, because I didn't specifically say, "When these people go back I want you to continue as is."

But we understand each other now, and I have asked Harold to feel it his responsibility, plus the assistance of the rest of you; that I am looking to him in the first instance to see that the War Savings organization gives me every possible assistance in selling these securities in April. And Harold said he would.

(Miss Elliott entered the conference.)
H.M.JR: I will go through it again. Graves and I had a talk since he was in here this morning, and Graves was under the impression that when I asked him and Buffington to leave these four districts alone when they came here ten days ago, and let them make up their own minds, that that order carried over and therefore he has scrupulously not talked to any of the State chairmen, to leave them alone to make up their own minds.

In my own mind, I was looking to him, after this telegram went out, for suggestions to see that these people were to be kept happy. We now understand each other perfectly, as we always have, and following my rule, I never let the sun set on any misunderstanding. I had him come in here. Now I have asked Graves that from now until the April drive is over, would he take it as his personal responsibility, and continue to take it as his personal responsibility, to see that the War Savings people help me put this April drive over. He has agreed to do it.

Have I stated it about right? Any amendments?

MR. GRAVES: No.

H.M.JR: I wanted you to get that because you got the other. I can see where we could misunderstand each other.

If there is anything out in the field, where anybody is sour, you will straighten them out, and so forth and so on.

MR. GRAVES: That is right.

H.M.JR: Now, having gotten back on the track with Graves, the same thing applies to you, George.

MR. BUFFINGTON: O.K.

H.M.JR: I don't know whether you misunderstood me or not.
MR. BUFFINGTON: I didn't misunderstand. I talked to every executive manager - not the presidents - having the feeling that Mr. Bell was keeping in touch with them.

H.M.JR: Harold and I had an honest misunderstanding. Now we are all right.

How about you, Peter? I mean, will you work?

MR. ODEGARD: I understood all along that the War Savings organization would do everything possible to facilitate the April drive.

H.M.JR: But how about - I want to count on you now.

MR. ODEGARD: You can always do that, Mr. Secretary.

H.M.JR: ... and Gamble - I am not asking you, Miss Elliott.

Graves has been responsible, and he is responsible, and will continue to be responsible for the War Savings staff to me, and you who are working with him, I hope, do likewise. But I mean, I have had the sort of feeling - I mean, there has been a sort of misunderstanding on this thing.

Then we will go through - we get this thing, when this man comes in - if he does come in - we expect him in Monday, and we will get that thing straightened out and have another talk. I don't want to bring up another thing; one thing is enough at a time.

Now, Harold, you are all right?

Mr. GRAVES: I am.

H.M.JR: Does anybody else have anything on his mind that will keep us from all putting our shoulders to the wheel and putting this drive over? If so, let's have it.
MR. BUFFINGTON: Will there be an opportunity Monday at this meeting of Fed presidents to clear in their minds how they will work for this period of the drive under this new leadership of this man?

H.M.JR: That is the whole thing.

MR. BUFFINGTON: Because they are all raising those questions.

H.M.JR: Who?

MR. BUFFINGTON: How this thing is going to work out for the combined functions of the two organizations.

H.M.JR: Well, these fellows are coming over here, these twelve presidents, to have lunch with me Monday, and certainly in the mind of Sprout it is straightened out. He is at last straightened out.

MR. BUFFINGTON: I haven’t talked to him.

H.M.JR: I have. I got a telegram from him. So is Hap Young.

MR. BELL: Williams, too.

H.M.JR: So they are all right.

MR. BUFFINGTON: You just said that Harold Graves had, and would continue to work with the War Savings Staff and report to you. How--

H.M.JR: Well, that wasn’t exactly - most likely it won’t be just like that.

MR. BUFFINGTON: The only reason for raising that question, I was thinking again of the position of these--

H.M.JR: It won’t be like that, but I wanted to get this thing straightened out. I mean, the office -
let's put it this way; whoever is attached to me - the Office of the Secretary of the Treasury - has got to look to somebody in the War Savings Staff to keep them going, and we are going to look to Harold Graves.

Now, if I take on new appendages, that is that, but he is part of the Office of the Secretary of the Treasury.

Mr. BUFFINGTON: The only reason I bring that up - to a man, they all say the time is getting awfully short, and there is a lot to be done; they are getting restless wanting to get the answer.

H.M.JR: Nobody knows it more than I. Nobody has worked harder than I, and we will set the date Monday. It may not be April 12. If they don't think they can get ready April 12, we will make it April 19. There is nothing sacred about April 12.

One of the things I will ask you (Bell) without our doing a banking thing first, how long can we go into April? I don't want to do that bank thing first; I think that is bad.

MR. BELL: You do?

H.M.JR: I don't mind doing it within the drive, but I don't want us to have a big issue outside of the drive.

MR. BELL: The way we planned it, it will be pretty well tied in. It will be before, but it would run right into the drive.

H.M.JR: I will see you Monday morning? Would you be ready?

MR. BELL: Yes. What we are planning to do is to have a meeting in my office at eleven o'clock, Monday morning with Bob Rouse, Piser, and George Haas, to go over the basket as to what we ought to do.
Then we thought that you ought to have an Executive Open Market Committee meeting Tuesday afternoon to get their views on it.

H.M.JR: Will they be here?

MR. BELL: Yes, they are going to be here. The Executive Committee will be here all day Tuesday. They have their elections Tuesday morning. It is their annual meeting.

Then after your luncheon Monday, I thought I would take the Federal Reserve presidents at two o'clock and go on for an hour; then you can take them at three, if that is what you planned.

H.M.JR: I have got this LeNoy Smith and Henry Bruere at three o'clock Tuesday. I can shift them around in the morning. That is all? You won't want me Tuesday morning? We will just shift this around.

MR. BELL: I won't--

H.M.JR: You won't need me Tuesday morning?

MR. BELL: Tuesday morning - it is Monday morning I am going to be--

H.M.JR: But you want me to take the Open Market Committee at three o'clock?

MR. BELL: Three-fifteen, if you can make it.

(Lt. Comdr. Stephens entered the conference.)

H.M.JR: When does that train go, if we go by train?

LT.COMDR. STEPHENS: Five-forty, sir.

H.M.JR: Do you want an Open Market meeting?

MR. BELL: I think you ought to have one.
H.M.JR: Then it will have to be two-thirty.

MR. BELL: I am trying to get everything down so you can make decisions on the points.

H.M.JR: This LeRoy Smith and Henry Bruere - who is LeRoy Smith?

LT.COMDR. STEPHENS: Bruere made the call. He is the president of the Investment Bankers, I think. I have a note outside. I think he is affiliated with the Mutual Banks.

MR. BUFFINGTON: Mutual Savings.

H.M.JR: Let's ask Bruere to let that go over for a week. Tell him that I am on financing and will be in much better shape to talk to him a week from Tuesday. Then have the Open Market at two-thirty.

(Lt. Comdr. Stephens left the conference.)

MR. BELL: I don't know whether you want to see the subcommittee of the ABA, which also advises you on market securities, or not, but that could go over until you get back.

H.M.JR: I am going out to Kansas for a breath of fresh air.

Now, is everybody all right? I am all right. Is everybody else all right?

MR. ODEGARD: I am a little puzzled about one thing - Mr. Graves will be very angry if I raise it - and that is the question of trying to resolve certain questions as soon as possible so that the promotional material, advertising copy, posters, and so on, can go forward; we are getting closer and closer to deadlines, which we will miss.

H.M.JR: He doesn't look angry. (Laughter)
MR. BELL: We have also got the same thing on the other side. We have posters and other things in the mill which this fellow will have to make some decisions pretty fast on, after he gets his feet under the desk.

MR. ODEGARD: I meant that, Dan, because we simply can't operate independently as two separate organizations on this because there is a limited amount of space, limited amount of time, and all the rest of it.

MR. BELL: Better get together next week on it.

H.M. JR: Well, if they find, after listening Monday and Tuesday, they haven't got time, we will postpone the thing a couple of weeks. I don't want to.

MR. BELL: I am ready to talk to you Monday morning any time between nine and ten if you want me to, just to give you a picture of the financial situation. I could do it in five minutes.

H.M. JR: You compliment me for my intelligence.

MR. BELL: No, I think it is rather simple. (Laughter)

H.M. JR: I am glad the ice is broken. We needed a laugh around here.

MR. BELL: If it weren't simple I couldn't give it to you in five minutes. (Laughter)

H.M. JR: Don't you people think that I haven't had to make up my mind on more decisions the last two or three weeks — and if I am wrong it is a hundred percent H.M. Jr. and I realize it. Don't think I haven't weighed these things carefully. But for better or worse, I had to make up my mind; but I never weighed anything more carefully, or worked harder on it.

Thanks for the laugh. (Laughter)
### FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

**Column A** shows Federal Reserve operations in millions of dollars as follows:

- **Market purchases** +
- **Market sales** –
- **Direct purchases from Treasury** +
- **Net increases** +
- **Net decreases** –

**Column B** shows price changes in 30ths for all securities except certificates. For certificates, Column B shows yield changes in decimals.

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### Table: Federal Reserve Operations

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<th>Monday</th>
<th>Tuesday</th>
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### Summary

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### Notes
- Office of the Secretary of the Treasury, Division of Research and Statistics.
- Original figures revised.
- **Less than 500,000.**
- **At purchase and sales recorded as of day of transaction and not day of delivery. Transactions after 6 p.m. are included in the next day.**
- **Transactions are entered as of the day following that to which they apply, since data are not available until the following morning.**
- **Note:** Data are rounded and may not add to the totals.
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**Note:** Data are rounded and may not add to the totals.
THE UNDER SECRETARY OF THE TREASURY
WASHINGTON
February 27, 1943

Memorandum on Meeting of the Joint Committee on Reduction of Non-Defense Expenditures Thursday, February 25, 1943

-ooO-

Those present were Senator Byrd, Senator McKellar, Senator Nye, Congressman Cannon and Congressman Tabor, as members of the Committee. Mr. Lawton of the Bureau of the Budget and Mr. Bell of the Treasury were also present.

There was first a short executive session to discuss the Farm Credit Administration set-up, on which the Committee had held two hearings, and the National Resources Planning Board, the appropriation for which had been completely eliminated from the Independent Offices Bill.

It was decided that the Chairman of the Committee should draft a proposed report on the Farm Credit Administration matter and circulate it for comment and suggested changes to the members of the Committee.

On the National Resources Planning Board matter, Senator McKellar asked that this Committee delay any contemplated action as he would like to discuss it with members of his Appropriation Committee.

Mr. Fahey and members of the Home Owners Loan Corporation and Home Loan Bank Board representatives appeared before the Committee. The reason for their appearing at this time was the action taken by the House in reducing the appropriation of the Home Owners Loan Corporation from $12,000,000 to $8,000,000. There appears to be a drive on by outside interests to force the Home
Owners Loan Corporation to liquidate by selling all of its good mortgages to private interests. Mr. Fahey gave testimony for approximately one hour and said that the Corporation had originally made one million loans valued at $3,481,000,000. They had received two million applications for loans with a value of $6,000,000,000 so that they had really turned down about half of the applications. On June 30, 1942 there were $1,472,000,000 in loans outstanding and on December 31, 1942 they had 780,000 accounts on their books, of which 500,000 are being paid on schedule and 280,000 fluctuate and are subject to some servicing. Of this last mentioned number, about 30,000 are in foreclosure. Originally there were about 164,000 foreclosures, valued at about $579,000,000. There are now something less than 30,000 foreclosures, valued at $221,000,000. 15,000 of these properties are scattered throughout the country in war areas which are controlled largely by O.P.A. rent ceilings and apparently can not be sold without some understanding with the O.P.A. authorities. 15,000 of the properties are concentrated in the northeastern part of the United States, largely New York, New Jersey, and Pennsylvania, where there is large unemployment.

Senator McKellar and Senator Byrd both seemed to be in favor of directing the Home Owners Loan to sell its mortgages and properties, taking any loss that might result and getting out of the housing business. They asked Mr. Fahey to supply for the record a great deal of information. It seemed to me that the information they were asking for was not the kind which would permit the Committee to make a proper determination as to whether we should dispose of these properties in this manner. I therefore suggested that Mr. Fahey supply for the record the costs of servicing the various types of property now on his books. I assumed it would cost a great deal less to service the 500,000 properties which are being paid on schedule than it would to service the 280,000 which are fluctuating; and that the 30,000 in foreclosure would cost, per piece of property, a great deal more than any of the others.
I also asked him to supply information as to the amount Congress would have to appropriate to make up deficiencies if the Corporation were authorized to sell the 500,000 good mortgages. The Chairman authorized him to submit that information for the record.

The Committee adjourned with the understanding that it would have another meeting on the Home Owners Loan Corporation as soon as Mr. Faney had compiled the information requested.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
FROM Randolph Paul

DATE February 27, 1943

We had another session this morning in which there was further discussion of a plan very much resembling the Robertson plan. The planforgives the first bracket rate for the period July 1, 1942 to June 30, 1943. It also has a 10 percent discount with respect to the additional unforgiven tax. The subcommittee seems very interested in this plan, even some of the Republican members, although no vote was taken.

I was informed after the session this morning that the subcommittee wished to discuss certain technical features of withholding on Monday. There is, therefore, no objection to my trip to Detroit on Monday to speak before the Economic Club at noon. Before this distinguished audience of top flight bankers I expect to take another crack at the Ruml plan very much in the vein of the Brooklyn speech.
I have just received your message that you would like to have sent to Cabinet members and heads of independent agencies copy of my Brooklyn speech against the Rumil plan. Letters are being written by my secretary for your personal signature on Monday. The letters will be to all Cabinet members and to the heads of the more important independent agencies as listed in the Congressional Directory. If there are any further persons to whom you wish letters written this can easily be done by my office.

We are correcting one sentence on the third page of this speech to avoid a slight criticism made in one letter received about the speech. It is merely a matter of verbiage but I think it better to rerun this page before sending it to other Cabinet members. I am enclosing an additional letter sending the new copy to Secretary Knox. If you do not wish to send this letter forward the correction is not too important.
My dear Mr. Secretary:

The Treasury's position in opposition to the Rum$ plan is stated in simple terms in the enclosed copy of a speech given on February 24 at Brooklyn, New York, and I thought you might be interested in reading it.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

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

Enclosure

REP:s

Copies in Diary
PAY-AS-YOU-GO TAXATION

I had the opportunity of participating in your Forum a year ago, and it was with genuine pleasure that I accepted your chairman's invitation to join you again this year.

Some of you will recall that last year I discussed with you the Government's critical need for raising $9 billion in additional taxes. Today the Government's revenue needs are even more critical.

The reason is not far to seek. While our war effort has been greatly intensified during the past 12 months, the strain upon our economy has been correspondingly aggravated. Immediately after Pearl Harbor we were spending for war at the rate of $2 billion a month. Our war expenditures have now reached the rate of $6-1/2 billion a month. In the next fiscal year average monthly expenditures will top $8 billion. In early 1942 our revenue goal, as set forth by the President, was an additional $9 billion. Today our sights are set by the President's budget message for an additional $16 billion of collections. This increase is necessary to raise annual collections to $50 billion. I review these figures deliberately. It is only in the light of these urgent revenue necessities that I can intelligently approach my subject of this morning — pay-as-you-go taxation.

At the outset of my discussion, I want to make it clear that the Treasury is in complete agreement with the objective of putting our tax system on a pay-as-you-go basis. Indeed, the Treasury has been recommending pay-as-you-go taxation for a long time. Congress has been awake to the same need for a long time. Public interest has not lagged far behind and has recently acquired great momentum. Today the question is not whether we should have pay-as-you-go taxation, but how we shall get to such a system.

The growing interest in this subject is very natural. The income tax reaches ten times as many people today as it reached five years ago, and the rates are higher than they have ever been in American
history. Under the existing method of income tax payment the tax for any year is paid in four installments during the following year. Paying in quarterly installments is obsolete for an income tax which is imposed on millions of individuals who base their budgeting on weekly, semi-monthly, or monthly pay checks. Paying in the year following receipt of income is likewise obsolete when the tax is imposed on millions of people whose incomes fluctuate violently from one year to another, and who may have no income when the tax has to be paid.

To meet the needs of these millions of people we need a system which will collect income taxes bit by bit as the income is earned. We need a system which will collect the taxes on 1943 income in 1943, and which will to a large extent collect it out of each paycheck. This is the heart of pay-as-you-go taxation. This is what we need to make the income tax a more flexible instrument in combating inflation. This is what the taxpayer needs to make the payment of the income tax convenient. Most of us are agreed up to this point. Differences of opinion center upon the question: How can we get such a system started?

You may ask the question: Why not start the system by collecting 1943 taxes in 1943? This would mean that in 1943 we would pay taxes on 1943 income and also taxes on 1942 income. This we might do without difficulty if rates were lower than they are. Indeed, our pressing revenue necessities are a strong argument for doing so. However, it must be recognized that many of our taxpayers failed to accumulate funds out of 1942 income for the payment of tax on that income. The level of rates is such that considerable hardship might result from paying in full two years' taxes out of 1943 income, particularly in the case of those taxpayers whose incomes will have declined in 1943.

One plausible solution that has been offered is to forgive taxes on 1942 income. Why not let bygones be bygones, it is argued, and forget about taxes on 1942 income? Since in 1943 an individual will be paying a tax on his 1943 income, why require him to pay a tax as well on his 1942 income? Why not skip a year's taxes?

This solution has deceptive appeal. Most of us are human enough to be pleased at the prospect of escaping tax on one year's income. The appeal is deceptive because over a period of years the Government has to raise a given amount of taxes; either the same people will have to pay the same amounts despite the forgiveness or the forgiveness will require that some pay more and others pay less. If we cancel a year's taxes in getting to a pay-as-you-go system, the important question is: How will that affect individual taxpayers, and who will pay the additional taxes we need?
While the effect of forgiveness on an individual's tax payments is not felt until his income declines or ceases, it has a significant immediate effect on his economic status. The amount of taxes cancelled represents an immediate addition to the taxpayer's wealth. This addition, which would depend on his income in 1942, varies widely from individual to individual. Cancellation would not improve the position of the individual who had no income in 1942 and was not subject to tax. A married person without dependents with a net income of $2,000 would gain $140 if the entire tax were cancelled. If he had a net income of $100,000, he would gain $64,000. If he had a net income of $1,000,000, he would gain $350,000.

The cancellation of taxes on 1942 income would in effect wipe out much of the tax increases imposed to finance the war. In the case of a person with a $2,000 net income, it would wipe out 77% of the tax increases imposed in the last three years. At the $100,000 level, the amount forgiven equals 102 percent of these tax increases and at the $1,000,000 level, 320 percent.

Another way to judge the effect of cancellation on the individual's economic status is in terms of the income he has left after taxes. This is the amount he may spend or save each year. For the individual with $2,000 income the forgiven tax would be the equivalent of less than one month's income. For the individual with a $100,000 income, the forgiven tax would be the equivalent of almost two years' income after taxes. In the case of a million dollar income, the forgiveness of a year's taxes would add to the taxpayer's wealth at one stroke as much as he could add in nearly 6 years by saving every dollar he had left after paying taxes and spending nothing.

Is it reasonable to suppose that certain individuals can gain while nobody loses? Can we add to the wealth of one taxpayer the equivalent of 6 years' income after taxes without being obliged as a consequence to impose additional taxation on other taxpayers? I think we all know enough about arithmetic to know that this is impossible. When some people get something from the Government other people must pay for it.

We can see this by turning to the question of how we can get the additional revenue that we so badly need, if we cancel 1942 taxes. We will, of course, have to raise income tax rates. But, it may be asked, what difference does it make whether we raise additional revenue by collecting the taxes we have already imposed or by cancelling these taxes and imposing others? There are two important ways in which our choice of method will affect the distribution of the tax burden. In the first place, if we cancel 1942 taxes, the additional revenue will be raised solely on the basis of the incomes of 1943 and subsequent years without regard at all to the 1942 income. Those who had substantial
income in 1942, but who receive little or no income in 1943 and subsequent years, will contribute much less to the war costs than those whose position is reversed. In the second place, and more important, rates on the higher incomes are already so high that they can scarcely be increased sufficiently to make up for the amount of 1942 taxes forgiven. The greater part of any increase in tax rates will have to fall on taxpayers in the low and middle income groups. It is not difficult to recover the taxes forgiven at the bottom, but it is practically impossible to recover from the top incomes the amounts they would be forgiven.

These are the reasons why it has not been possible for the Treasury to recommend to the Congress the complete cancellation of taxes on 1942 incomes. It has not been possible for the Treasury to recommend legislation which will benefit a few at the expense of the many.

In discussions of this problem some consideration has been given to partial cancellation of 1942 taxes. In so far as such partial cancellation bestows benefits on substantially all taxpayers, and distributes those benefits among taxpayers equitably, some of the objections to complete cancellation do not apply. The cancelled taxes could be replaced by increased taxation from substantially the same individuals who benefited by cancellation. There would then be no appreciable shift in the distribution of war tax burden.

In conclusion, let me restate in exact terms the issue involved in forgiveness of taxes on 1942 incomes. There is no issue between the Treasury and taxpayers. There is an issue between different taxpayers. It concerns their share of the tax burden. We have to maintain our revenues. Indeed, we are faced with the necessity of raising additional revenue in a time of national peril. Should we forgive taxes on persons who had 1942 incomes when we shall be obliged to increase greatly the taxes to be paid out of the incomes of 1943 and subsequent years? The decision we make on this question will determine to a considerable extent who will pay this increase in taxes.
TO Secretary Morgenthau

FROM Harold Mager

I thought you might be interested in reading the text of the Sullivan-Vandenberg-Knutson nation-wide broadcast Tuesday night, March 2. Here it is.
Draft of Assistant Secretary Sullivan's Introduction

Two weeks ago Secretary Morgenthau, through the courtesy of the Columbia Broadcasting System, brought to the microphone two of the Congress's distinguished leaders, Congressman Robert L. Doughton, Chairman of the Ways and Means Committee of the House of Representatives, and Senator Walter F. George, Chairman of the Senate Finance Committee. These eminent Congressional leaders joined with Secretary Morgenthau to relieve the doubts and hesitations that were preventing many taxpayers from filing their income tax returns and to emphasize how urgent it was to file returns promptly.

I am happy to report tonight that their simple and straightforward message has had a striking effect. The rate of tax payments in advance of the deadline on March 15th is rapidly increasing.
Tonight it is my honor and privilege to bring you two other distinguished leaders of Congress, both of them members of the Committees in which tax legislation is formulated: the Honorable Harold Knutson of Minnesota, veteran member of the Ways and Means Committee of the House of Representatives, and the Honorable Arthur H. Vandenberg of Michigan, the ranking Republican member of the Finance Committee of the Senate.

Politics, it is often said, ends at the water's edge. If this was true in times gone by, it is a thousand-fold truer today. Our country today is faced with the severest test in its long and glorious history; our men in the armed services, whether in the malarial swamps of Guadalcanal, the treacherous ravines of Tunisia, or the death-laden waters of the Atlantic and Pacific, are making sacrifices,
often the supreme sacrifice, so that this world of ours will eventually be a better and more decent place in which to live. They are doing this for themselves, and for their children; they are doing this, let us never forget, for you and for me. Never was it so crystal clear that the things today that really matter are the things which bind us together, not the things which separate us one from another. We dare not permit the luxury of our differences, whether they be political, religious, or racial, to interfere with the unity, cooperation, and closing of ranks our fundamental Americanism demands.

I know that the distinguished gentlemen who have kindly consented to share this program with me feel the same way as I do. It gives me great pleasure to introduce
to you Congressman Harold Knutson, who speaks at the request of the Honorable Allen T. Treadway, the ranking minority member of the Ways and Means Committee.

MR. KNUTSON:
Draft of Congressman Knutson's Speech

I am happy to speak to you tonight at the invitation of Assistant Secretary Sullivan. I want you to know too that I share the views he so eloquently expressed as to our fundamental Americanism. I would go even further, however.

After all it is not only our Americanism which unites us today in common brotherhood. It is also our common humanity, our will to live and let live, our burning desire to enjoy the comforts and blessings of liberty in common with all the peoples of the earth. It is this which sets us off from our enemies. They have enslaved their own unhappy people as a prelude to the enslavement of the rest of the world. We, however, will bring liberation and comfort to the peoples of Europe and Asia and Africa precisely because we struggle for our own freedom, our own liberty, our own way of life. Our loss is their loss; and our gain, their gain.
And here I would like to emphasize a fact that is sometimes forgotten. This business of winning the war and establishing a world in which men can live and prosper in peace and security is not any one man's responsibility; it is not even the responsibility of Congress. It is the responsibility of 135 million Americans. It is the American people, acting through their representatives in Congress, who pledged the nation's resources to the business of winning the war. The task of the Government today is to convert this expression of purpose into an expression of fact.

One of the methods by which the Government gives blood and flesh to the people's determination to win is taxes. Through taxes -- taxes to beat the Axis -- we will keep faith with ourselves and, more important, with the men on the far-flung fighting fronts of the world to whom we owe so much.
Taxes this year, to be sure, are much heavier than they were a few years ago. They are trivial, however, in comparison to the sacrifices others are making in our behalf, and to the sacrifices that would be imposed upon us if -- God forbid! -- we ever lost the war.

Congress is at present engaged in working out some method of tax payment more convenient to the taxpayer -- some form of pay-as-you-earn. No plan that Congress may adopt will alter in any way, however, your obligation to file a return and make a first quarterly payment on or before March 15th.

When a more convenient method of collection has been agreed upon, Congress then will have the task of raising additional revenues for the prosecution of the war. With tax rates what they are, it isn't going to be easy -- neither for
Congress nor for the people as a whole. But of this I am certain. No sacrifices we will be called on to make here at home can begin to compare with those our brothers are making day in and day out for you and me.
ASST. SECRETARY SULLIVAN:

Thank you, Mr. Knutson.

It gives me great pleasure to introduce Senator Arthur H. Vandenberg of Michigan, the ranking Republican member of the Senate Finance Committee. No higher tribute to Senator Vandenberg can be paid than that during his long service on the Finance Committee of the Senate he has always considered revenue proposals on their merits with the best interests of the country always in mind.

SENATOR VANDENBERG:
Congressman Knutson and Assistant Secretary Sullivan have referred movingly to the things we share in common as Americans. I could add many others, but the mere catalogue would consume more than the radio time allotted to me this evening. I would like to stress, however, one of the things we share in common -- the burden of paying for the war.

This war has often been described as "total war." If that term has any meaning at all it is simply this. It means that all our resources in men, machines, and materials above what is required to maintain essential civilian needs must be devoted to waging war. It means that in 1943, and until the war is over, more than one-half of everything we as a nation can produce must be devoted to waging war.
This is a far cry from the wars of long ago. Wars then were luxuries of the leisure class -- the vocation of kings and aristocrats who could find nothing better to do. Very often they caused hardly a ripple on the surface of society, hardly any change in the humdrum routine of the average man and woman.

War today, however, is not a diversion for the few. It is a tragedy which lays its heavy hand on the many. Wars are no longer waged with only what a nation can spare. It is waged with everything that a nation has got.

The men and women in the armed forces are giving all they have. Are you?

Not until you put your dollars to work. Not until you make your dollars fighting dollars. Only then can the country engage effectively in total war; only then can
it provide our soldiers and sailors and marines with
the mountains of materials they need. We men and women
on the home front must be prepared not only to sacrifice
our comforts to their needs; we must be prepared also to
sacrifice our needs to their comforts.

Taxes are the best means of converting our dollars
into fighting dollars. Taxes, however, do lighten the
task of keeping the cost of living down, keeping Government
costs down, and distributing the costs of the war as
fairly and equitably as possible. Through taxes, moreover,
we can minimize the difficult problems involved in managing
the post-war debt and stimulate the revival of peace-time
industry in the post-war era.

The costs of the war are too gigantic, too intimately
bound up with our own welfare and the welfare of the nation,
to permit our indulgence in the luxury of illusion. We cannot escape the fact to fight the war successfully we must pay for it. We owe it to ourselves, we owe it to our children and our children's children, to finance as large a part of the costs of the war as possible by taxes rather than by borrowing. We owe it, above all, to the men and women of the armed services who are endangering their lives every minute of the night and day for you and me. By taxing more and borrowing less we will help create an America for them richer in opportunities and achievements.

Those among you who have already filed your returns and made your first quarterly payment on 1942 income and those who will file returns and make the first payment during the next two weeks should keep in mind that by so doing you have not only made a contribution to the winning
of the war but an important contribution to winning the peace to come.
Draft of Asst. Secretary Sullivan's Conclusion

I want to thank Senator Vandenberg and Congressman Knutson for their inspiring addresses this evening. Each in his own way has emphasized fundamental truths about our share in the burdens of this war we are sometimes apt to forget. We would do well to take their remarks to heart.

I am reminded of a classic retort made by that great and wise American, the late Justice Oliver Wendell Holmes. One of his young law secretaries, fresh out of law school, once asked the celebrated Supreme Court Justice, "Don't you hate to pay taxes?" "No, young man," answered Justice Holmes, "I do not. With taxes I buy civilization."

These are words to ponder over. True yesterday, they are a thousand times truer today. With taxes we are buying civilization. With taxes we are insuring that Hitler's revolt against civilization will never succeed; and with
taxes we are protecting all that is sacred and dear in our
own way of life.

The payment of taxes in one form or another is a
universally accepted obligation of citizenship. A few years
ago the payment of personal income taxes, as Secretary
Morgenthau pointed out over this network two weeks ago, was
an obligation of the few; today it is a privilege of the
many.

With 35 million of our people paying income tax this
year it is important that a more efficient and convenient
machinery for collection be instituted. Congress is now
working day and night on that problem. You have the assur-
ance of the Treasury that nothing will be left undone to
inaugurate some form of pay-as-you-earn at the earliest
possible moment.
Meanwhile, income tax returns on 1942 income must be filed and the first quarterly payment made on or before March 15th. There is no longer any excuse for delay; there is no longer any time for delay. And there should be no desire for delay. The sooner you act the better for you and your Government. Please file your return and make at least your first quarterly payment as soon as you can — tomorrow, if possible.
February 27, 1943

Secretary Morgenthau's introduction to captured German war film made for Office of Strategic Services.
March 15th is income tax day. Your tax money is buying guns to match the guns of our enemies. Captured enemy newsreels show us what these new Nazi guns are like. Many of these have been destroyed. But the Germans are making more—and we'll make still more with your tax money.
CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - The Ways and Means Subcommittee appears to be awaiting the return of Representative Doughton expected next week from the Naval Hospital, to break a deadlock between Republicans Reed and Knutson and anti-Administration Democrat Disney on one side, and pro-Administration Democrats Cooper and Dingell on the other. The two Republicans are said to be holding out for the Rumf plan although Disney reportedly objects to certain of the cancellation provisions. Reports to date indicate that the subcommittee is most likely to vote either the Robertson proposal which would forgive the normal and first surtax on 1942 taxes or Knutson's plan of withholding 1943 taxes immediately and thinking about 1942 taxes, like Scarlett O'Hara, "some other day", specifically when the general Revenue Bill is considered.

2. Deficiency Appropriations Bill - Without reinstating funds for WMC McNutt (for the U.S. Employment Service) or for Secretary of Labor Perkins (to be used chiefly to "cure" absenteeism in war plants), the House passed yesterday a Deficiency Appropriations Bill of more than six billion dollars. It added $250,000 asked by Chairman Clarence Cannon of the Appropriations Committee for salaries which were termed an "immediate necessity", for the Treasury Department. However, attempts to reinsert funds providing for day care of children in industrial centers (WMC) and Federal aid for the families of enlisted men (Dept. Labor) failed again on the floor of the House as they had in the Committee.

3. Wickard - Secretary of Agriculture Wickard continued to receive the lion's share of criticism from Congress yesterday. In a Senate Agriculture Subcommittee, he was accused of underestimating the seriousness of the food situation specifically in acreage reduction figures which varied from those obtained by the Subcommittee, and in
WMC McNutt's claim that Wickard had confused him with misleading forecasts on food production. Meanwhile, a formal report by the House Small Business Committee declared that the OPA and the Secretary of Agriculture had displayed "a regrettable lack of joint effort" to correct conditions "resulting in the worst black market in meats" in the Nation's history and subjecting "the population to the risk of eating diseased meat". The Secretary himself, testifying before the House Agriculture Committee, heard various members air their grievances on the farm labor and price situations. But despite his argument that revision of parity would equal inflation, another committee, the House Banking and Currency, yesterday reported favorably the Steagall Bill to include incentive, conservation and all benefit payments in parity computations, and the Brown Bill to include all farm labor costs in price ceilings (similar to the Pace Bill reported by the House Agriculture Committee). Furthermore, as if in answer to Wickard's request for a "clear mandate" from Congress on his food production program, a seven-member board, representative of the farm bloc, will formulate a Congressional policy on the farm issues, which will obviously be much at variance with the "mandate" desired by the Agriculture Secretary.

4. McKellar Bill - Senator O'Mahoney yesterday submitted to the Senate Judiciary Committee a substitute measure which would require Senate confirmation of Federal appointments paying $4,500 or over only if they were "policy-making" or were made without regard for the Civil Service laws. Certain policy-forming officials paid from the "appropriation for the White House Office in the Executive Office of the President" would be excluded, however, because O'Mahoney said he believed the "President should have the right to select those around him without having to win the Senate's approval". According to an editorial in this morning's Washington Post, the McKellar Bill itself is merely "an obvious grab for power" on the part of its author to control the TVA, through approving its appointments, which is centered in his home state.
February 27, 1943

My dear Mr. President:

In accordance with your memorandum of November 17, 1942, I am writing you with respect to the Department's desire to request occupational deferment under the Selective Training and Service Act of 1940, for a period of six months for John Wesley Lindow, Principal Economic Analyst, in the Division of Research and Statistics in the Treasury Department. Mr. Lindow is thirty-two years of age and is married.

Mr. Lindow has a major responsibility in working out methods for financing the war and assisting in the planning of Treasury borrowing operations and the designing of specific securities. Government borrowings on the scale now required must be planned with careful regard to their relation to the economy as a whole and particularly their effect in minimizing pressure on prices. Mr. Lindow's eight years of experience in Treasury financing operations make him especially valuable in the work on war financing. The only adequate training for a replacement for this work is a number of years of experience. Under wartime conditions of draft and labor turnover, it has been impossible to keep qualified personnel in subordinate positions long enough to train them to take over the more responsible work. Efforts to secure a person with the requisite qualifications to take over Mr. Lindow's responsibilities therefore have not been successful, and the loss of his services at this time would seriously impair this part of the Department's work on the war program.

It is respectfully requested that approval be given for occupational deferment in this case.

Faithfully,

/S/ H. Morgenthau, Jr.

Secretary of the Treasury

The President

The White House

Sent by SSAgent 12:26 2/27/43

Regraded Unclassified
Dear Jesse:

I have for acknowledgment your letter of February 20, 1943, having further reference to the leasing of the Empire Hotel Building in San Francisco.

One factor which has brought about some misunderstanding in the above connection arises through the fact that when my representatives first surveyed the city of San Francisco for a suitable location for Treasury activity they had in mind using the entire Empire Hotel Building for Treasury purposes only. This plan was changed by the War Department, who not only desired to remain in the Empire Hotel in 15,000 square feet then being used by them, but insisted on expanding their activity in this location to the point where they are now using 48,000 square feet, necessitating our holding considerable commercial space outside of this building.

The Treasury desires to be as helpful as possible in arriving at a workable arrangement which will be satisfactory to the RFC Mortgage Company and will undertake immediate steps to have the Public Buildings Administration proceed with leases agreeable to all concerned.

Sincerely yours,

(Signed) Henry

Honorable Jesse Jones,

The Secretary of Commerce.

Photo file in Diary
File to Thompson
February 20, 1943

Dear Henry:

I have your letter of even date relative to the Hotel Empire lease, and note your suggestion that the matter be negotiated with Public Buildings Administration instead of your Department.

Your letter to us dated July 14, 1942, to which you refer, related only to eventual purchase of the building by Public Buildings Administration, and not to the lease. Our confirmed understanding with Mr. Bell and Mr. Berney has been that your Department would lease the building directly, and thereafter perhaps assign the lease to Public Buildings Administration for servicing. Last November we prepared the leases in regular government form and transmitted them to Mr. Bell for signature. A copy of the transmittal letter is attached.

Since that time we have made no progress, which prompted my letter to you. We do not object to having these leases signed by Public Buildings Administration, if you now desire, but feel that since we are acting in this transaction solely for your accommodation and upon your assurances for payment of a satisfactory rental that the necessary arrangements should be made by your Department.

Sincerely yours,

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

Enclosure
Information received up to 7 A.M., 27th February, 1943.

1. **Naval.**

At 9.45 a.m. yesterday a U.S. Liberator sighted an inward bound blockade runner when 500 miles West South West of Cape Finisterre, she was shadowed by aircraft till 4 p.m. when one of H.M. cruisers sank her by gun fire. The ship was an 8,000 ton tanker and 4 lifeboats were seen to leave her. A convoy to North Russia of 22 ships due at Kola Inlet today was unsuccessfully bombed by enemy aircraft yesterday. A Norwegian submarine is overdue from patrol off the Norwegian coast and must be presumed lost.

2. **Military.**

**Tunisia.** 25th. 8th Army. Our troops advanced to positions about 6 miles East of Mareth without meeting opposition.

First Army. An attack started at 6 a.m. by U.K. Armoured Brigade and U.S. armoured troops cleared the Kasserine Pass by evening in spite of delay by mines and Artillery. Our patrols pushed forward towards Kasserine town and Feriana.

**Russia.** South East of Lake Ilmen the Russians appear to be increasing their pressure and extending their front and in heavy fighting have made some progress both North and South of Orel. The Germans claim considerable success with their counter attacks in the Donets sector, they report a thaw in the Tagenrog area and continued thaw in the Taman sector.

3. **Air Operations.**

**Western Front.** 25th/26th. Nuremberg. All bombers
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Heavy 724 tons were dropped in about equal proportion H.E. and incendiary including 4 8000-pound and 135 4000-pound bombs. Weather cloudless but identification hampered by ground haze and smoke which increased during attack. Target indicators well placed by Pathfinders and concentrated attack lasted 45 minutes. Many good fires taking hold and spreading well. Many crews reported terrific explosion in built up area. Moderate defence lessened as attack progressed.

26th. Wilhelmshaven was bombed by 69 U.S. heavy bombers and preliminary reports indicate good results. 34 escorted Venturas attacked an enemy raider in dock at Dunkirk. Several bombs straddled the dock and one near miss was seen by the stern. 12 Mosquitos made an effective low level attack on the naval storage depot near Rennes. Many flashes probably from exploding ammunition were seen. 6 Whirlwind bombers attacked Maupertus airfield. From above operations, 7 U.S. bombers, 3 Mosquitos and 2 Spitfires missing. Enemy casualties 1, 2, 3. 15 enemy aircraft crossed the South Coast. Bombs were dropped at Exmouth and a gas holder was set on fire. 11 persons were killed, typhoons destroyed 3 and damaged 1 enemy aircraft.

26th/27th. 461 aircraft sent out - Cologne 428 (10 missing), Aachen 2, sea mining 21, leaflets 4, Intruders 6. At Cologne visibility was good with no cloud but a slight ground haze. Attack was well concentrated. Of 6 enemy aircraft operating in the Thames Estuary 2 were destroyed by a Beaufighter.

TUNISIA. Objectives near Gabes were attacked on 24th/25th by 21 bombers and on 25th by 70 escorted fighter bombers. Escorted U.S. Fortresses attacked Bizerta. Enemy casualties 25th. 4, 2, 9, Allied 4, Nil, 1.
MEDITERRANEAN. 24th/25th. A convoy of 1 7,000-ton and 1 5,500-ton ship with 3 destroyers was attacked off North West Sicily by 6 Beaufighters and 7 Wellgreens from Malta. Larger ship hit by 2 torpedoes and sunk, smaller hit by torpedoes and believed sunk. One larger destroyer attacked by torpedo and large smoke column seen.

ITALY. 24th/25th. 6 U.S. Liberators attacked Naples.
Information received up to 7 A.M., 28th February, 1943.

1. NAVAL

One of H.M. Trawlers sunk by E-boats during attack on a channel convoy off LYME BAY 26th/27th. Last night our light forces attacked a large southbound ship off the Dutch Coast. One of our motor gun boats was sunk and another set on fire. No further details yet available. The armed raider recently located in DUNKIRK was sighted off the Dutch coast morning 27th steering north. A Russian warship has sunk an enemy destroyer in the BARENTS SEA.

SOUTH AFRICA. 27th. A Dutch submarine depot ship torpedoed and sunk off East London. 377 survivors rescued.

2. MILITARY

TUNISIA. 26th. In Northern TUNISIA a series of small enemy attacks with infantry and tanks in the SIDI MZIR BOU ARADA and DJerfel MANSOUR areas were repulsed. Enemy seemed disinclined to press his attacks and withdrew after suffering casualties and some losses in tanks and prisoners. Fighting still continues in the MATZUR REJA Valley.

RUSSIA. The Russians continue to attack in the LAKE IJEMEN area and have mounted a series of local attacks against the western face of the RZHEV Salient. Heavy fighting continues north and south of OREL. In the DONETS Bend the Germans claim to be counter attacking with success near IZYUM.

3. AIR OPERATIONS

WESTERN FRONT. 26th/27th. COLOGNE. Aircraft attacked dropping 1014 tons of bombs (compare 1516 tons dropped in "1,000 bomber" raid last May). Five 2,000 pound and 441 thousand pound. Weather good, no cloud, good visibility but thick ground haze. Bombing somewhat scattered at first but concentration obtained later. Many fires including two large ones and many reports of large explosions in centre of town. Considerable searchlight activity, moderate AA, few fighters.

27th. 62 U.S. heavy bombers attacked the port area at BREST. Bursts were seen in the target area as a diversion five Whirlwind bombers attacked MAUPERTUIS airfield. 24 Venturas dropped 26 tons of bombs on DUNKIRK docks hitting a small ship. 18 squadrons of Spitfires provided escort and cover for these operations. Enemy casualties 21, 1, 2. We lost 4 Spitfires. 27th/28th. 102 aircraft despatched: sea mining 31 (one missing); ROHR 5, leaflets 2, Intruders 3.

TUNISIA. 24th/25th. BISLEYS heavily bombed GAFSA and SBEITLA.
25th/26th. Allied bombers dropped 46 tons on GARES town and landing ground and heavily attacked enemy positions in the MARETH area. 26th. A total of about 200 assorted fighter bombers of Western Desert Air Force attacked landing grounds and other targets at GARES and in this locality. Enemy casualties 26th - 7, 3, 5. Ours 10, nil; 2.

SARDINIA. 20 U.S. Fortresses dropped 46 tons on CAGLIA and on DOLMAS airfield. Bursts were seen on the docks, railway yards and airfield.

SICILY. 26th. U.S. bombers attacked shipping north of SICILY and set one ship on fire. 27th. 12 Fighter bombers attacked the power station and sea plane base at SYRACUSE.