

March 15, 1943

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

In accordance with your request, I am attaching the following materials with respect to the Treasury's position on collection at source:

- (1) "Memorandum Regarding the Proposed Revenue Program," November 5, 1941.
- (2) Memorandum to the Secretary from Mr. Blough, dated November 13, 1941, regarding "Conference with members of the Ways and Means Committee, Wednesday, November 5, from 3 to about 4:30 p.m."
- (3) "Statement of Secretary Morgenthau before the Ways and Means Committee of the House of Representatives," March 3, 1942. Your references to collection at source are contained on pages 7 and 8.
- (4) "Income Tax Collection at the Source: Statement of Randolph E. Paul. . . . May 20, 1942." His reference to the rate of withholding appears in a paragraph on page 3. So far as I know, this is as definite a statement as was made regarding the withholding rate.

RB

Attachments

November 5, 1941

MEMORANDUM REGARDING THE PROPOSED REVENUE PROGRAM

When I appeared before the Senate Finance Committee on August 8, 1941, I pointed out that, in the light of rapidly changing conditions, the all-out defense program would necessitate all-out taxation, that much more revenue would be required not only to strengthen the government's fiscal position but especially to maintain economic stability and prevent "inflationary price rises which threaten to increase the cost of the defense program, unbalance family budgets, and seriously disturb our economic life."

At that time it appeared that early in 1942 would be soon enough to pass the next major revenue measure, but our study of the rapid developments of the past few months has convinced me that immediate passage of about \$4.5 billion of additional taxes whose collection would begin January 1, 1942 is imperative if we are to avoid further inflationary price rises.

Prices have been rising rapidly. The cost of living in the United States has risen over 5½ percent during the last five months. (See attached chart "Cost of living and selected items.") The budgetary and economic situations which face us during the next few months threaten still higher and more rapidly rising prices unless we take steps now to meet the problem.

The Federal Government will spend about \$20 billion during the calendar year 1941. The present prospect is that in calendar 1942 we shall spend \$37 billion or nearly twice as much as in calendar 1941. The whole of the increase will be in defense spending which is expected to reach over \$30 billion in calendar year 1942.

Some of the increased spending will be covered by increased yield from the existing tax structure. In calendar 1941 we shall collect approximately \$9.5 billion. In calendar 1942 we expect to collect about \$15 billion from present taxes. That will leave us a deficit (before setting aside old-age

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reserves) of \$21 billion as compared with about \$10.5 billion in calendar 1941, or twice as much. That increased money is going out into the hands of people who, for the most part, are going to try to buy goods with it. They are not going to be able to get the goods. We are not far from the top of our national production for the next year or so. We shall need all of the increase in production we can get, and more, for defense. That means that there will be less civilian goods left than now for people to buy with their greatly increased incomes.

If we do not do something decisive about this promptly, the cost-of-living situation threatens to get away from us as it did during the first World War.

It should not be necessary to mention the very serious evils of inflation and the great importance of preventing it. We are all familiar with the way in which it burdens the great bulk of the population, including the lowest income groups, financially embarrasses State and local governments, increases the cost of defense materials, gives opportunities for profiteering and otherwise harms and demoralizes the people. What I would like to stress is that we have reached the point where vigorous action is needed now - without delay - if we are not to have an accelerated, destructive inflationary price rise.

The money is being paid out now. If the taxes are to help prevent price increases they must be imposed at once and collected currently.

After a great deal of study we have come to the conclusion that the minimum of taxes that should be imposed at once and collected currently beginning January 1, 1942, to hold down the cost of living, is \$4.5 billion. If Congress reduces non-defense spending, the minimum need for new taxes will be somewhat reduced.

The \$4.5 billion is an amount which should be imposed at once to control inflation. Beyond this we shall, of course, need a revenue program in 1942 for fiscal purposes. Even with \$4.5 billion more of taxes the deficit in calendar 1942 will still be \$16.5 billion, an amount which we shall have to borrow. To keep my financing problem at manageable levels and to avoid

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the difficulties and dangers of high interest charges and an overwhelming debt after the war, we should increase taxes even more than is indicated to avoid inflation.

At this time, however, I shall limit my suggestions to anti-inflationary taxes which should be imposed at once so that collection may begin January 1, 1942. They are taxes which will withdraw purchasing power from consumers before it is spent.

The first recommendation for anti-inflationary taxation is the imposition of a new supplementary tax on net income to be withheld at the source on salaries, wages, dividends, bond interest, and similar items and collected quarterly throughout the year on other incomes. These taxes would thus be collected insofar as possible like the payroll taxes. They would, however, have personal exemptions and credits for dependents. The supplementary withholding tax would be deducted from net income in computing the income tax. Because of this deduction and because of the personal exemptions the increase in effective rate of tax would never be as high as the stated rate of tax. For example, if the rate of this withholding tax were 15 percent and the existing personal income tax exemptions of \$750 for single persons and \$1,500 for married couples, with \$400 credit for each dependent were allowed, a married couple with no children and \$2,000 of income would have their combined withholding and income tax increased from \$42 to \$110, or \$68 more, which is only 3.4 percent of the \$2,000 income.

At the rates and with the exemptions indicated, it is estimated that at present income levels, the withholding tax would yield annually about \$2.8 billion

It is recommended, second, that the payroll taxes for old-age and survivors' insurance be increased. These taxes are at the present time imposed at a rate of 1 percent on employers and 1 percent on employees and are scheduled to rise on January 1, 1943 to 2 percent on employers and 2 percent on employees. The recommendation is that this increase be made one year sooner than was scheduled. It will be recalled that no increase was made on January 1, 1940 when it was originally scheduled.

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The increase in tax would yield during 1942 increased revenue of approximately \$0.9 billion

I would like to stress the very great importance of considering and passing these two tax increases at once in order that the money may be taken out of the hands of consumers before it can be spent by them, thus reducing the inflationary pressure of the increased defense expenditures.

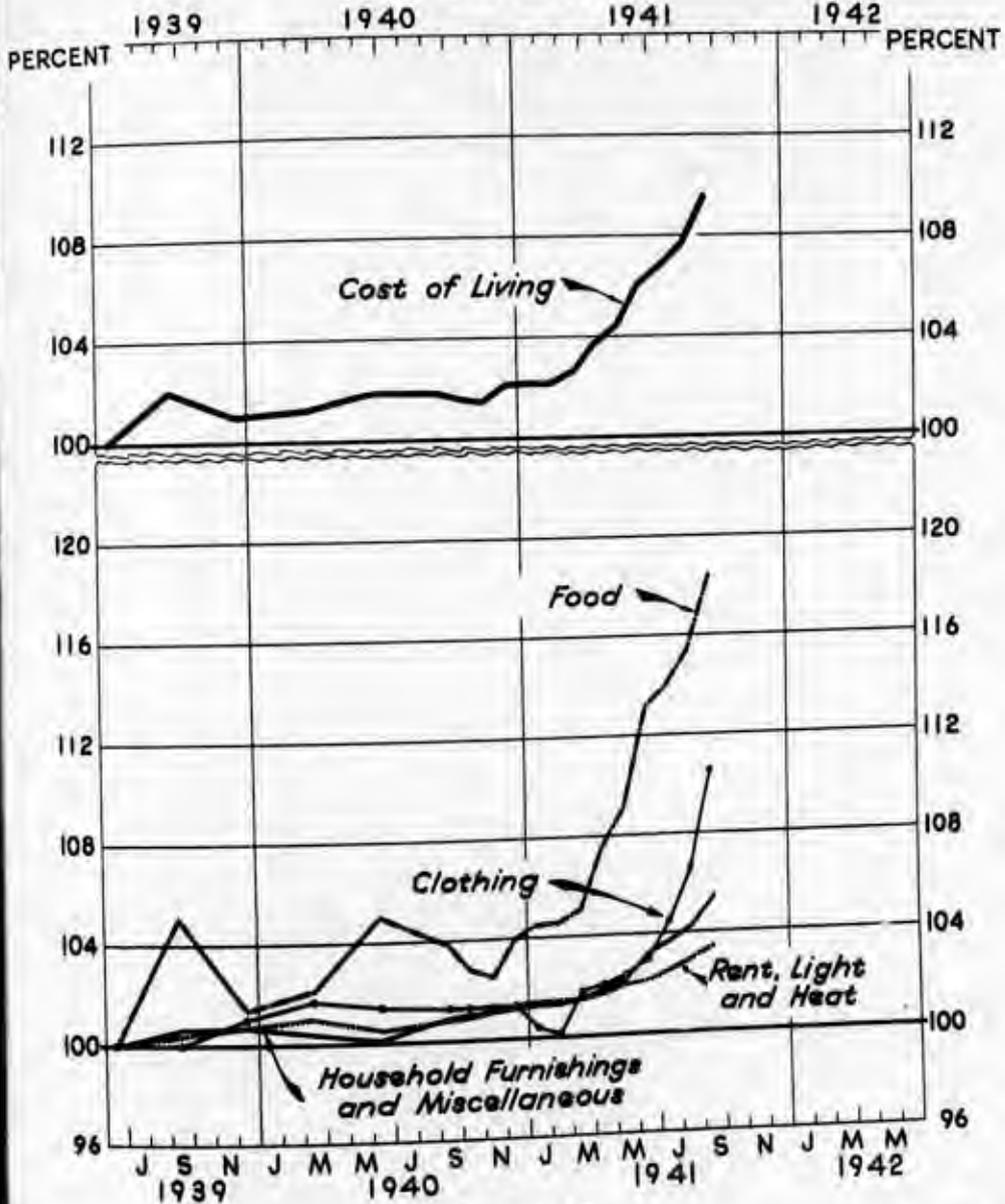
Further, it is recommended that as soon as practicable, the Social Security Board's program relating to the extension of coverage for old-age and survivors' insurance and unemployment insurance system should be enacted. The change with respect to unemployment insurance involves an additional 1 percent tax on the employees.

The combined effect of these changes would be to increase the revenue by approximately \$1.0 billion

The above anti-inflationary taxes recommended for imposition as soon as possible would yield a total increased revenue of \$4.7 billion

COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



Source: B.L.S.

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

C-413

November 13, 1941

MEMORANDUM

To: The Secretary

From: Mr. Blough

Subject: Conference with members of the Ways and Means Committee, Wednesday, November 5, from 3 to about 4:30 p.m.

The meeting took place in Room 1105, New House Office Building. Present at the meeting, from the Treasury, were Secretary Morgenthau, Assistant Secretary Sullivan, Mr. Barnard, and Mr. Blough. Committee members present included Chairman Doughton and Messrs. Cooper, Boehne, Disney, Buck, West, Robertson, Hill, Healey, Treadway, Crowther, Knutson, Woodruff, and Carlson.

Chairman Doughton said that Senator George and he had been at Secretary Morgenthau's office and that the Secretary had submitted a proposal to them which the Chairman thought should be submitted to all the members of the Committee; that the Secretary was there to present the matter to them and that the Chairman had asked to have it presented in the same way as in the morning.

The Secretary then outlined the problem such as he had to Senator George and Mr. Doughton in the morning. He pointed out the expenditures, taxes and deficits for 1941 and 1942 and said that the size alarmed him. He then mentioned the increases in cost of living and prices that are taking place and his fear that a serious inflation similar to that of the World War period would result. He pointed out that the purchasing power which people would want to spend would be \$5 to \$10 billion greater than the civilian goods available and that price rises were accordingly inevitable unless something was done to mop up this extra purchasing power. It was for this reason particularly that he was suggesting at this time that immediate action be taken to impose about

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\$4.5 billion of new taxes to mop up purchasing power. He then read from the memorandum the plan regarding the withholding tax, increases in old-age insurance taxes, and revision of the unemployment insurance system.

The proposals to revise social security raised a great deal of discussion. Mr. Cooper asked a number of questions to make clear that the \$1 billion shown as the revenue under the suggestion to extend coverage and increase the unemployment insurance tax by 1 percent would involve not merely a rate increase to secure this amount, but a substantial revision of the system. It was pointed out that about \$450 million might come from the increase in the tax rate but that the balance would be derived from the extension of coverage under old-age and survivors' insurance and unemployment insurance. Considerable hostility to the social security program was apparent and it was stated by a number of people that if the question of revising the system came up it would involve a very long period of discussion and consideration.

There followed an exchange of views between Mr. Treadway and Mr. Cooper regarding the method of procedure which should be followed, Mr. Treadway preferring an open public hearing at which the Secretary would present his views, while Mr. Cooper preferred an executive session at which the Committee would consider the general subject in private.

Mr. Robertson said he wanted assurance from the White House that there would be no social security reform message presented while the tax bill was under consideration. He thought if that assurance could be received, the Committee should go ahead with the Secretary's proposal. He said he had been for the 2 and 2 percent rates for old-age insurance before and that the present inflationary situation reinforced his view.

Mr. Kautson expressed himself against any bill that carried any tax on the employer and said that there would be a minority report on any such bill. It was pointed out to him that the taxes would go up January 1, 1943 under present law. He said they would try to get that stopped too.

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Mr. Cooper raised questions about the plan, particularly as to why everyone was not permitted to pay quarterly and whether withdrawal from the wage earner and not from the proprietor would not be a discrimination against the wage earner. Mr. Sullivan said he thought that withholding was really helpful to the wage earner but Mr. Cooper doubted that.

Question arose regarding the effective rate of the tax. Mr. Sullivan read some effective rates to the Committee. Mr. Doughton said that the 1941 income tax was high and had not yet been paid. This addition to the 1941 tax would have to be paid in 1942 also, thus doubling the burden. Mr. Sullivan pointed out that this would be true for all years and not only in 1942, since the regular income tax is always a year behind, but that current payment of the tax was necessary to give the anti-inflationary effect.

Mr. Cooper said he could see how inflationary prices constituted a tax. If the program is effective the taxpayers will benefit in the long run. Mr. Buck asked how much the price level would go up if this were not done. Mr. Blough endeavored to point out some of the factors involved and the experience during the last war, without giving a figure.

Mr. Knutson said he was disturbed about the wages paid on cost-plus projects. He said he would not vote for any more taxes until non-defense economy had been achieved. He said we are under a dictatorship of labor and that there is much needless waste in the spending of public money.

Mr. Woodruff suggested that higher taxes would speed up strikes since the workers would strike to make up the amount paid in taxes. Secretary Morgenthau differed with him, expressing the view that the tax program would mean less strikes since inflationary price rises result in strikes and the taxes would hold down these price rises.

Mr. Disney asked if the general manufacturers' excise tax had been considered. The Secretary said that higher taxes on automobiles, radios and other

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products had been considered but the excise taxes had been confined to that kind of item. Mr. Disney suggested that a general manufacturers' excise tax would help in inflation control.

Mr. Disney then asked why the price problem should not be approached directly instead of through taxes. The Secretary said that the tax proposals were made with the idea in mind that there would also be a strong price control bill.

Mr. Disney suggested that taxpayers be given defense bonds and paid later.

Mr. Carlson asked whether if only the withholding tax were approved, would that be desirable without the social security changes. The Secretary said that if we could get \$3 billion from that source the effect would be very good. Mr. Carlson expressed opposition to the proposal for revising the social security system. The Secretary said he had brought all of the matters up so as not to undermine the Social Security Board's program by putting something else ahead of it.

Mr. Healey asked about the English system of forced saving. The Secretary said that such a plan might very well be necessary in the long run but he would rather not go into such a plan now at this early stage. Mr. Healey suggested that people would take the plan with better grace if the money were to be given back later. Mr. Cooper suggested that such a plan would not wipe out the deficit and that there would be nothing to pay back with later.

Mr. Doughton asserted that Congress must be active in economy or neither the taxpayers nor the bond buyers would stand for it and that, furthermore, the Government must stop strikes. Mr. Disney suggested that the situation would have to get worse before any thing would be done about strikes.

At this point the meeting became more or less generally confused and the Treasury representatives departed.

RB:dad
11/13/41

Statement of Secretary Morgenthau before the
Ways and Means Committee of the
House of Representatives

March 3, 1942

I am here to offer my suggestions as to our first Revenue Act of the war. I hardly need to emphasize the seriousness of the occasion. The task before us is to decide how this desperately serious war is to be financed and how its gigantic cost is to be distributed. Economic and social conditions during and after the war will depend to a large degree upon the courage and wisdom with which we attack these problems now.

To defeat the strongest combination of enemies in our history, we shall have to spend on a scale for which there is no precedent. If we are to equip and transport fighting men in sufficient numbers to turn the tide, if we are to furnish the weapons to the men who are doing the fighting, we shall have to use every ounce of our national energy and mobilize every possible dollar of our income. The President has announced a program involving expenditures of \$59,000,000,000 in the fiscal year 1943. We shall have to tax in accordance with the magnitude of that program and in accordance with the seriousness of the position in which we stand.

The President's Budget Message in January called for the raising of \$7,000,000,000 in new revenue from taxes, together with an additional \$2,000,000,000 to be obtained from the social security program. The

unprecedented sum of \$39,800,000,000 will have to be borrowed in the coming fiscal year, even if the new Revenue Act fulfills the President's hopes to the last dollar. I should like to urge, therefore, the adoption and attainment of the goal the President has set, not as the maximum but as the very least that the American people can afford to provide at this critical time.

Our task is more than the raising of a huge amount of new revenue. It is to make the tax program an instrument of victory. It is to frame the new Revenue Act so wisely and so soundly that it will facilitate the maximum production of war materials, hasten the mobilization of our resources, strengthen the unity of our people for the waging of total war, and prepare us for the new economic and social problems that will face us when the war is won.

This means, first, that the new Revenue Act must help to check inflation, for nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice. It undermines morale and impedes war production. It strikes at random without consideration of equity or ability to bear the hardships which it imposes. Once it has acquired momentum, inflation is extremely difficult to control, and leaves a heritage of post-war stresses and strains that will haunt us for decades.

Today we are confronted with a grave threat of inflation. Prices of food today are following precisely the trend of the first World War; prices of all commodities are rising at a somewhat slower but nevertheless disturbing rate. (A chart showing these trends is attached as Chart 1.) Unless effective preventive measures are taken by all the means at our command, we shall have a rapid general increase in prices, with a resultant rise in the cost of our war effort far beyond the figures now contemplated.

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The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires, first of all, the continuous and willing cooperation of every man and woman. It also requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Price control, rationing, and the regulation of consumer credit are other parts of such an integrated program.

It is important for us to remember that all these controls are interrelated. The devices of price control, allocation and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price and commodity controls are used.

We should, therefore, tax so as to withdraw the greatest possible volume of purchasing power at this time, when money incomes are high and the quantity of goods for civilian use is shrinking day by day because of the demands of our war effort.

A second obligation, second pressing duty, is the need for severe economy in the operations of Federal, State, and local governments. The anti-inflationary purposes of our taxing and savings program will be defeated if, at the same time, Federal, State or local governments indulge in unnecessary expenditure.

As you know, I recommended a few months ago the saving of at least \$1,000,000,000 in Federal expenditures which compete with war production and add unnecessarily to the volume of purchasing power in the hands of the people. I recommended especially the immediate reduction of expenditures on highway construction, rivers and harbors, non-defense vocational training and Federal subsidies to keep up the prices of agricultural products.

Since then some economies have been made, but a large field for economy remains, not only here in Washington but in the operations of State and local governments. I should like to urge once more that real and substantial economies be made as a corollary to the new tax program.

I do not mean that we should economize on the health and strength of our underprivileged, for that is no economy at all; but I do mean that we should save in subsidies to those who no longer need Government assistance, and in non-defense construction projects which can be postponed until the war is over.

I have spoken of the need of checking inflation and the need of cutting non-essential expenditures in financing the war effort; I come now to a third and most insistent need that should govern our wartime fiscal program. That is the need of holding fast to the basic principle of our tax system, namely, that taxes should be fair and non-discriminatory and imposed in accordance with ability to pay. The cost of this war will have to be borne by everyone. It will be borne willingly and cheerfully if the principle of ability to pay is followed.

In terms of the new tax program, this principle means that special privileges in our tax laws should be removed. It means that taxes which cannot be adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided. It means that undue profits should be recaptured wherever they occur. Unreasonable profits are not necessary in order to obtain maximum production with economical business management. The country will not tolerate the retention of undue profits at a time like this, when millions are pledging their very lives to save and perpetuate our freedom.

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All will be expected in the higher and lower recommendations which Committee will involve throughout the whole income now covered by

1. Individual Income

The individual income type of tax based upon and exemptions can be an income and differing from more, it is a direct tax, wants it to fall.

I recommend that the changed to yield approximately sixty percent more revenue than the present law.

In recommending this the fact that the great bulk of the social security changes incomes. In accordance with feel that the social security both as to coverage and as for this purpose should be \$2,000,000,000 a year. I am tions with regard to social fits in connection with this magnitude indicated should be the tax program.

As for the individual income I am suggesting a substantial surtax rates throughout the schedule give you a few examples to show increases on typical incomes.

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All will be expected to bear their fair share, in the higher and lower income levels alike. The recommendations which I shall now outline to the Committee will involve progressively increased taxes throughout the whole range of individual and corporate income now covered by our tax laws.

1. Individual Income Tax

The individual income tax is the best available type of tax based upon ability to pay. Its rates and exemptions can be adjusted to the size of personal income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

I recommend that the individual income tax be changed to yield approximately \$3,000,000,000, or about sixty percent more revenue than will be yielded under the present law.

In recommending this amount I have had in mind the fact that the great bulk of tax increases under the social security changes will also fall on individual incomes. In accordance with the President's views, I feel that the social security program should be expanded both as to coverage and as to protection, and that taxes for this purpose should be increased by approximately \$2,000,000,000 a year. I am not making any recommendations with regard to social security taxation or benefits in connection with this bill, but changes of the magnitude indicated should be kept in mind in planning the tax program.

As for the individual income taxes themselves, I am suggesting a substantial increase in the income surtax rates throughout the scale. I should like to give you a few examples to show the effect of these increases on typical incomes.

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A single person with no dependents, with a net income of \$3,000, pays \$221 tax under the present law; he would pay \$470 under the suggested schedule. A married person with two dependents, and with a net income of \$3,000, pays \$58 under the present law; he would pay \$118 under the suggested schedule.

A single person with no dependents and with a net income of \$10,000 pays \$1,493 under the present law; the suggested schedule would call for payment of \$2,720. A married person with two dependents and with net income of \$10,000 pays \$1,117 under the present law and would pay \$2,143 under the proposed schedule.

The accompanying chart and tables, which I shall now submit to the Committee, will show the rate scale and comparative effective rates of tax under the present law and under the suggested program. (Chart 2 and Tables 1,2,3,4.)

You will notice that these proposed schedules involve no further lowering of the personal exemptions, which now begin at an income of \$750 a year for a single person and \$1,500 for a married person, with a credit of \$400 for each dependent. The exemptions were lowered in the 1940 Revenue Act; they were lowered again in the 1941 Act, and their value has been reduced still further this year by the rise in the cost of living. Although single persons with less than \$15 a week and married persons with less than \$30 a week do not pay any direct taxes, they already pay a disproportionate part of their little incomes in indirect taxes of all kinds.

Moreover, a further lowering of the exemptions would yield a relatively insignificant amount of revenue from the earners of very low incomes. If I felt that the expenditures of this group added

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materially to the danger of inflation, I should not hesitate to recommend the lowering of the exemptions in spite of the small amount of revenue that would be produced. Our studies at the Treasury indicate, however, that the very lowest income earners have all they can do to feed and clothe themselves and their families. Their buying habits are governed strictly by the need of maintaining nutrition and health, and I cannot recommend a direct tax upon them until we have exhausted every possible source of revenue from those who enjoy higher incomes.

Because of the threat of inflation and because of large increases suggested throughout the existing rate scale, it becomes essential to afford a more convenient method for the payment of income taxes. The best available expedient for this purpose is a provision for collecting at the source for those incomes that are paid periodically, including wages, salaries, bond interest, and dividends.

To start such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary substantial speeding up of tax collection, we cannot afford to postpone collection at the source.

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Since it is not known how soon it may become necessary to speed up tax collection to check inflationary price rises, the Secretary of the Treasury should be authorized to begin the collection of income taxes at the source, at any time and at rates within his discretion up to 10 percent of wages and salaries, with an allowance for personal exemption and credit for dependents, and up to 10 percent of the full amount of dividends and interest. This would not be a supplementary tax; it would simply be a means of collection. It would furnish needed flexibility in relating tax collections to future economic conditions.

2. Corporation Taxes

It is recommended that additional taxes be raised from corporations in the amount of \$3,000,000,000, an increase of about forty percent.

A substantial share of the increased corporation tax should fall on excess profits. Taxes paid from such profits have less disrupting effects on business than taxes which are generally applicable to all corporate earnings irrespective of the rate of return. A tax which absorbs excess profits still leaves the corporate taxpayer with a sufficient margin of income for dividends and safety.

On the other hand, a tax which dips too deeply into the incomes of low earning corporations may seriously affect their debt-paying capacity, if not their very existence.

It is suggested that the maximum rate of the excess profits tax be increased from sixty percent to seventy-five percent with corresponding increases in the lower rate brackets.

The proposed increases in the excess profits taxes have the additional virtue of recapturing undue profits on war contracts. This method is far better than imposing profit limits specifically on war contracts. The difficulties of segregating profits on war contracts are very great and involve personnel, expense, uncertainty and litigation which we can ill afford at this time. Moreover, it is almost impossible to determine what rates of profit on cost or sales would be equitable under the widely varying special circumstances confronting different industries and contractors.

With rates of this magnitude it is increasingly important to have a fair basis from which to measure the profits subject to the excess profits tax. In addition to the many provisions in existing law to adjust earnings of the base period to take account of unusual circumstances, it is suggested that further relief be afforded where the earnings of the base period were abnormally depressed.

Other changes in the excess profits tax law should also be made, some to eliminate defects which have been brought to light in the operation of the law, and others to eliminate unnecessary hardships. These changes are of a more technical character and will be presented later, at the Committee's convenience.

There should be no further increase in the corporate normal rate because any such increase would result in an undesirable windfall to the holders of partially tax-exempt Federal securities.

It is suggested that the balance of the \$3,000,000,000 in additional corporate taxes be provided by a special war surtax which would absorb the present corporate surtax and would be imposed at the rate of thirty-one percent on corporations with incomes of more than \$25,000. This tax would differ from the present surtax in that a special tax credit would be allowed when the surtax net income for the current year has dropped in comparison to the income for the pre-war period. In a further statement, the Treasury will give the Committee a detailed explanation of this proposed

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war surtax and the reasons which have led the Treasury to recommend it.

There can be no fair quarrel with the imposition upon corporations of a substantial proportion of the increased load of taxation required by our national peril. We are fighting for the maintenance of the very system of free enterprise which makes corporate profits possible. At a time like this, I am confident that incorporated business will willingly pay additional taxes which will, after all, leave it in the aggregate about the same amount of income after taxes as during the years before 1940.

In the critical months ahead our patriotism will be put to the acid test. It must rise above the profit motive. National war production may be tragically inadequate if it depends upon that motive alone. This is a time when we must forget profits and concentrate upon a supreme productive effort which alone will win the war.

However, it is recognized that very high top, or so-called "marginal rates," may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond perhaps eighty cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.

The uncertainties of this period also make it important to reduce to the minimum the necessity for prophesying. The capital stock tax and the associated declared value excess profits tax are determined largely by the accuracy of guesses about future profits. It is

suggested that the revenue produced by these taxes can be more fairly and less harmfully produced by the other taxes on corporations and that accordingly the capital stock and declared value excess profits taxes be repealed.

3. Estate and Gift Taxes

The estate and gift taxes are imposed at the time of the transfer of wealth from one person to another. Many of the fortunes which are being transferred, and will be transferred in the future, were built up during a period when income tax rates were far lower than they are today. It is much more difficult now to build up large holdings of property. For this reason substantial increases in the estate and gift taxes should be imposed as a method of equalizing tax burdens. The suggested increases are indicated in attached tables. (Chart 3 and Tables 5 and 6.)

In conjunction with the rate increases, it is suggested that the existing insurance exclusion of \$40,000 be merged with the existing exemption of \$40,000, and that a single exemption of \$60,000 be allowed. This will increase the present exemption in some cases and decrease it in others, and will remove a discrimination between persons who are insured and those who are not.

It is likewise suggested that the exemption for the gift tax be reduced to \$30,000 and that the annual exclusion of gifts be made a total of \$5,000 for each donor regardless of the number of donees to whom property is given.

These changes in rates and exemptions, together with certain changes designed to prevent avoidance of the tax, should increase the annual revenue from estate and gift taxes by \$300,000,000.

4. Excise Taxes

New and increased special excise taxes on distilled spirits, gasoline, cigarettes, soft drinks, candy, and chewing gum, and other items listed in the attached

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table, are suggested to raise approximately \$1.3 billion of additional revenue. (Table 7).

Although these excise taxes are in the nature of sales taxes, their effects are substantially different from the effects of general sales taxes. Some of them are imposed on commodities of which there is or will increasingly be a scarcity. Such taxes not only yield revenue but help to conserve materials needed for the war. Those excise taxes not relating to scarce commodities have been chosen so as to fall on goods which are widely used and are of a luxury or semi-luxury character. The increase in consumer incomes will keep up the demand for those commodities despite the higher taxes. Needed revenue will thus be obtained, consumer purchasing power will be tapped, the producers will not be injured, and the consumers will not be taxed on necessities of life.

These special excise taxes have the further advantage of not requiring any substantial expansion of administrative machinery.

No general sales tax is recommended, and indeed, I strongly urge that no such tax be made a part of this revenue bill. The general sales tax falls on scarce and plentiful commodities alike. It strikes at necessities and luxuries alike. As compared with the taxes proposed in this program, it bears disproportionately on the low income groups whose incomes are almost wholly spent on consumer goods. It is, therefore, regressive and encroaches harmfully upon the standard of living. It increases prices and makes price control more difficult. It stimulates demands for higher wages and adds to the parity prices of agricultural products. It is not, as many suppose, easily collected; on the contrary, its collection would require much additional administrative machinery at a time when manpower is limited.

5. Removal of Special Privileges

There are in our tax system certain provisions which grant to relatively few of our people special advantages and privileges at the expense of the great

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mass who must pay what is thereby lost. I am reluctant to recommend that the great mass of the taxpayers of the United States should pay billions of dollars of additional revenues until these defects have been removed from the tax laws. They are bad enough in time of peace -- they are intolerable in time of war.

(a) Tax Exempt Securities. An important example of such a privilege is presented by tax exempt securities. Every element in our population should bear its fair share of the burdens which war imposes. Through tax exempt securities, however, persons with large tax-paying ability find themselves in a sheltered position. For the most part they did not buy these securities at prices reflecting to any significant extent the great favor of escape from wartime burdens, and surely the States did not offer the securities on any such basis. The holders of tax exempt securities are obtaining what are essentially windfall profits in a time of national sacrifice.

For a long time Presidents, Secretaries of the Treasury, and Congressional Committees have recommended the elimination of the tax exemption of interest on future Government securities. Last year the Congress, at my recommendation, removed the exemption on interest from future issues of Federal securities. No action has been taken with respect to the interest on future or outstanding State and local securities.

In times of peace, when the strain on other elements in the population was not so heavy, there was much to be said for the gradual elimination of tax exemption through taxing future issues only. The national emergency of war makes this gradual approach unacceptable. I therefore recommend the repeal of the present exemption applicable to outstanding issues of State and local securities.

Unfortunately, tax exemption clauses appear in many of the outstanding issues of Federal securities and these promises must not be violated. In the case of State and local securities, however, there has never

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been any contract or moral commitment between the Federal Government and the security holders or the State and local governmental authorities regarding Federal taxation. Since the Supreme Court decision in the case of Graves v. O'Keefe in 1939 fair-minded experts in constitutional law have had no doubt of the Federal power and moral right to tax the income from State and municipal securities.

A tax system cannot be defended which in a time of grave national emergency calls upon the great mass of our taxpayers to shoulder the heavy burden of additional taxes and yet permits persons with large tax-paying ability to pay virtually nothing in taxes. The sacrifices necessary to win a war for the benefit of all of us should be shared by all of us--including the holders of tax exempt securities. The President said in his Budget Message, "When so many Americans are contributing all their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes."

Taxing the interest of future and outstanding issues of State and municipal securities would yield \$200,000,000 a year.

(b) Percentage Depletion. A second example of special privilege is the allowance for depletion. At the present time the owners of mines and oil wells are allowed to deduct so-called percentage depletion or cost depletion, whichever is higher. Percentage depletion consists of a certain percentage of gross income (27-1/2 percent in the case of persons having an economic interest in oil and gas properties), the deduction being limited to fifty percent of the net income from the property. Under this arrangement percentage depletion goes on even after one hundred percent of the cost is recovered and may substantially exceed depletion based on cost.

In 1937 the President and the Treasury recommended the elimination of percentage depletion, but no action

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was then taken. The war has intensified the necessity for eliminating any such special favor to one group of taxpayers. The removal of this special privilege would yield \$80,000,000 a year.

One of the reasons asserted in behalf of percentage depletion for oil and gas properties is that it stimulates exploration for such properties. If this is a proper objective, it would be better achieved by a special depletion allowance to those who do explore without indiscriminate extension of the same favor to all owners. At the convenience of the Committee, we shall place before it a plan directed to this purpose.

So far as minerals other than oil and gas are concerned, it is believed that an adequate stimulus for exploration would remain if the percentages allowable for depletion purposes were substantially reduced or percentage depletion were eliminated.

(c) Separate Returns by Married Persons. A third example of special favoritism in the tax laws is the option allowed married couples to file separate income tax returns. This permission has little or no significance for most taxpayers since at the present time married couples with incomes of up to \$3,500 (the amount is higher in the case of married couples with dependents) pay the same total tax whether they file joint returns or separate returns. It may make a great deal of difference in tax, however, in the case of married couples with large incomes, especially if the income is more or less evenly divided between husband and wife.

This difference in tax is unwarranted since in actual operation the family is the economic unit. Two families with the same total income will usually manage and dispose of that income in a similar fashion, regardless of whether the income is received by only one spouse or is received by both spouses.

The adoption of mandatory joint returns would remove this tax differential and would also eliminate two specific kinds of tax avoidance which are present under existing law. The first is the treatment of community income in the so-called community-property States. In

the non-community-property States the income is taxable to the spouse who earns it. In the community-property States, however, the husband who earns the income may for tax purposes attribute half the earnings to his wife, although he retains the management and control of all the earnings. The result is that married couples with high incomes in community-property States receive a very substantial tax advantage over those living in other States. This advantage would be removed if joint returns were made mandatory.

A second source of tax avoidance which would be eliminated by mandatory joint returns is the possibility of manipulating incomes between husband and wife. For example, if the husband receives a large amount of income from securities, he may reduce the family income tax substantially (and also reduce the amount of estate tax in case he predeceases his wife) by giving a portion of his fortune to his wife. This, and other methods of reducing taxes by married couples, would be eliminated through provision for mandatory joint returns.

Accordingly, it is suggested that the filing of joint tax returns by married couples be made mandatory, with a special allowance for the earned income of the wife or the husband.

At the present rates of individual income tax, it is estimated that the revenue from requiring the filing of joint income tax returns would be approximately \$300,000,000.

(d) Other Special Privileges. There are other examples of special privilege in our tax laws which need to be removed. They are to be found in the provisions of our present laws affecting capital gains, insurance company taxes, and pension trusts, and will be discussed in detail later in these hearings. The removal of these additional methods of avoidance would yield about \$100,000,000 a year in additional revenue.

(e) Hardships on Taxpayers. The inequities of our tax laws work in two directions. As I have said,

some of them extend undue privileges to a favored few. Still others result in unfair burdens upon certain taxpayers. Let me give you a few examples of such inequities which need correction.

If you rent your house to tenants but are not in the real estate business, you are taxed on the rent you received but you may be denied the right to deduct your expenses in producing that income. If, as an individual, you expand your plant to produce war materials, you are denied the benefits of the amortization provision which applies to corporations. If you collect a debt which you previously charged off as worthless, the amount collected becomes part of your taxable income even though you received no tax relief when you charged it off. With rates at wartime levels it becomes urgent to correct all such defects. I, therefore, propose that we make every effort in this session of Congress to eliminate all hardships of this character so that our tax laws will cast their burden equitably upon all taxpayers.

Conclusion

The recommendations I have outlined to the Committee this morning would, if added together, produce over \$8,000,000,000 in additional revenue. Since the effects of any series of tax proposals are inter-related to some extent, we should deduct about \$1,000,000,000 from this total. That would give us the \$7,000,000,000 in new revenue which, as I said at the outset of my statement, should be regarded as the very least that we can call for at this time.

We are at war. An adequate tax program is vital to the successful prosecution of the war. The new taxes will be severe, and their impact will be felt in every American home. War is never cheap; but, as I have said before, it is a million times cheaper to win than to lose.

Chart I

PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1918

July 1914=100 World War Period; Aug. 1939=100 Present Period

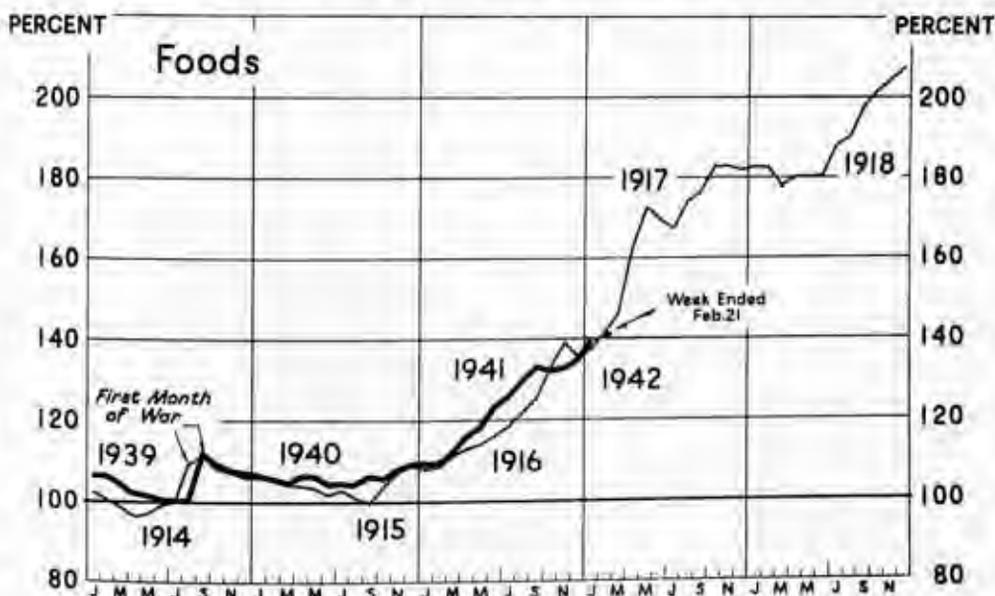
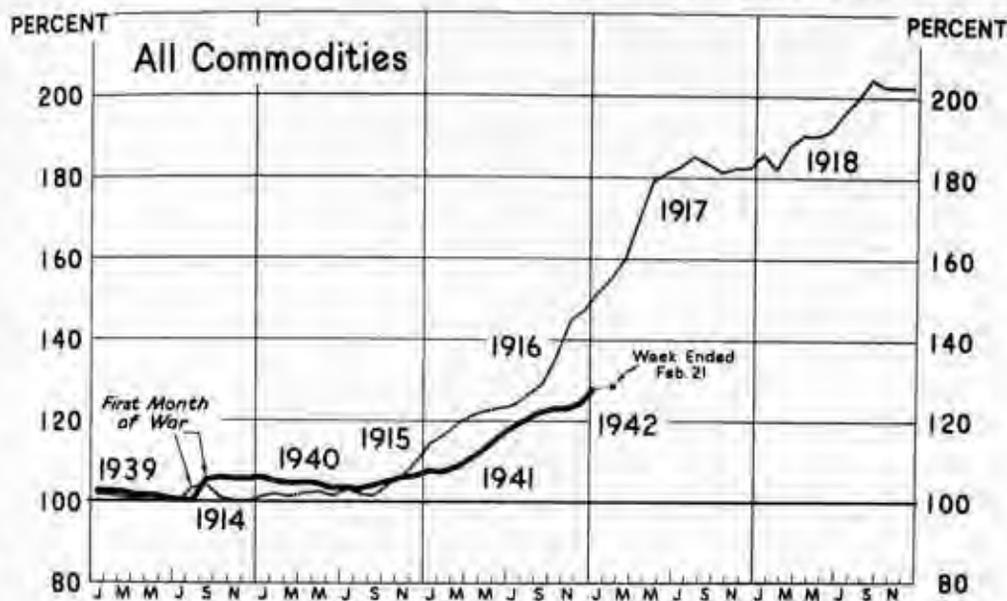


Chart 2

INDIVIDUAL INCOME TAX

Effective Rates for Married Person without Dependents
Under Present Law and Proposal

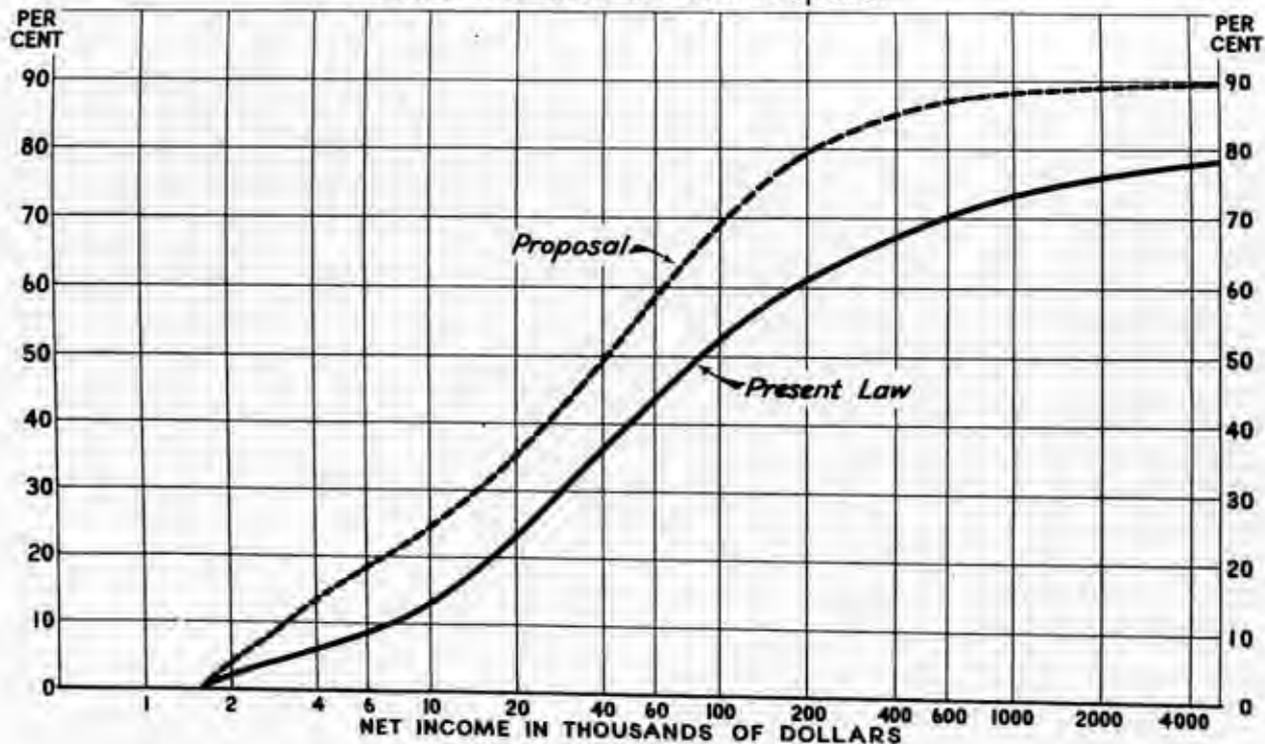


TABLE 1.

Comparison of individual surtax rate schedule under present law and proposal

Surtax net income (\$000)	Bracket rate		Total surtax, cumulative	
	Present law	Proposal	Present law	Proposal
\$.5 - \$.5	6%	12%	\$ 30	\$ 60
.5 - 1	6	15	60	135
1 - 1.5	6	18	90	225
1.5 - 2	6	20	120	325
2 - 3	9	22	210	545
3 - 4	9	24	300	785
4 - 6	13	27	560	1,325
6 - 8	17	30	900	1,925
8 - 10	21	34	1,320	2,605
10 - 12	25	38	1,820	3,365
12 - 14	29	42	2,400	4,205
14 - 16	32	45	3,040	5,105
16 - 18	35	48	3,740	6,065
18 - 20	38	51	4,500	7,085
20 - 22	41	54	5,320	8,165
22 - 26	44	57	7,080	10,445
26 - 32	47	60	9,900	14,045
32 - 38	50	64	12,900	17,885
38 - 44	53	68	16,080	21,965
44 - 50	55	72	19,380	26,285
50 - 60	57	76	25,080	33,885
60 - 70	59	78	30,980	41,685
70 - 80	61	80	37,080	49,685
80 - 90	63	82	43,380	57,885
90 - 100	64	84	49,780	66,285
100 - 150	65	86	82,280	109,285
150 - 200	66	86	115,280	152,285
200 - 250	67	86	148,780	195,285
250 - 300	69	86	183,280	238,285
300 - 400	71	86	254,280	324,285
400 - 500	72	86	326,280	410,285
500 - 750	73	86	508,780	625,285
750 - 1,000	74	86	693,780	840,285
1,000 - 2,000	75	86	1,443,780	1,700,285
2,000 - 5,000	76	86	3,723,780	4,280,285
5,000 and over	77	86	-	-

Table 2.

Amount of individual income taxes and effective rates
under present law and proposal

Single person - no dependents
Personal exemption \$750

Net income: before personal exemption	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 800	\$ 3	\$ 8	\$ 5	.4%	1.0%	.6%
900	11	24	13	1.2	2.7	1.5
1,000	21	40	19	2.1	4.0	1.9
1,100	31	56	25	2.8	5.1	2.3
1,200	40	72	32	3.3	6.0	2.7
1,500	69	128	59	4.6	8.5	3.9
1,600	79	147	68	4.9	9.2	4.3
2,000	117	230	113	5.9	11.5	5.6
2,500	165	345	180	6.6	13.8	7.2
3,000	221	470	249	7.4	15.7	8.3
4,000	347	735	388	8.7	18.4	9.7
5,000	483	1,023	540	9.7	20.5	10.8
6,000	649	1,333	684	10.8	22.2	11.4
8,000	1,031	1,990	959	12.9	24.9	12.0
10,000	1,493	2,720	1,227	14.9	27.2	12.3
12,500	2,178	3,740	1,562	17.4	29.9	12.5
15,000	2,994	4,888	1,894	20.0	32.6	12.6
20,000	4,929	7,473	2,544	24.6	37.4	12.8
25,000	7,224	10,418	3,194	28.9	41.7	12.8
50,000	20,882	27,715	6,833	41.8	55.4	13.6
75,000	36,487	48,055	11,568	48.6	64.1	15.5
100,000	53,214	69,625	16,411	53.2	69.6	16.4
500,000	345,654	429,610	83,956	69.1	85.9	16.8
1,000,000	733,139	879,610	146,471	73.3	88.0	14.7
5,000,000	3,923,124	4,479,610	556,486	78.5	89.6	11.1

Table 3

Amount of individual income taxes and effective rates
under present law and proposal

Married - no dependents
Personal exemption \$1,500

Net income before personal exemption	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 1,500	-	-	-	-	-	-
1,600	\$ 6	\$ 16	\$ 10	.4%	1.0%	.6%
1,700	13	32	19	.8	1.9	1.1
1,800	23	48	25	1.3	2.7	1.4
1,900	32	64	32	1.7	3.4	1.7
2,000	42	80	38	2.1	4.0	1.9
2,100	52	99	47	2.5	4.7	2.2
2,200	61	118	57	2.8	5.4	2.6
2,300	71	137	66	3.1	6.0	2.9
2,400	80	156	76	3.3	6.5	3.2
2,500	90	175	85	3.6	7.0	3.4
3,000	138	285	147	4.6	9.5	4.9
4,000	249	535	286	6.2	13.4	7.2
5,000	375	805	430	7.5	16.1	8.6
6,000	521	1,100	579	8.7	18.3	9.6
8,000	873	1,735	862	10.9	21.7	10.8
10,000	1,305	2,435	1,130	13.1	24.4	11.3
12,500	1,960	3,425	1,465	15.7	27.4	11.7
15,000	2,739	4,535	1,796	18.3	30.2	11.9
20,000	4,614	7,060	2,446	23.1	35.3	12.2
25,000	6,864	9,960	3,096	27.5	39.8	12.3
50,000	20,439	27,145	6,706	40.9	54.3	13.4
75,000	35,999	47,425	11,426	48.0	63.2	15.2
100,000	52,704	68,965	16,261	52.7	69.0	16.3
500,000	345,084	428,935	83,851	69.0	85.8	16.8
1,000,000	732,554	878,935	146,381	73.3	87.9	14.6
5,000,000	3,922,524	4,478,935	556,411	78.5	89.6	11.1

TABLE 4.

Amount of individual income taxes and effective rates
under present law and proposal

Married person — Two dependents
Personal exemption \$1,500, dependent credit \$400

Net income before personal exemption and dependent credit	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 2,300	-	-	-	-	-	-
2,400	\$ 6	\$ 16	\$ 10	.3%	0.7%	.4%
2,500	12	32	20	.5	1.3	.8
2,700	29	64	35	1.1	2.4	1.3
3,000	58	118	60	1.9	3.9	2.0
4,000	154	333	179	3.9	8.3	4.4
5,000	271	587	316	5.4	11.7	6.3
6,000	397	861	464	6.6	14.4	7.8
8,000	717	1,472	755	9.0	18.4	9.4
10,000	1,117	2,143	1,026	11.2	21.4	10.2
12,500	1,728	3,089	1,361	13.8	24.7	10.9
15,000	2,475	4,167	1,692	16.5	27.3	11.3
20,000	4,287	6,629	2,342	21.4	33.1	11.7
25,000	6,480	9,472	2,992	25.9	37.9	12.0
50,000	19,967	26,537	6,570	39.9	53.1	13.2
75,000	35,479	46,753	11,274	47.3	62.3	15.0
100,000	52,160	68,261	16,101	52.2	68.3	16.1
500,000	344,476	428,215	83,739	68.9	85.6	16.7
1,000,000	731,930	878,215	146,285	73.2	87.8	14.6
5,000,000	3,921,884	4,478,215	556,331	78.4	89.6	11.2

Chart 3
EFFECTIVE ESTATE TAX RATES
Before Credit for State Death Taxes

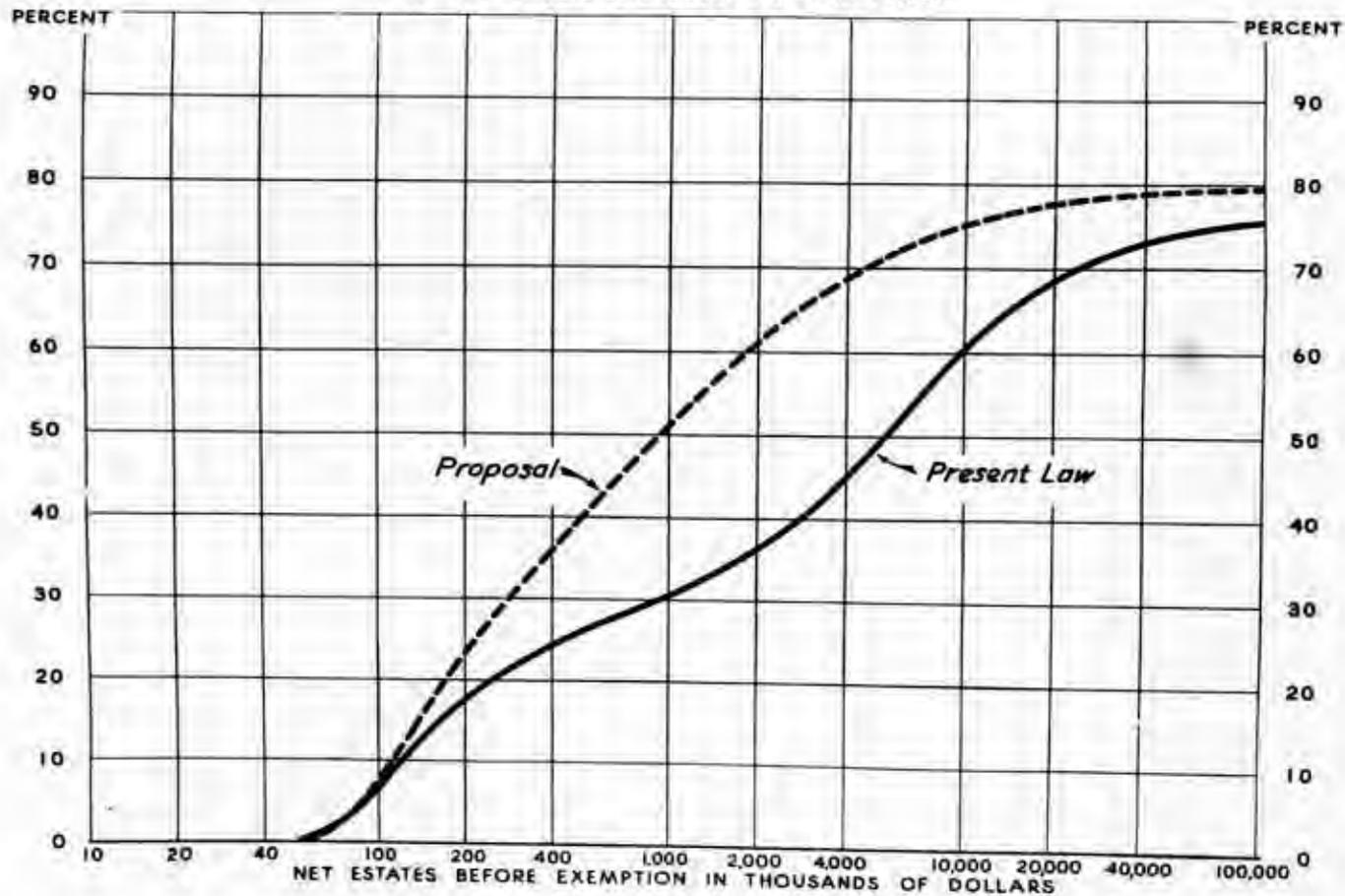


Table 5

Comparison of estate tax rate schedule
under present law and proposal

Net estate after: specific exemp- tion ^{1/} (\$000)	Bracket rate		Total estate tax cumulative	
	Present law	Proposal	Present law	Proposal
Under \$5	3%	8%	\$ 150	\$ 400
5 - 10	7	12	500	1,000
10 - 15	11	15	1,050	1,750
15 - 20	11	18	1,600	2,650
20 - 30	14	22	3,000	4,850
30 - 40	18	26	4,800	7,450
40 - 50	22	30	7,000	10,450
50 - 60	25	33	9,500	13,750
60 - 70	28	36	12,300	17,350
70 - 100	28	40	20,700	29,350
100 - 150	30	44	35,700	51,350
150 - 200	30	46	50,700	74,350
200 - 250	30	48	65,700	98,350
250 - 300	32	50	81,700	123,350
300 - 350	32	52	97,700	149,350
350 - 400	32	54	113,700	176,350
400 - 450	32	56	129,700	204,350
450 - 500	32	58	145,700	233,350
500 - 600	35	60	180,700	293,350
600 - 700	35	62	215,700	355,350
700 - 800	35-37	64	251,700	419,350
800 - 900	37	66	288,700	485,350
900 - 1,000	37	68	325,700	553,350
1,000 - 1,500	39-42	70	528,200	903,350
1,500 - 2,000	45	72	753,200	1,263,350
2,000 - 2,500	49	75	998,200	1,638,350
2,500 - 3,000	53	76	1,263,200	2,018,350
3,000 - 4,000	56-59	78	1,838,200	2,798,350
4,000 - 5,000	63	79	2,468,200	3,588,350
5,000 - 6,000	67	80	3,138,200	4,388,350
6,000 - 7,000	70	80	3,838,200	5,188,350
7,000 - 8,000	73	80	4,568,200	5,988,350
8,000 - 9,000	76	80	5,328,200	6,788,350
9,000 - 10,000	76	80	6,088,200	7,588,350
10,000 and over	77	80	-	-

^{1/} A specific exemption of \$40,000 and a life insurance exclusion of \$40,000 are allowed by the present law. The proposal would allow a single specific exemption of \$60,000 but no life insurance exclusion.

Table 5

Amount of estate taxes and effective rates
under present law and proposal

Net estate before specific exemption 1/ (\$000)	Amount of tax			Effective rate		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in ef- fective rates
\$ 60	\$ 500	-	\$ -500	.8%	-	-.8%
70	1,600	1,000	-600	2.3	1.4%	-.9
90	4,800	4,850	50	5.3	5.4	.1
100	7,000	7,450	450	7.0	7.5	.5
150	20,700	25,350	4,650	13.8	16.9	3.1
200	35,700	46,950	11,250	17.9	23.5	5.6
400	97,700	144,150	46,450	24.4	36.0	11.6
600	163,200	257,350	94,150	27.2	42.9	15.7
800	233,200	380,950	147,750	29.2	47.6	18.4
1,000	307,200	512,550	205,350	30.7	51.3	20.6
2,000	730,700	1,220,150	489,450	36.5	61.0	24.5
4,000	1,808,700	2,751,550	942,850	45.2	68.8	23.6
6,000	3,104,700	4,340,350	1,235,650	51.7	72.3	20.6
10,000	6,050,200	7,540,350	1,490,150	60.5	75.4	14.9
20,000	13,749,700	15,540,350	1,790,650	68.7	77.7	9.0
40,000	29,149,700	31,540,350	2,390,650	72.9	78.9	6.0

1/ The amounts shown as the size of the "net estate before specific exemption" include \$10,000 of life insurance. It is assumed that none of this insurance would have been taxable under present law, which allows a \$40,000 insurance exclusion, in addition to a specific exemption of \$40,000. The proposal would eliminate the insurance exclusion and provide a single specific exemption of \$60,000. In recent years the amount of excluded insurance has averaged about \$6,000 per taxable estate.

Table 7.

Excise Tax Proposals

Article	Present tax	Recommended tax rate and base	Estimated increases in revenue ^{1/} (In millions)	
1. Photographic apparatus	10% manufacturers' sales price	25% manufacturers' sales price	\$ 11.2	
2. Transportation by pipe line	4 1/2% of amount paid	10% of amount paid	15.7	
3. Communications:				
a. Telephone toll service	24-50¢, tax 5¢; additional 5¢ tax on each 50¢	25¢ to 39¢ 5¢ tax 40¢ = 64¢ 10¢ = 65¢ = 99¢ 15¢ = 5¢ additional tax for each 25¢ or fraction thereof)))))))))) 24.5	
b. Telegraph, cable	10% of charge	15% of charge		
c. Leased wires, etc.	10% of charge	15% of charge		
d. Local telephone bill	6% of bill	10% of bill		46.6
e. Coin-operated telephone under 25¢	Exempt	10% of service charge		6.7
4. Gasoline	1 1/2¢ per gal.	3¢ per gal.	242.2	
5. Lubricating oil	4 1/2¢ per gal.	10¢ per gal.	49.9	
6. Beer	\$6 per bbl.	\$8 per bbl.	117.1	

^{1/} Estimated full year effect of indicated excises at estimated fiscal year 1943 levels of business after allowing for the initial impact of the imposition of the augmented rates.

7. Wines:				
Still wines -				
Not more than 14% alcohol	8¢ per gal.	15¢ per gal.)	
14-21% alcohol	30¢ per gal.	50¢ per gal.)	
More than 21%	65¢ per gal.	100¢ per gal.)	25.0
Sparkling wines	7¢ per half-pint	10¢ per half-pint)	
Artificial carbonated wines	3½¢ per half-pint	5¢ per half-pint)	
Liqueurs, cordials, etc.	3½¢ per half-pint	5¢ per half-pint)	
8. Distilled spirits	\$4 per gal.	\$6 per gal.		279.7
9. Transportation of persons	5% of amount paid	15% on transportation; 20% on seats and berths		94.8
10. Carbonated soft drinks	None	a. Schedule for bottled drinks based on 1¢ per bottle re- tailing at not more than 10¢; b. 80¢ per lb. of carbonic acid gas used in unbottled drinks		146.9
11. Candy and chewing gum	None	15% manufacturers' sales price		45.3
12. Cigars	Rate schedule	New schedule 1/		13.1
13. Smoking tobacco	18¢ per lb.	36¢ per lb.		26.8
14. Cigarettes	\$3.25 per M.	\$3.50 per M - 10-cent brands; \$4.00 per M - 15-cent brands		188.6
15. Cigarette papers and tubes	Schedule	No exemption; tax all papers and tubes 1/2¢ per 25 papers or tubes		7.8
	Total			<u>\$1,344.9</u>

1/ Class A, retail price 2-5¢, tax \$2.50 M; B, 5¢, tax \$5.00 M; C, 5.1-8¢, tax \$7.50 M; D, 8.1-10¢, tax \$10.00 M; E, 10.1-15¢, tax \$15.00 M; F, 15.1-20¢, tax \$20.00 M; G, 20.1-30¢, tax \$25.00 M; H, 30.1 and over, tax \$40.00 M.

Table 8

Corporation tax plan under present law
and under the proposal

	: Present : : law ; Proposal	
1. Excess profits credit		
a. Invested capital method:		
First \$5,000,000 of invested capital	8%	8%
Over \$5,000,000 of invested capital	7	7
b. Income method:		
Portion of average earnings in base period, 1936-1939	95%	95%
c. Specific exemption	\$5,000	\$5,000
2. Excess profits tax rates		
Adjusted excess profits net income:		
First \$20,000	35	50
\$ 20,000 - 50,000	40	55
50,000 - 100,000	45	60
100,000 - 250,000	50	65
250,000 - 500,000	55	70
Over 500,000	60	75
3. Income tax		
a. Normal tax		
(1) Corporations with net income of not more than \$25,000:		
First \$5,000	15	15
\$ 5,000 - 20,000	17	17
20,000 - 25,000	19	19
(2) Corporations with net income over \$25,000:		
Flat rate	24	24
b. Surtax		
(1) Corporations with net income of not more than \$25,000:		
First \$25,000	6	16
(2) Corporations with net income over \$25,000:		
First \$25,000	6	31
Over \$25,000	7	31
(a) Relief provision: Corporations with current year surtax net income less than the average surtax net income for the base period years, 1936-1939, are allowed a tax credit of 10% of the difference, but not to exceed 20% of surtax net income. This provision applies only to corporations with net income over \$25,000.		

Table 9

Estimated revenue increase from
proposed tax program

	Increase over yield of present law ^{1/} <hr style="width: 100%; border: 0.5px solid black; margin: 0;"/> (In millions of dollars)
Individual income tax	\$ 3,200
Corporation taxes	3,060
Estate and gift taxes	330
Excise taxes	1,340
Removal of special privileges, approximately	680
Eliminate exemption from income and profits taxes with respect to interest from all State and local governmental obligations	\$ 200
Percentage depletion	80
Mandatory joint returns	300
Other, approximately	100
Grand total	\$ 8,610
Less allowance for interrelated effects, approximately	1,000
Approximate increase in revenue from proposed tax program	\$ 7,610

^{1/} For a full year of operation.

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INCOME TAX COLLECTION AT THE SOURCE

Statement of Randolph E. Paul,
Tax Adviser to the Secretary of the Treasury,
Before the Ways and Means Committee
of the House of Representatives
on the reasons for recommending
collection at source

May 20, 1942

In his statement of March 3, 1942, Secretary Morgenthau suggested that part of the income tax be collected at source for those types of income for which this method of collection is practicable. Before presenting an outline of the method by which collection at source could be put into operation, we should like to indicate the advantages of this method, particularly under present circumstances. These advantages are primarily: (1) Lightening the burden on the taxpayer; (2) greater speed and flexibility in meeting the threat of inflation; and (3) greater assurance of collection for certain groups of taxpayers.

1. The convenience of the taxpayer. -- At present exemption levels, approximately 20 million taxpayers are expected to pay a tax on their 1942 incomes. At the lower exemption levels tentatively approved by the House Ways and Means Committee, the number of taxpayers would be increased by about 8 million, making a total of about 28 million taxpayers in all. Under the rates proposed by the Treasury, the tax would begin at sixteen percent on the first dollar of income above the exemption. The rates are rapidly progressive, as they must be, to raise in an equitable way the amount of revenue that needs to come from the income tax. The result is a tax burden that many persons will find very difficult to meet under the present method of payment.

At present, individuals pay their tax in the year following the receipt of the income on which the tax is levied. Most persons, especially in the middle and lower income brackets, make little if any advance provision for their tax liabilities by building up reserves during the year when the income is being earned. They are therefore obliged to pay the tax in, at most, four quarterly installments, out of the income of the following year. These installments are in many cases very hard to meet because they have not been built up bit by bit, week by week, or month by month. Furthermore, in numerous cases the income of the following year is less than the income of the taxable year and, accordingly, the tax liability must be met out of a smaller income. This problem threatens to be particularly acute at the end of the war. Many will suffer large declines in income and yet be obligated to pay heavy wartime taxes on the high incomes of the preceding year.

The burden on the taxpayer would be considerably lightened if the tax were taken from his income week by week or month by month as he receives it. Collection at the source provides a convenient method of accomplishing this objective, of enabling the taxpayer to pay his tax currently in a large number of small installments rather than in a few large installments in the succeeding year. While no method of paying taxes can make them painless, collection at source is the most nearly painless of any method because the tax is paid in small amounts before the taxpayer receives his income and spends it.

Furthermore, it is very much to the taxpayer's advantage to have a substantial part of his tax liability liquidated while he is receiving his income. Under the present system he ends each year in debt to the Government. This debt for his income tax is as burdensome as any other debt and can have just as serious effects on the taxpayer's budget if his income falls off or his expenses greatly increase.

The first reason for urging the adoption of a system of collecting the income tax at source on such portions of income as are adapted to this method is, therefore, that the convenience of the taxpayer is thereby served and the weight of the tax burden is reduced.

2. The control of inflation. -- The introduction of collection at the source is essential not only because it would be a permanent improvement in the income tax, but also because it would make the income tax a more effective fiscal instrument for the control of inflation. In order that increases in taxes contribute most effectively to the control of inflation, they must begin to withdraw income at once. Under present methods of payment, an increase in income taxes enacted now will not affect tax payments until March 1943. By the time the higher collections become effective, the inflationary damage may be done.

Collection at source would largely eliminate this lag. Income taxes can be increased and the collections under the increased rates can begin almost immediately instead of many months or even a year later.

Collection of income taxes simultaneously with the production of the income will make the income tax better adjusted to the needs of the economy at all times, and not only at times like the present, when inflation threatens. In periods when incomes are falling and unemployment is increasing, it will contribute to economic stability if the taxpayers are out of

- 3 -

debt to the Government, so that their purchases of goods and their other economic activities are not unduly hampered by the necessity of paying income taxes on income received in a more prosperous year.

Accordingly, to get the maximum effect in restraining inflation, and to make the income tax better suited to the needs of the economy, it is important that as much of the income tax as possible be collected currently while the income is being earned. The most practical method of doing this is through collection at source for those parts of the income to which this method is applicable.

If collection at source were introduced July 1, 1942, at a 10-percent rate, there would be withheld from consumers during the last 6 months of this year alone about a billion and a quarter dollars under the lowered exemptions tentatively adopted by the House Ways and Means Committee. This is at an annual rate of 2½ billion dollars. If the present system of collection is retained, there will be no increase in the amounts collected from consumers until March 1943.

3. The improvement of collections from small taxpayers.-- As the number of taxpayers increases the problem of getting a full reporting of income likewise increases. The American system of income taxation is one of self-assessment. The taxpayer files his return, lists his income, and computes his tax. To a considerable extent, of course, he is assisted in these operations by representatives of the Government, but the initiative is his. By and large, this system has worked well, although, as we all know it has not worked perfectly. That non-reporting and underreporting have not been greater is attributable in considerable measure to the reporting of information at source. The employer, for example, is required to submit to the Government a slip for every person receiving more than \$800 of wages or salary showing his name, address, and the amount of wages or salaries paid to him. Ordinarily, a copy of this slip is sent also to the employee. This reporting system, on the one hand, gives the employee notice that the Government has been informed of his income and, on the other hand gives the Government a source of information against which to check the income-tax return. While the appropriations made available to the Bureau of Internal Revenue have not permitted a complete check of the information returns against the income-tax returns, a great deal of checking has been done with the result that the reporting by workers has been found to be very high and the loss of revenue due to lack of reporting relatively low.

Nevertheless, the lowering of exemptions and increase in number of returns subjects to the income tax groups that are less well informed about tax matters and are less likely to file a return at the same time that it increases the task of checking the returns. Further, when the checking reveals a delinquency, the delinquency must be treated taxpayer by taxpayer.

The collection-at-source method not only gives the Government information about the employee's compensation but also gives the Government a large part of the tax, the part it receives depending on how much of the tax is collected at source. With the income tax extending more and more into the masses of the population, collection is thereby assured in areas where there would be an increasing likelihood of its breaking down.

The importance of this problem is illustrated by the experience of England and Australia. In both countries taxation at the source was introduced primarily for the purpose of easing the payment problem and of facilitating the collection of the income tax, rather than for anti-inflationary purposes.

The third reason for adopting collection at source is therefore the more complete tax collection that should result therefrom.

Against these advantages of collection at source must be set the disadvantage arising from the administrative difficulty inherent in this type of collection. Collection of an income tax at source involves the same type of administrative difficulty of matching returns as in the administration of the Social Security pay-roll taxes. It involves some additional difficulty, notably in checking the tax return at the end of the year against the payments which have been made from time to time by the employer on account of his employees and in making refunds in those cases where too large an amount has been collected because of irregularity of employment. These administrative problems are revealed in more detail by the description that follows of the plan that has been developed for the collection of the individual income tax at source. While this plan can doubtless be improved in some of its details, I believe we have succeeded in working out an entirely practicable plan.

It is our conviction that if proper provisions are made for its administration, collection at source is a highly desirable method of collecting the income tax and that its very great advantages far outweigh the administrative difficulties which would arise. Accordingly, we recommend to the committee that it provide for collection of the income tax

at source on salaries, wages, bond interest, and dividends. The income tax is no longer a tax on the fortunate few; it has become a people's tax. This change in coverage demands a change in methods of collection. Self-assessment and quarterly installments are no longer adequate. They should be supplemented by collection at source, the only method that is suited to the needs of a multitude of new taxpayers. The enactment of collection at source will prove a boon to these taxpayers, will convert the income tax into an effective fiscal instrument for the control of inflation, and will insure the collection of the taxes levied.

An income tax which covers as many as 20 or 30 million people cannot function effectively without collection at source. In my opinion the very existence of the income tax of the scope proposed depends upon the adoption of this new collection device.

SUMMARY OF PLAN FOR COLLECTION OF INDIVIDUAL INCOME TAX AT SOURCE

Collection at source will apply to three types of incomes: (1) Wages and salaries, (2) bond interest, and (3) dividends.

A. CURRENT WITHHOLDING

1. Wages and salaries -- (a) Each employee will fill out and give to his employer an exemption certificate, indicating marital and dependency status, and, if married, whether the spouse is also employed.

(b) On the basis of the exemption certificate, the employer will classify the employee according to the exemption to which he is entitled.

(c) Each pay period the employer will withhold from the employee's wage or salary an amount determined by applying the withholding rate to the excess of the wage or salary over the exemption to which the employee is entitled.

(d) The employer will determine the exemption to which the employee is entitled by reference to a table to be furnished by the Bureau of Internal Revenue. (See attached exhibit) This table will show the exemption for different marital status and dependent groups and for different pay periods (weekly, semimonthly, monthly).

(e) This table will be computed by adding an arbitrary allowance for deductions to the annual personal exemption and credit for dependents, and prorating the sum over the number of pay periods.

(f) At the end of each quarter, the employer will remit to the Bureau of Internal Revenue the amounts withheld during that quarter.

(g) At the end of the year the employer will send to the Bureau of Internal Revenue the exemption certificates filled out by the employees, entering on each the amount of wages paid during the year and the amount of tax withheld.

(h) At the end of the year, or at the termination of employment, the employer will give the employee a duplicate of his exemption certificate, entering on this duplicate the amount of wages paid during the year and the amount of tax withheld. This duplicate will serve as a receipt for the taxes withheld. In addition, small employers will be required to give the employee each pay period a receipt for the amount of tax withheld.

2. Bond interest and dividends. -- (a) Corporations and other institutions exempt from the individual income tax will file exemption certificates with the payors of interest or dividends certifying to their exempt status.

(b) Individuals who expect their total annual income to be less than the exemption and dependent credit to which they are entitled may also file exemption certificates with the payors, certifying to that effect.

(c) Payors of bond interest and dividends will withhold the tax on payments to all recipients who have not filed exemption certificates. The amount withheld will be computed by applying the withholding rate to the total amount of interest or dividends paid. By not withholding on payments to persons who have filed exemption certificates, relief is given to persons with small incomes derived largely from interest and dividends.

(d) All payments of dividends and interest on which the tax has been withheld will be accompanied by a receipt for the amount withheld.

(e) At the end of each quarter, payors of dividends or bond interest will remit to the Bureau of Internal Revenue the amounts withheld during that quarter.

(f) At the end of the year, the employer will send to the Bureau of Internal Revenue a list of all payments made during the year, the amount of tax withheld from each recipient, and the exemption certificates for recipients not subject to withholding.

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B. YEAR-END ADJUSTMENT

(a) All persons from whom any tax has been withheld will be required to file an individual income-tax return by March 15 of the following year, along with all other persons required to file returns.

(b) The tax liability will be computed as at present.

(c) The tax form will carry space for entering the amount of tax withheld at source.

(d) If the tax liability exceeds the amount withheld, the difference represents the amount the taxpayer must pay to satisfy his liability.

(e) If the amount withheld exceeds the tax liability, the difference represents the refund to which the taxpayer is entitled.

(f) If the refund claimed is less than \$50 and if the taxpayer submits with his tax return receipts for all amounts withheld at source, the refund will be made promptly without further evidence.

(g) The information given by employers and by payers of interest or dividends will be matched with the individual income-tax returns. This will furnish a check on the additional tax liability of individuals whose liability exceeds the amount withheld at source and a validation of the claims for refunds.

(h) Refunds not made promptly (as described in (f) above) will be made as soon as the tax returns have been compared with the reports of employers and of payers of interest and dividends.

Exhibit 1.

Amount of wage or salary to be exempt from collection at source under personal exemptions and credit for dependents tentatively adopted by House Ways and Means Committee: Single person (not head of family), married person or head of family, and each dependent, by payroll period

Payroll period	: Single person : : (not head of : : family)	: Married person : : or head of : : family	: Each : : dependent :
Weekly	\$ 11	\$ 26	\$ 6.50
Bi-weekly	22	52	17.00
Semi-monthly	23	55	18.00
Monthly	46	110	36.00
Quarterly	138	330	108.00
Semi-annually	276	660	216.00
Annually	552	1,320	432.00

Treasury Department,
Division of Tax Research.

May 20, 1942

Herbert Gaston
Randolph Paul
Peter Odgaard

March 15,
1943

Secretary Morgenthau

What would you think of trying to get some of the richest men in the country to come out and make a public statement against the forgiveness of their last year's taxes? And starting with a man like John D. Rockefeller, Jr., have them say that they want to pay their taxes as a contribution towards the war.

The next thing is to get the man to go around and see these people, and I've got the man in Leffingwell, as he is against the Rural Plan and I'm sure that he would be willing to go around and see these people if we gave him the names.

I wish that the three of you would talk it over, and then come and talk to me about it. I think it's got possibilities, particularly if we have Leffingwell to go around and see them.

*See memos from Paul
and Odgaard - 3.16.43*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

to Mrs. Klotz
from Joseph Gaer

March 15, 1943

Topic: Tax education of new taxpayers

In 1943-44 there will be five times as many taxpayers as there were in 1939. The majority of the new taxpayers will be people of limited education, many on the border of illiteracy. It is not so important to train these new taxpayers how to make out their tax returns (most of them will undoubtedly use the simplified form 1040a or a similar form that may be evolved after tax deductions are made at the source); but it is very important to educate these people in the meaning of Federal taxes, what taxes buy for them, what constitutes equitable and inequitable taxation, and the relation of taxation to democracy. It is the duty of the Government to inform the people what they are paying for and to convince them that it is to their own benefit to pay it.

Such a vast education job cannot be done between February 15 and March 15 of each year. Nor will it be accomplished by a committee appealing to teachers into whose laps the entire problem is dumped.

The first task is to outline what is needed in tax education materials. These materials have to be prepared at several literacy levels. Outlines and guides for teachers have to be assembled. Arrangements have to be made to introduce the topic of taxation through various adult education outlets, workers' education groups, labor-management committees, the general education press, youth movement publications, etc. This requires a complete education program. Various devices would have to be used to suit different types of audiences. For some publications series of brief arguments on "Why Taxes" may be needed, similar to the series I have worked out for the Civic Education Service on "Why War Stamps" (see copies attached). For workers' classrooms at a low literacy level and for foreign-born adults, a series of simplified arguments may have to be prepared so that they may combine the teaching of reading with taxation.

The task is not a difficult one, but one that can be done well only on a year-round education basis.

Why WAR STAMPS

II. What Stamps Will Buy

Buying one 10-cent war stamp may not seem like an important contribution to the war program. But when these individual purchases are multiplied by the thousands, and even millions, they add up to an impressive amount of money for the government to use in fighting the war.

When the government sells these stamps, it can take one of the dimes to buy five cartridges for a .45-caliber pistol. The money obtained from two 10-cent stamps will purchase one cartridge for a large anti-aircraft machine gun. The sale of three stamps will furnish money for one bag in which messages can be dropped from an Army plane. Or the 30 cents may be used to purchase two pairs of socks for a soldier.

Many of the weapons and materials which the Army and the Navy require, of course, cost a great deal of money. The price of a single military motorcycle is \$400, but it is paid for when 4,000 young people each buy a 10-cent war stamp. As soon as 850 individuals buy a 10-cent stamp apiece, there is enough money to pay for another Garand rifle.

An Army "jeep" costs \$900—or the money from the sale of 9,000 10-cent stamps. An anti-aircraft searchlight costs \$30,000, or 300,000 10-cent stamps; a pursuit plane, 502,500 stamps; a medium tank, 547,500 stamps; and a Flying Fortress, 3,502,500 stamps.

These are large sums of money, but they are being raised because thousands of individuals are buying the 10-cent stamps, as well as the larger stamps and bonds. It is this kind of teamwork which will help us to pay for the war.

JUNIOR REVIEW 9-26-42

Why WAR STAMPS

III. War Stamps and Inflation

Inflation is the greatest menace to America on the home front today. We have seen how rapidly rising prices, the growing scarcity of goods, and a surplus of spending money have brought about a situation which endangers our whole war effort.

The nation has become aware of this problem and is anxiously looking to Congress and the President for action to halt inflation. Millions of families are worrying about the increasing cost of living.

But how many of these families—how many people—realize that action on the part of Congress and the President alone cannot entirely solve the inflation problem? Congress and the President can act to control prices and wages, they can raise taxes, they can do other things which will do much to halt inflation. But to be successful they must have the help of the people—of individuals like yourself.

One of the most important causes of inflation is that there is more money in circulation than there are goods to spend it on—about 20 billion dollars more this year. With so much money around it is almost impossible to hold down prices.

If we are to be safe, the large excess of spending money must be drained off. That can be done partly through higher taxes, and partly through the sale of war savings stamps and bonds. Every time a dime or a dollar is invested in stamps and bonds, it reduces by that much the dangerous surplus of spending money which is helping to cause inflation.

Every time you buy a war savings stamp or bond you are doing the most important thing you can do to stop inflation. You are also helping to win the war.

JUNIOR REVIEW 10-5-42

MEMORANDUM

March 15, 1943.

TO; The Secretary
FROM: Mr. Sullivan

TJS

I am attaching a list of the networks which carried the emergency income tax messages. This was furnished to me by Mr. Rogers of OWI.

List of network shows to carry the
emergency income tax message

March 11 - Thursday

Major Bowes	WJSV	9:00 PM
Good Old Days	WMAL	7:05 PM
Maxwell House	WRC	8:00 PM
Lum and Abner	WMAL	8:15 PM

March 12 - Friday

Mystery Shorts	WMAL	2:15 PM
The Goldbergs	WJSV	1:45 PM
The Thin Man	WJSV	8:30 PM
Boake Carter	WOL	12:00 Noon
Cities Service Concert	WRC	8:00 PM
People Are Funny	WRC	9:30 PM

March 13 - Saturday

Morning Market Basket	WMAL	10:00 AM
Campana Serenade	WRC	10:15 PM

March 14 - Sunday

Parker Family	WMAL	9:15 PM
World News Today	WJSV	2:30 PM
Meet Corliss Archer	WJSV	7:00 PM
Walter Compton	WOL	10:45 AM
One Man's Family	WRC	8:30 PM
Chase & Sanborn	WRC	8:00 PM
Take It Or Leave It	WJSV	10:00 PM
John B. Hughes	WOL	10:00 PM
John Charles Thomas	WRC	2:30 PM
The Great Gildersleeve	WRC	6:30 PM

March 15, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I am attaching a list of those who have accepted invitations to attend the conference on Saturday, March 20, and am supplying a copy to Mr. Robbins. I have asked Mr. Robbins to suggest the names of those here in the Treasury who ought to attend, but I believe you may want to pass on that list.

I am making arrangements through Mr. Thompson for a luncheon to be served at 12:30 in Room 198 and also at Mr. Robbins request have asked George Haas to arrange for Lindow, or someone else of his staff, to give a talk in the morning similar to that already given to the Federal Reserve people. This, according to Robbins' idea, would be given in the Chart Room after adjournment from your office where I understand the group is to meet at 10:30 on Saturday. The luncheon is set for 12:30 and the present plan is that General Marshall will speak at the luncheon table.



Attachment.

March 15, 1943.

ACCEPTANCES

Roy D. Moore, President,
Brush-Moore Newspapers,
State Administrator, War Savings Staff,
Cleveland, Ohio.

Linwood I. Noyes,
Advertising Council,
The Globe,
Ironwood, Michigan.

Walter M. Dear, President,
American Newspaper Publishers Assn.,
Jersey Journal,
Jersey City, N.J.

O. G. Andrews, President,
New England Daily Newspaper Assn.,
New London, Connecticut.

A. C. Hudnutt, President,
Inland Daily Press,
Chronicle-Telegram,
Elyria, Ohio.

Basil L. Walters, Managing Editor,
The Star Journal,
Minneapolis, Minnesota.
(Alternate of Roy Roberts, ASNE)

E. H. Abels,
National Editorial Association,
The Outlook, Lawrence, Kansas.

Gardner Cowles, Jr.,
Office of War Information.

Governor James M. Cox,
Publisher, Miami Daily News and Dayton (Ohio) Daily News,
(certain, but will try to come)

Cranston Williams, Gen. Mgr.,
American Newspaper Publishers,
370 Lexington Avenue,
New York City.

E. S. Friendly,
Advertising Council,
New York Sun,
New York City.

Charles P. Manship, President,
Southern Newspaper Publishers,
State-Times and Advocate,
Baton Rouge, Louisiana.

George B. Parker, Editor in Chief,
Scripps-Howard Newspaper Alliance,
Washington, D.C.
(Alternate of Mr. Roy Howard)

Frank E. Gannett,
Rochester Times Union,
Rochester, New York.

John S. Knight, Vice President,
American Society of Newspaper
Editors,
Miami Herald, Miami, Florida.

Thomas White,
Hearst Publications,
959 - 8th Avenue, New York City.
(Alternate of J. D. Gortatowsky)

REGRETS

Arthur H. Sulzberger,
President, New York Times,
New York City.

Paul Scott Mowrer,
Editor, Chicago Daily News,
Chicago, Illinois.

S. R. Winch, President,
Pacific Northwest Newspaper Assn.,
Oregon Journal,
Portland, Oregon.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Mar. 15, '43

TO THE SECRETARY
FROM TED R. GAMBLE

I just want to go on record as saying to you that I cannot endorse the Organization Chart which was shown me this morning.

I discussed this at least for an hour-and-a-half with Mr. Bell and Mr. Robbins, and was firmly convinced that it would be much better to proceed informally for the April drive.

I am sorry that you did not have a chance to hear the objections I raised, for it is my opinion that they are valid ones and that we should come to a positive and final conclusion as to the future place of the War Savings Staff before attempting any re-organization.

Mr. Robbins knew that I was not in agreement with him, and he suggested that he would discuss this matter with me during the afternoon, but I have heard nothing further from him.

MAR 15 1943

Dear Mr. Allen:

Mr. Gamble has told me of the excellent campaign sponsored by members of your organization, to replace the Cruiser ATLANTA.

All of your people who took part in this campaign are to be complimented. I regret that I was unable to be present to thank them in person for the good work they have been doing throughout our campaign in promoting the sale of War Savings Bonds.

Keep up the good work.

Cordially yours,

(Signed) H. Morgenthau, Jr.

Mr. Marion E. Allen
State Administrator
War Savings Staff
Atlanta, Georgia

TEG:cca

MAR 15 1943

Dear Mr. McLarin:

I regret very much that weather conditions forced me to cancel my visit to Atlanta. I was looking forward to meeting with you and your Treasury War Finance Committee workers on Saturday.

Mr. Gamble has reported to me that he was very much impressed with your spirit and approach to the big job that lies ahead of us.

I am grateful to you for your help and wish to thank you for your very considerate invitation. I trust that I shall have better luck at another time.

Cordially yours,

(Signed) H. Morgenthau, Jr.

Mr. W. S. McLarin
President
Federal Reserve Bank
Atlanta, Georgia

TRQ:ees

MAR 15 1943

Dear Mr. Conner:

I regretted the necessity of having to cancel my contemplated visit to Atlanta on last Friday evening very much indeed. Frank Knox has already told me of his thoroughly enjoyable visit and of the magnificent job that you and your co-workers did during the Atlanta Cruiser Campaign.

I wish to thank you for the part you played in this, and, through you, your workers for their achievements. The fine support you had from the ATLANTA CONSTITUTION, the ATLANTA JOURNAL, your radio stations and the untiring efforts of all the good people in your community, is an example of the kind of patriotism that will carry us forward to a victorious conclusion of the war.

Cordially yours,

(Signed) Henry Morgenthau, Jr.

Mr. John L. Conner
Chairman,
New Atlanta Cruiser Committee
113 Hurt Building
Atlanta, Georgia

TMS:cm

Picture sent, autographed:
"For John L. Conner with sincere
regards, Henry Morgenthau, Jr.
1943"

MAR 15 1943

Dear Margaret Mitchell:

I was delighted to receive this morning your "Confederate Token of Friendship". I am indeed sorry that I cannot put it to work for you in the manner in which you have suggested, but I hasten to say that I shall cherish it always as a nice gesture from a true lady of the South.

I regret that I had to cancel my trip to Atlanta at the last moment, as I would have enjoyed meeting with you and those enthusiastic Atlantians, who put on such a splendid campaign to perpetuate the glory of your famous fighting ship.

With all good wishes, I am

Cordially yours,

(Signed) Henry Morgenthau, Jr.

Margaret Mitchell
Atlanta, Georgia

TH:cca

WOODROW WILSON AND SALE OF WAR BONDSI. Activities as shown in attached material1917

- May 31 Letter to McAdoo sending subscription to Liberty Loan. In: Statements issued by McAdoo, v.5, no.80, May 31, 1917.
- October 12 Proclamation designating a "Liberty Loan" Day, October 12, 1917. In: State Papers and Addresses by Woodrow Wilson, pp.430-431.
- October 15 Proclamation designating Wednesday, October 24, 1917, as "Liberty Loan" Day. In: Statements issued by McAdoo, v.5, no.345, October 15, 1917.
- November 16 President Wilson to the district and state directors of the war savings campaign at the White House. In: Statements issued by McAdoo, v.6, no.93, November 16, 1917.

1918

- April 6 Nation's pledge for liberty day. Statement reprinted. In: Congressional Record, v.56, pt.5, 65th Cong., 2nd sess., p.4691. April 6, 1918.
- May 30 Appeal to save constantly and buy as regularly as possible. In: Statements issued by McAdoo, v.7, no.76, May 30, 1918.
- September 28 Request to people of the country to loan their money. Letter. In: Statements issued by McAdoo, v.7, no.233, September 28, 1918.

1919

- April 20 Victory Liberty Loan. Statement. In: Statements issued by Carter Glass, v.8, no.267, April 20, 1919.
- May 9 Appeal for success of last Liberty Loan, cable to Secretary Glass. In: Statements issued by Carter Glass, v.8, no.294, May 9, 1919.

WOODROW WILSON AND SALE OF WAR BONDS

II. Activities listed in New York Times Index 1917-1919

(New York Times not available in Treasury Library for these years. Material especially desired may be seen at New York Times office in Albee Building or at Library of Congress. Material may be obtained in photostat form from Library of Congress.)

1917

- May 22 3:3 Letter to Boy Scouts of America enlisting aid to promote loan.
- May 27 I., 3:3 Letter to Boy Scouts commending aid.
- June 1 1:4 Subscribes \$10,000.
- Sept. 23 I., 8:6 Appeals to Boy Scouts of America for aid in campaign.
- Oct. 8 11:1 Will present American flag to Boy Scout troops securing most subscriptions.
- Oct. 15 1:8 Liberty Loan Day proclamation.
- Oct. 21 I., 9:3 Message delivered to Mayor Mitchel, New York City.
- Oct. 24 3:4 Attends bonfire celebration in Washington, D.C.
- Oct. 26 3:2 Amount of subscriptions to both loans.

1918

- March 16 22:2 Appeals to Boy Scouts to aid in third loan.
- April 5 6:2 Signs bond bill.
- April 7 1:8 Opens campaign in Baltimore.
- April 9 1:1 Subscribes \$1,000 at a theatre.
- April 20 13:2 Editorial.
- April 29 5:3 Sends message to meeting of German Americans at Union Hill, New Jersey.
- May 2 1:2 Subscribes for \$50.00 bond on monthly installment plan and authorizes request that as many persons as possible match his subscription.

1918

May 5	9:3	Subscribes to \$500 bond at theatre for fund to meet challenge.
Aug. 16	6:7	Writes appeal to be used in advertisements.
Sept. 1	6:3	Plans speech making tour.
Sept. 3	6:6	Speech making tour plans.
Sept. 6	12:8	Tour unlikely.
Sept. 10	12:6	Announces decision to abandon trip through West.
Sept. 21	1:6	Proclaims October 12 as Liberty Day.
Sept. 28	1:8	Opens campaign with address at New York Metropolitan Opera House.
Sept. 28	12:1	Editorial.
Sept. 29	9:1	Advertisement.
Oct. 4	15:1	Buys a \$1,000 bond at theatre in Washington.
Oct. 7	1:1	Subscribes to \$20,000 through Secretary McAdoo in door to door canvas.
Oct. 11	1:1	Appeal calling for oversubscription.
Oct. 12	1:1	Receives ovation at Amsterdam Theatre, where he buys \$2,000 bond and autographs others.
Oct. 13	1:3	Marches at head of Liberty Day parade in New York City.
Oct. 15	1:4	Renews appeal.
Oct. 18	15:4	Message read at S.T.T.O. rally at Columbia University.
Oct. 20	19:3	Buys \$1,000 bond through New York Police Commissioner.

1919

April 7	1:1	Messages of appeal for Victory Loan.
April 20	1:2	" " " " " "
May 10	1:2	" " " " " "

CONFIDENTIAL

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of March sales to date with sales during the same number of business days in February and January 1943

(At issue price in thousands of dollars)

Date	March daily sales	Cumulative sales by business days				March as percent of February
		March	February	January	March as	
March 1943						
1	\$ 8,744	\$ 8,744	\$ 6,746	\$ 12,810		129.6%
2	11,888	20,631	21,814	15,621		94.6
3	13,006	33,638	27,284	31,021		123.3
4	19,923	53,561	52,930	47,128		101.2
5	32,229	85,789	84,847	69,173		101.1
6	25,404	111,193	116,513	101,696		95.4
8	30,810	142,003	150,809	137,214		94.2
9	27,617	169,620	178,154	174,074		95.2
10	21,582	191,202	201,187	219,267		95.0
11	53,187	244,389	222,972	275,292		109.6
12	23,937	268,327	247,684	299,033		108.3
13	25,344	293,671	270,009	334,496		108.8

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

March 15, 1943.

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

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

CONFIDENTIAL

the
1943

days
March as
percent of February

129.64
94.6
123.3
101.2
101.1
95.4

94.2
95.2
95.0
109.6
108.3
108.8

March 15, 1943.

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necessarily add

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBIN

Comparison of March sales to date with sales during
same number of business days in February and January

(At issue price in thousands of dollars)

Date	: March : daily : sales	Cumulative sales by business		
		: March	: February	: January
March 1943				
1	\$ 2,442	\$ 2,442	\$ 806	\$ 2,716
2	2,869	5,311	9,720	3,036
3	6,642	11,953	11,290	6,137
4	4,467	16,420	28,198	14,820
5	15,596	32,016	48,264	18,428
6	9,058	41,074	65,106	29,726
8	14,290	55,364	75,526	47,612
9	10,125	65,489	92,154	63,556
10	6,100	71,589	100,852	91,679
11	12,185	83,774	110,431	115,896
12	6,344	90,118	123,086	129,017
13	7,343	97,461	131,457	149,603

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

Source: All figures are deposits with the Treasurer of the United States of proceeds of sales of United States savings bonds.

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

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
FROM Mr. Odgaard

Pursuant to our conversation, I have undertaken to examine my own position in the Treasury in the light of the current reorganization of the War Savings Staff.

I assume that you will want to relieve me of administrative supervision for the press, radio and public relations activities of the War Savings Staff for which I have assumed responsibility. Assuming also that you believe in my continued service to you and to the Treasury, I set forth below some indication of what that service might be:

- (1) Serve with Mr. Gaston in considering the various problems of Treasury Public Relations.
- (2) To help in the preparation of public statements, speeches, and so forth.
- (3) Analyze and report on public opinion that may affect Treasury operations. This would be based upon data from various sources including the Bureau of Intelligence and Information, Office of War Information, Elmo Roper, Gallup, Henry Link, and so forth.
- (4) Continue to give such assistance as I can to the new War Finance Committee and its staff, particularly with relation to the War Savings Staff.
- (5) Be of what service I can to Mr. Paul A. Sullivan.

NEED
the
1943

as days
March as
percent of February

- 303.0%
- 54.6
- 105.9
- 58.2
- 66.3
- 63.1
- 73.3
- 71.1
- 71.0
- 75.9
- 73.2
- 74.1

March 15, 1943.

States on account
necessarily add

- (6) Represent the Treasury as a speaker wherever and whenever this seems expedient and wise.
- (7) Assist in handling correspondence from your office.
- (8) If time permits and you agree, begin work on a history of the Treasury during your administration.

I want you, of course, to know that I shall be happy to serve in any way you may direct so long as you want me to stay with the Treasury. If, however, you should feel now or later that my services have reached a point of diminishing returns, will you please let me know so that I can give you my resignation without delay.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 15, 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending March 13, 1943.

Summary

Commodity prices: The recent steady upward trend of basic commodity prices was temporarily halted last week. The BIS index of 28 basic commodities declined 0.2 percent, thus registering the first decrease since mid-January. Dwindling prospects for early consideration of agricultural legislation, and steps taken to increase the movement of grain on the Great Lakes caused declines in prices of farm products, particularly wheat.

Stock market: After a slight reaction, stock prices and trading activity again moved up to around recent peak levels in the latter part of last week. As measured by the Dow-Jones averages, industrial stock prices at the close of the week were virtually unchanged from a week earlier, but railroad and utility stocks were fractionally higher.

Retail trade: The recent heavy wave of scare buying has shown further signs of moderating. The gain in department store sales over 1942 levels narrowed to 14 percent in the week ended March 6 from 26 percent a week earlier.

Living costs: In contrast to the trend in the United States, the Canadian cost-of-living index declined 0.2 percent in January, with the retail price of food dropping 0.5 percent. Living costs in the United States during the first 34 years of the war have risen 22 percent, as compared with a rise of 39 percent in the corresponding period of the last World War.

Steel production: Steel operations last week were scheduled to reach a new high for the year at 99.1 percent of capacity, in tonnage the third highest on record. Steel in ot capacity at the beginning of 1943 reached 90,293,000 net tons, with an increase of 1,100,000 tons in the previous half year.

- - - -

- 2 -

Commodity prices hesitant, but stock prices show further strength

Reversing the persistent upward trend of recent weeks, basic commodity prices developed hesitant tendencies last week and representative price indexes declined moderately. In the early part of the week stock prices also reversed recent trends and eased somewhat, while trading activity slackened noticeably. However, the dwindling of activity on the decline, and the strength of the market in the face of selling for income tax purposes, apparently impressed traders and investors since prices were bid up again in the latter part of the week. By Friday both prices and volume again rose to recent peak levels. At the close of the week, industrial stock prices as measured by the Dow-Jones averages were virtually unchanged from week earlier levels, while railroad and utility stock prices were fractionally higher.

Market sentiment seems to have been helped somewhat by a statement issued by the president of the New York Stock Exchange on Thursday, saying that he had just reported to President Roosevelt that the securities market is in a healthy condition. In the previous week the stock exchange president has issued a statement warning the public against indiscriminate buying of low-priced stocks.

In connection with the strong showing of the stock market in recent months, it is interesting to note that the short interest in the market has been increasing. The short interest rose from 502,000 shares at the end of December to 579,000 shares on January 29, and to 664,000 shares on February 26. This is the largest figure since May 1939, and the increase lends some credence to recent frequent reports that many traders are looking for a corrective reaction in stock prices.

Basic commodity prices recede slightly

Prices of staple commodities were unsettled last week by the statement of Price Administrator Brown that a price ceiling would be placed on live hogs. Later, farm product prices were further dampened by dwindling prospects of early consideration of pending legislation designed to raise agricultural prices. The uncertainty in basic commodity markets resulted in a decrease of 0.5 percent last week in the BLS index of 7 uncontrolled commodities, the first weekly decline since mid-January. The BLS index of 28 basic commodities was off 0.2 percent. (See Chart 1.)

Buying enthusiasm in the grain markets was somewhat chilled by the suspension of preferential treatment of ore cargoes on the Great Lakes by the ODT, which would allow a larger than anticipated grain movement next month via the Lakes. Wheat

- 3 -

prices showed a net decline for the week for the first time in a month.

Replacement of the temporary price ceiling on corn by a "permanent" ceiling at unchanged levels of 92 percent of parity, rather than 100 percent of parity as had been anticipated, was a further depressing influence. The corn ceiling will tend to reduce the supply of corn for dairy and poultry feeding in the eastern states, according to trade representatives and certain Government officials, since it is more profitable to feed corn to hogs than to sell at the ceiling level. As a result, press reports mention the probability that the CCC will be called upon to sell Government-owned corn to meet demands in the East. The amount of corn owned by the CCC as of February 1 was nearly 145 million bushels. In addition, corn under loan as of February 27 amounted to nearly 49 million bushels.

Despite trade anticipation of a forthcoming ceiling on linseed oil, flaxseed prices rose slightly to another war-time high as demand increased. Prices for steers receded slightly from their war-time high of a week earlier, but hog prices rose to new 23 year-highs as receipts continued low.

In the week ended March 6, the BLS all-commodity index rose 0.2 percent to a new 17-year high, making a gain of 1.1 percent since January 30. At 102.9, the index is 37.2 percent higher than in the pre-war month of August 1939.

Canadian food costs continue decline as ours increase

Showing contrasting trends, the Canadian retail food index decreased 0.5 percent in January, while the BLS food index for the United States (according to confidential data) moved up 0.5 percent in the month ended February 15. (See Chart 2, lower section.) The Canadian decline was due mainly to lower seasonal prices for eggs and oranges, and follows a sharp drop in the previous month resulting from subsidies. The rise in food prices in the United States was foreshadowed by substantial price increases as of February 15 for most groups of farm food-stuffs, especially truck crops and fruits.

The Canadian cost-of-living index declined 0.2 percent in January, reflecting the drop in food prices and slight reductions in costs of fuel, lighting and clothing. (See upper section of Chart 2.) For the United States, the BLS cost-of-living index for February is not yet available, but an estimate based on the Conference Board index shows an increase of 0.4 percent.

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Living costs rise less than in first world war

A comparison of the rise in all living costs and in food costs during the first World War and during the present war is made in Chart 3. In the upper section it may be noted that living costs in the first 3 $\frac{1}{2}$ years of this war advanced 22.3 percent, but in the World War had advanced 39.1 percent. In the first 28 months the rise paralleled that through 1916, but since passage of the emergency price control act in January 1942 the present rise has been much more gradual. In the first World War, price controls under the Food and Fuel Administration were not approved until August 10, 1917.

Food costs in this war, however, have been less satisfactorily controlled. (Refer to lower section of Chart 3.) While the rise in total living costs since August 1939 has been 56 percent as great as in the comparable period after the beginning of the first World War, the rise in food prices has been 74 percent as great as in the first World War.

Ceiling on live hog prices imminent

According to a press statement by the Price Administrator, a ceiling may be placed on live hogs at \$13.50 a hundred pounds at Chicago, involving a "roll-back" of approximately \$2.50. (The Government support level is \$13.25.) The Administrator was quoted as saying, "I do not think the farmers would be dissatisfied with \$13.50 hogs; that is way above parity". Later press reports stated, however, that officials are preparing to place a ceiling at \$14.50 to \$15.00 a hundred pounds, Chicago basis.

The present wholesale ceiling on dressed hogs was placed when live hogs were selling for about \$14.00 per hundred pounds. Retail price ceilings in dollars - and - cents announced last week were on this same basis. Meanwhile, the continued rise in live hog prices to a level near \$16.00 has intensified the squeeze on packers. (See Chart 4.) It will be noted that packers' gross margins, as calculated by the Department of Agriculture, point to packing operations at an even less profitable level than last summer.

Proposed meat ration larger than earlier indicated

A probable weekly meat ration of 2 $\frac{1}{2}$ pounds per capita, officially announced by Food Administrator Wickard last week, is about 30 percent higher than official expectations a week ago.

- 5 -

This allowance, however, presupposes wholly efficient distribution of supplies, together with extinction of black markets. It apparently assumes the minimum of the announced percentage allotments for military and lend-lease requirements.

Potato shortage looms

A potato shortage was disclosed last week in New York City and in several other regions east of the Mississippi, apparently resulting from the operation of price ceilings and from an ICC order temporarily banning the loading of all potatoes in Maine (except seed stock) owing to a current scarcity of refrigerator cars.

The ceiling placed on potatoes last month exempts seed stocks. Growers are reported to be selling their potatoes as "seed stock" directly to dealers at the farm, at prices higher than the regular trade can afford to pay under the OPA wholesale ceiling for shipment to metropolitan markets. Disorganized and reduced distribution have resulted.

Since the 1942 potato crop was only 4 percent greater than 1941 production, and is small in view of expanded Government and civilian demands, any maldistribution aggravates the supply situation. (The 1943 acreage goal has been revised to total 20.3 percent greater than the acreage harvested last year.) Possibility of short potato supplies brings to memory the crop shortage in 1916. In that war year unfavorable weather, together with a cut in acreage of 4.5 percent, reduced output 20 percent from that of the year before. As a result, potato prices soared from an average farm price of 95 cents a bushel in August, 1916 to \$2.80 a bushel in May, 1917.

Outlook for commercial truck and fruit crops

The production and processing of commercial vegetables and fruits this year continue to be major problems. Even before the extent of the February freeze in the South became known, the Department of Agriculture reported an expected reduction of 11 percent in the commercial vegetable crop being harvested in February and throughout the spring. According to the Department's report of condition as of March 1 "essential" truck crops for shipment are making less favorable progress generally than a year ago.

- 6 -

With respect to the proposed subsidy for food canners, press reports state that the amount of \$25 million suggested by CCC officials is only one-sixth of the amount which the canners say they will need.

Scare buying moderates

Further moderation in the recent heavy wave of advance buying of clothing and related items is disclosed in department store sales figures for the week ended March 6, which were 15 percent lower than the peak reached in the second week in February. Moreover, the gain over 1942 levels narrowed to 14 percent from 26 percent in the week ended February 27. Preliminary reports indicate some further slowing up in buying last week, with the approach of the income tax deadline cited as a contributory factor.

Although the sales gain over year-earlier levels has been narrowing recently, it must be remembered that scare buying was very heavy in the early part of 1942. If comparisons are made with the more normal year of 1941, it will be found that department store sales in February were 60 percent higher than in the corresponding month in 1941, as compared with a gain of 31 percent over February 1942.

January sales figures for all types of retail stores released last week by the Department of Commerce, when compared with the corresponding month in 1941, reveal the striking changes shown in Chart 5. It will be noted that during the two-year interval sales of eating and drinking places (the group least subject to price control) and apparel stores jumped 85 percent and 65 percent, respectively. The only stores to show declines, which were the automotive group and filling stations, of course reflected gasoline rationing and the stoppage in automobile production.

Decline in net income of industrial corporations in 1942

Earnings reports of industrial corporations covering 1942 operations have been longer delayed than usual, and are of a more tentative nature because many operations are subject to renegotiation of contracts. While some further time must elapse before industrial earnings can be measured accurately, it is obvious that net income after taxes declined from 1942 levels.

- 7 -

Thus a compilation of the reports of 710 leading industrial companies for 1942 prepared by the National City Bank of New York reveals that net income after taxes dropped to \$1,210 millions from \$1,397 millions in 1941--a decline of 13.4 percent. Net income before taxes in 1942 was nearly one-third higher than a year earlier, since the great expansion in business volume more than offset higher labor and material costs and increased reserves for contingencies, etc. Comparison of income before and after taxes for the 710 industrial companies in 1941 and 1942 is shown in the following table:

	1941 (Millions of dollars)	1942	Percent change
Net income before taxes	\$2,712	\$3,605	+32.9
Federal income and excess profits taxes 1/	1,315	2,395	+81.2
Net income after taxes	1,397	1,210	-13.4
Percentage of net income taken by taxes	48.5%	66.4%	

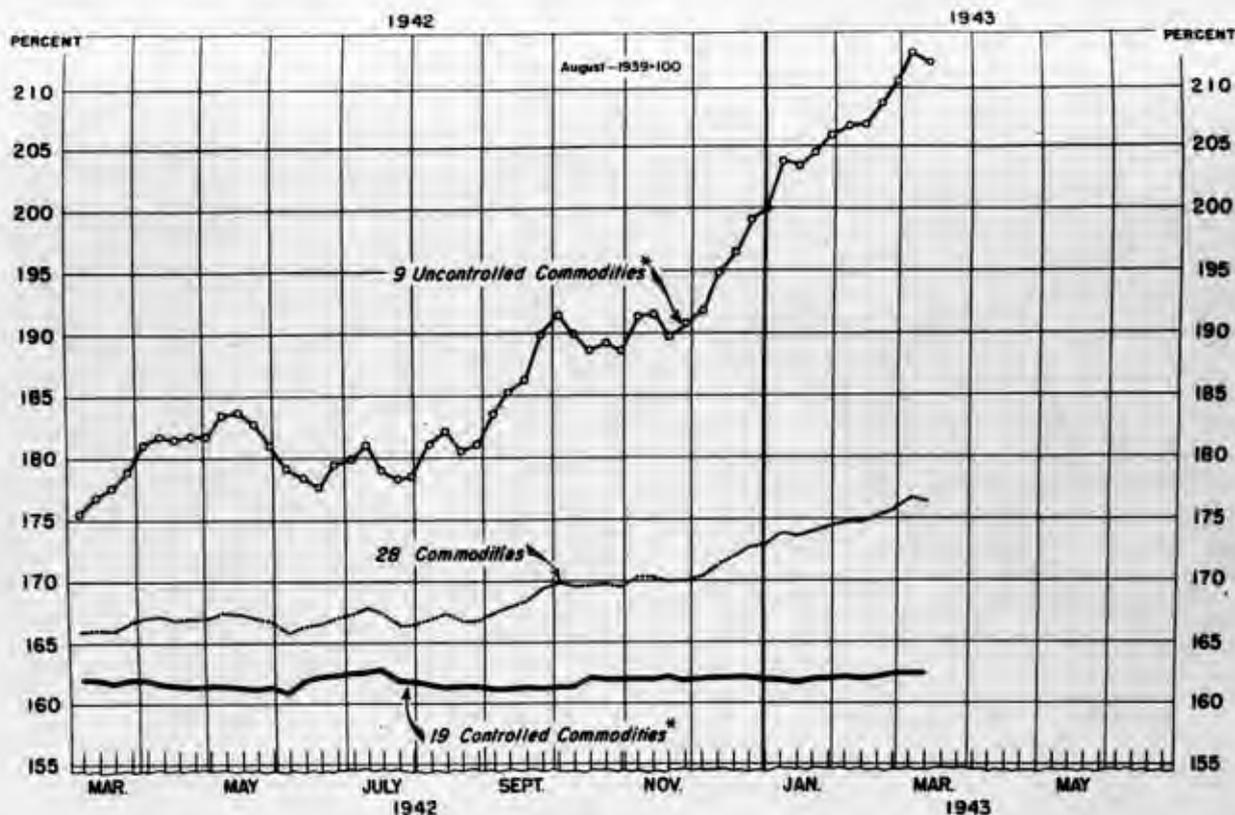
1/ After deducting post-war credits.

The net income of public utilities companies also declined in 1942, with an NIOB tabulation of results for 27 companies showing a drop of 12.6 percent from 1941. In contrast with the declines in net income of industrial and utility companies, net income of Class I railroads in 1942 was 91 percent higher than in 1941.

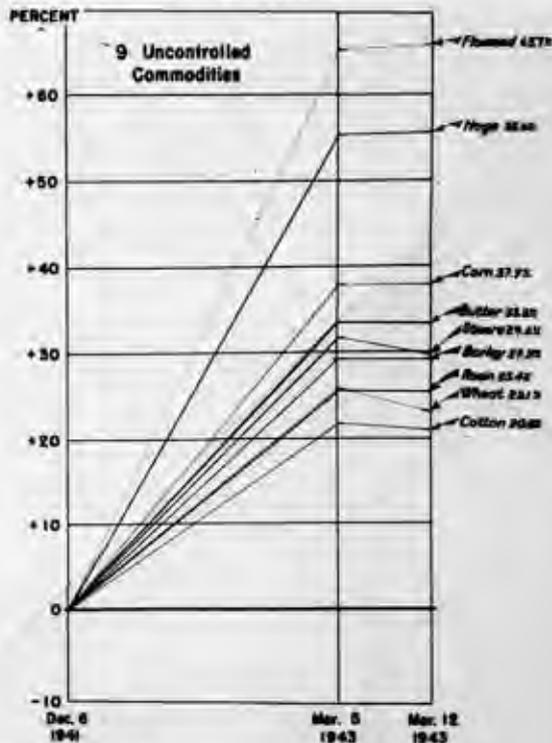
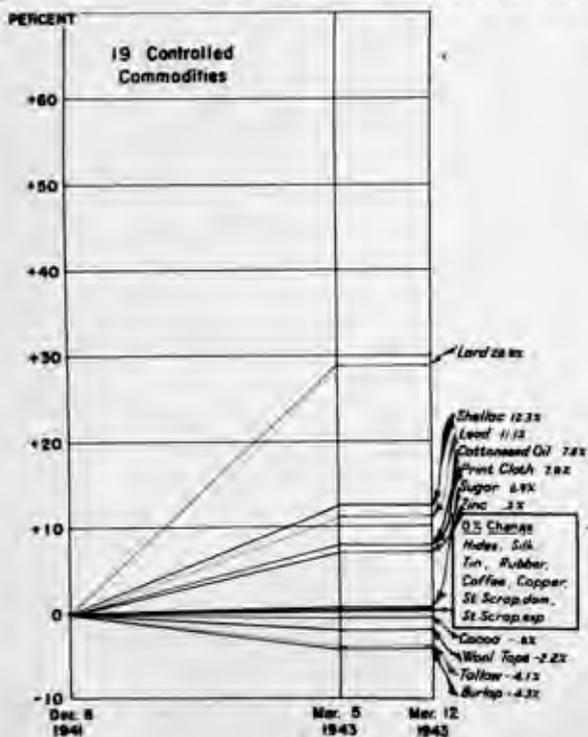
Steel production capacity increased

Steel ingot production last week was scheduled at a new high for the year at 99.1 percent of capacity. On a tonnage basis this was the third highest level on record, being exceeded in only 2 weeks during October of last year. Steel operating rates were revised recently to conform to the new capacity figures announced for January 1, 1943. With an increase of about 1,100,000 tons in the second half of 1942, total steel ingot capacity of the industry at the beginning of 1943 was 90,293,000 net tons per annum. Since the beginning of 1940, steel capacity has been expanded by nearly 8,700,000 net tons, and an additional expansion of nearly 7,000,000 net tons is scheduled.

MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO MAR. 5 AND MAR. 12, 1943

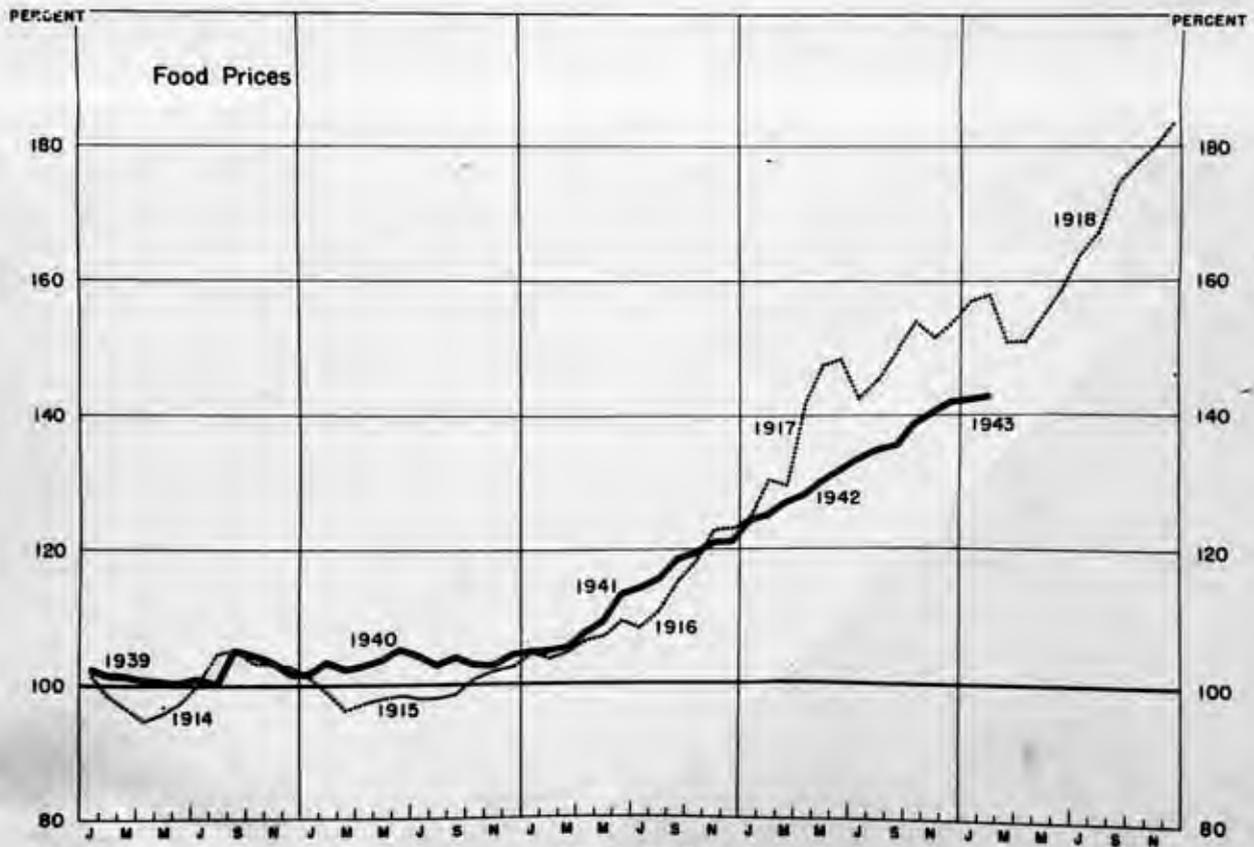
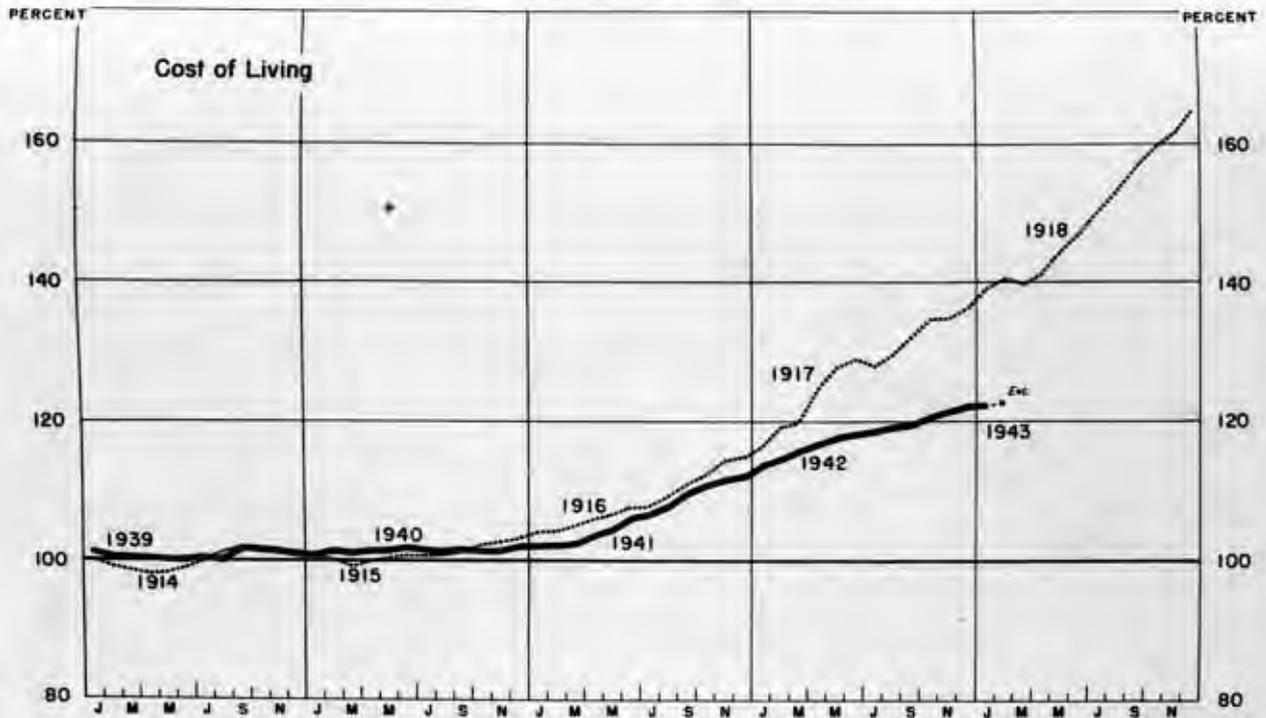


235

*20 Controlled and 8 Uncontrolled previous to June 26

COST OF LIVING AND RETAIL FOOD PRICES IN TWO WAR PERIODS

July 1914=100 World War Period; Aug. 1939=100 Present Period



236

Source: B.L.S.

COST OF LIVING, U.S. AND CANADA
August 1939 = 100

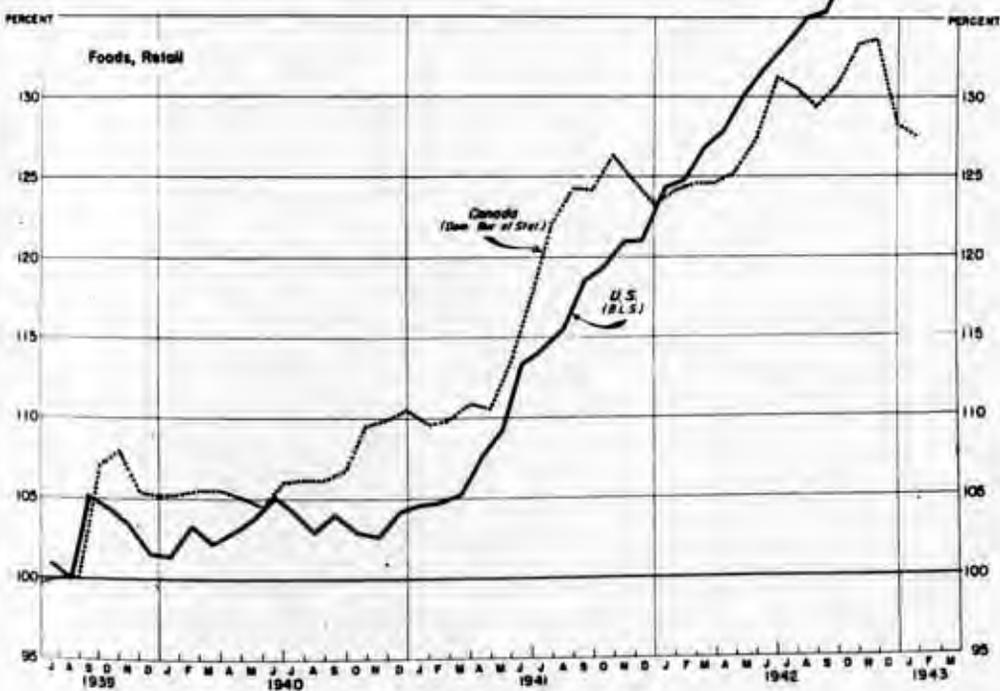
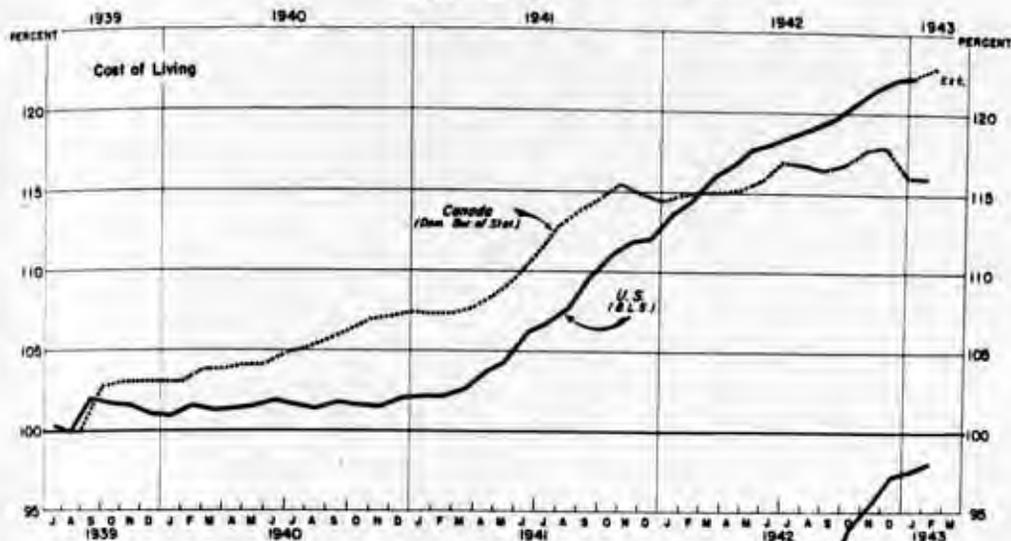
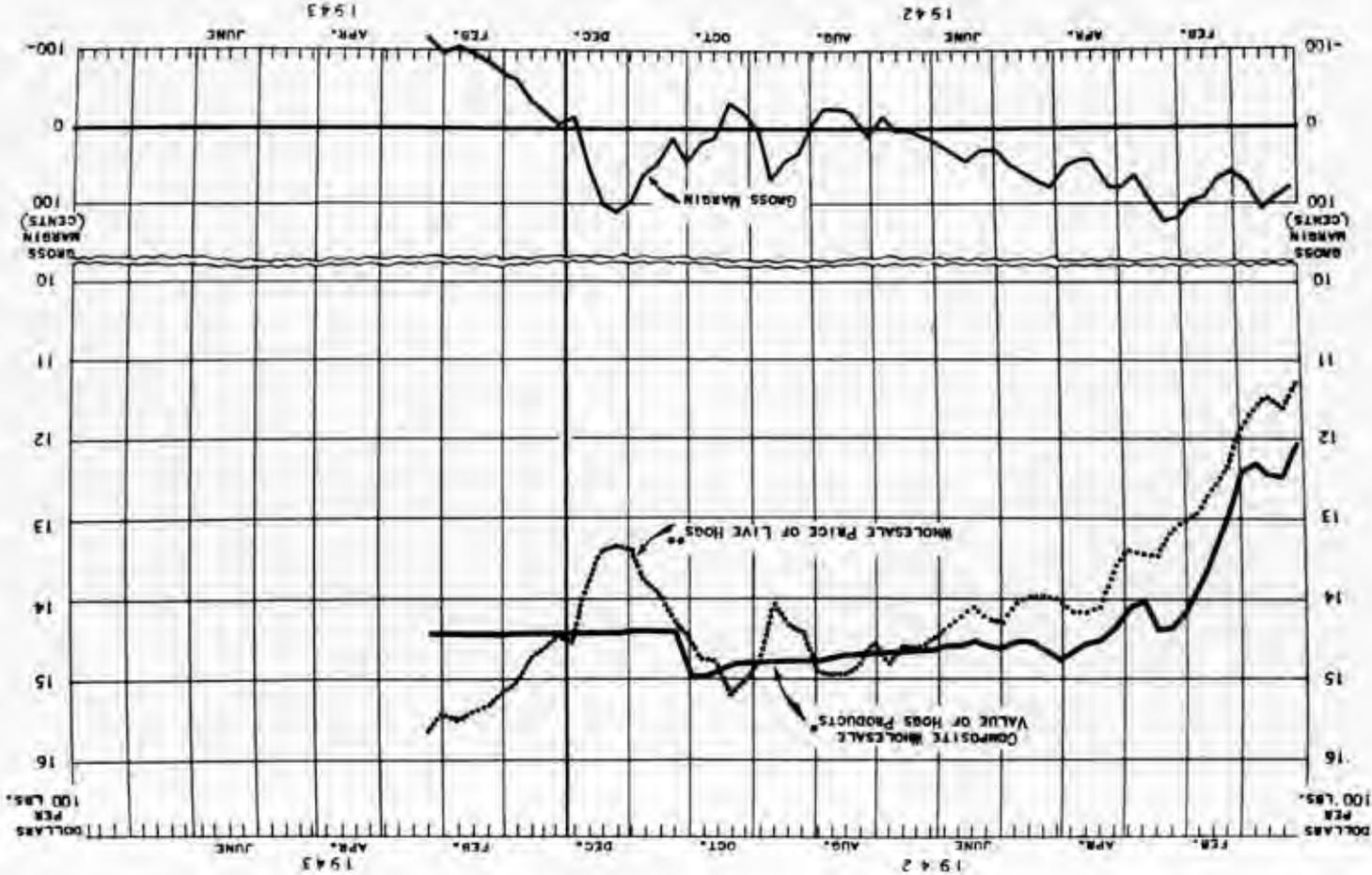


Chart 4

238
P - 246 - A



Weekly, January 1942 to date

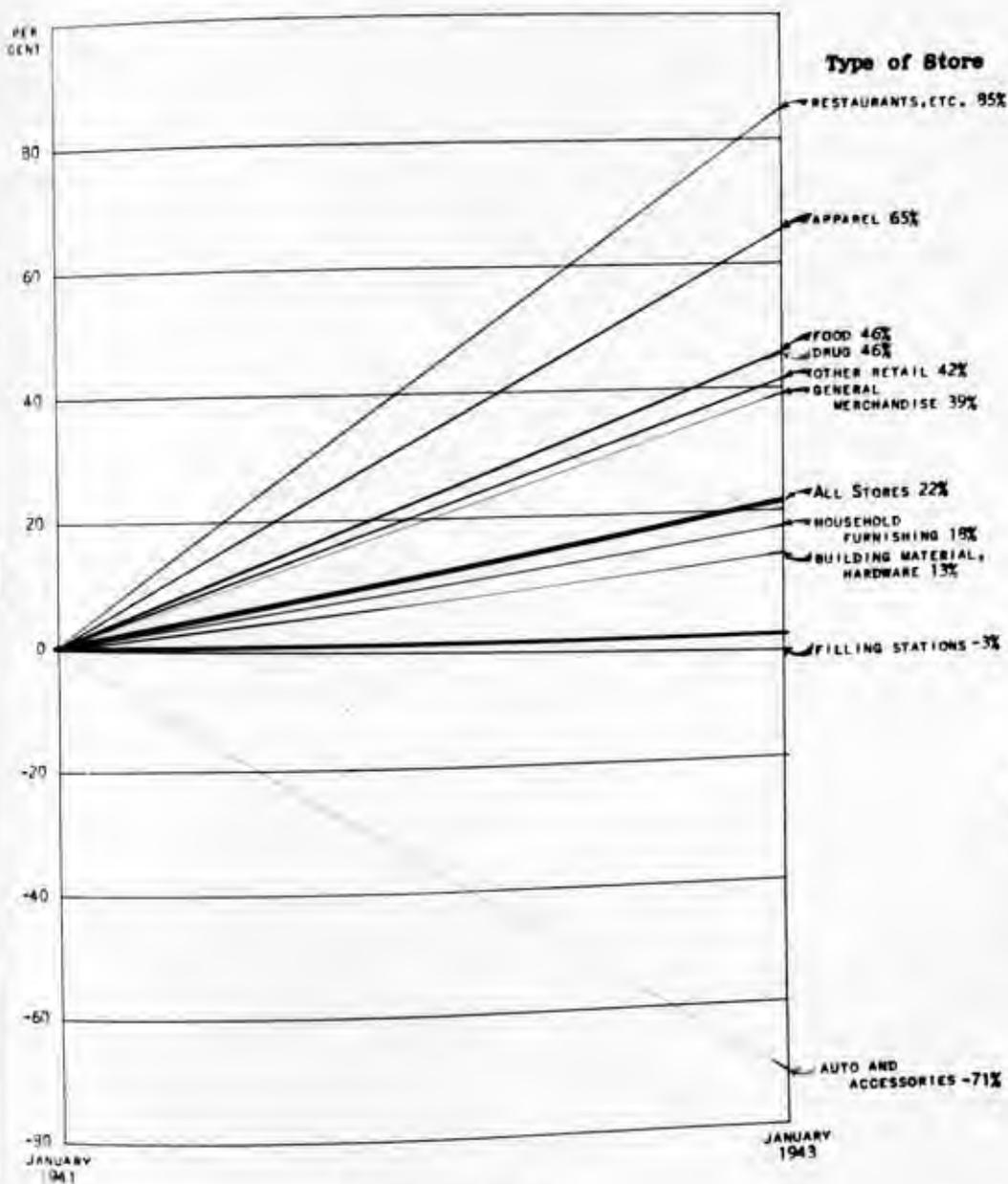
RELATIONSHIP BETWEEN GROSS MARGIN AND WHOLESALE PRICE OF LIVE HOGS AND COMPOSITE WHOLESALE VALUE OF HOGS PRODUCTS

SOURCE: U.S.D.A.

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

* WHOLESALE VALUE OF ALL EDIBLE PRODUCTS IN 100 LB. OF LIVE HOGS.
** GOOD CHOICE, 180-200 LBS.

RETAIL SALES BY TYPE OF STORE*
Percentage Change January 1941 to January 1943



*ADJUSTED INDEXES

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Mrs. Klotz
FROM Joseph Gaer

March 15, 1943

Mr. John J. Floherty, a distinguished author whose books have a tremendous audience in the schools, is now writing a book entitled "The Money-Go-Round", which deals in part with the U. S. Treasury and how it functions. He wishes to speak to the Secretary and with Dr. Harry Dexter White. Then he wishes me to gather some functional Treasury materials for him. I feel that it would be to the Treasury's advantage for the Secretary to see Mr. Floherty and for Dr. White to explain to him some of the relations of the Treasury to the national problem of financing. I shall then be glad to assist him, if I am officially assigned to the task.

I wanted you to see this memorandum before I spoke to you about an appointment for Mr. Floherty with the Secretary.

Appt shown at 11:20

From "Who's Who in America, 1942-43"

*John Joseph Floherty, author, born of American parents in Ireland, April 28, 1882; s. Patrick Vincent and Katherine (De Cantalon) F.; student St. Flanaans Coll., Ireland, 1899-1902; m. Lillian Bessie Hunt, June 1905; children--John Joseph, Cynthia Hunt (Mrs. John Joseph Gaeta). Reporter Root Newspaper Assn., 1905-07, United Pub. Corpn., 1907-20; President John J. Floherty, Inc., 1921-28, Floherty and Staff, 1929-39. Served with 7th Regmt., N. Y. N. G., 1904-13. Episcopalian. Club: Dutch Treat (New York). Author: Fire, 1935; The Airliner; Guardsmen of the Coast; Moviemakers; Police!; On the Air; Men and Ships; Youth at the Wheel; Songs of the Hurricane; Daily Paper; Make Way for the Mails, 1939; Men Without Fear, 1940. Contributor to many magazines and N. Y. Herald Tribune. Home: 8 Shoreview Road, Port Washington, N. Y. Office: 2 East 23rd Street, New York, N. Y."

He has just turned in to his publisher a book on the Department of Justice.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

March 15, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Post-War Planning - President Roosevelt in a conference yesterday with 6 Senators approved the "general objectives" of a resolution sponsored by Senators Hatch, Ball, Hill, and Burton. Originally scheduled to be introduced in the Senate on Tuesday but probably deferred for further discussion between the White House and its sponsors, the resolution would call for Senate approval of United States initiative in creating a permanent United Nations organization to: (1) form temporary governments for nations as they are recaptured from the Axis; (2) provide food and other relief for these nations; (3) create some definite arbitration mechanism to settle future disputes; (4) form an international police force to ensure, by force if necessary, that no nation will in the future disturb the peace of the world. Perhaps most significant is the fact that the Senate, which has the power to ratify peace treaties, in backing this resolution would place itself on record as approving some form of international cooperation, instead of blocking all such proposals as they did after the last war in refusing Wilson's League of Nations. The Administration, however, while approving the broad objectives of this plan is said to be debating the advisability of causing a detailed discussion of the ways and means of international cooperation in Congress where it might set off prematurely fireworks from isolationists, anti-Administration groups, etc., on American foreign policy. As if proving this Administration caution is not without reason, Senator Wheeler has already placed himself against the resolution as leading to "a strong, bitter fight which would divide the nation when it ought to be united," and, adding the old stock phrase, said that he was definitely opposed to all "entangling alliances."
2. Tax: Pay-As-You-Go - Despite Chairman Doughton's voiced support of the House Ways and Means tax plan, it apparently

is drawing fire from all sources. A Republican caucus today will line up minority support behind the Administration-opposed Ruml Plan, and there were indications of a move to unite Democrats behind the Robertson Plan which, since it calls for forgiving taxes on incomes up to \$2,000, might draw support as a compromise between the Committee and the Ruml methods. Consequently, Representative Robertson has indicated that he may call for another vote in the House Ways and Means Committee on his proposal, which is said to have received Treasury endorsement. Doughton, however, who considers the Committee proposal a more effective way of combatting the Ruml threat, indicated it would reach the House late this week or the early part of next week.

5. Farm Labor - The Bankhead Bill to defer farm laborers from the draft is expected, at least by its author, to reach a vote tomorrow. However, Senator O'Mahoney, whose substitute measure was turned down, predicted that the bill would face "trouble" in the Senate. "Farmers don't want this bill at all," he added. "They don't want to be considered draft dodgers and that is what the public is likely to consider them if it becomes law." Similarly, Senator Tydings in a radio address said he thought the President would veto the measure if it is sent to him.

SECRET**TREASURY DEPARTMENT****PROCUREMENT DIVISION****WASHINGTON**

March 15, 1943

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of March 8, 1943, the purchases against the North African Rehabilitation Program from March 8, 1943 to March 14, 1943, totaled \$137,814.57, or a total of purchases for the program thus far of \$20,029,986.24.

Attached is report giving status of shipping against these purchases.

The money value of the piece goods secured from the Work Projects Administration is not included in the purchases shown to date as the value has not yet been established. Purchases have been completed for all requisitions received to date against this program; however, new requisitions will be forthcoming which, when purchased will show an increase in cargo available for shipment.

A. J. Walsh
Deputy Director of Procurement



SHIPPING REPORT AS OF MARCH 13, 1948

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
New & used clothing	2013.75		139	30
Cotton piece goods	5859.5		1166	1593
Shoes, boots & soling	211.25	47.75	105	
Refined sugar	4196.5			
Raw sugar	1545			
Powdered milk	119.5			
Tea	171.5			
Matches	381.75			
Copper sulphate	4676.25	1084.75		451
Drugs	8.067			
Books & booklets	2		22	
Nails	100	5	17	
Lamp chimneys			201	
Newsprint	472			
Printers ink	.045	.044		
Mach. finished book paper	2			
Coroage & twine	225	5	40	
Cotton thread	29.25	11.75	71	
Chemicals	163.5	72.5	301	
Cotton hose	25.5	9	14	
Nipples, bottles, eye cups			9	
Phonograph records			1000	Each
Tooth brushes			.75	
Wash basins			7	
Spark plugs		2		
Storage batteries	47			
Tires, tubes & tape	175.75			
Parts for autos, tractors & harvesters	56	141	203	
Bin plate	645			

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date from U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Coal cutters		12		
Fullers earth			71	
Wire rope	36.5		52.5	
Pig iron			60	60
Shoe tacks			15	
Babbitt metal	53.5			
Steel			95	260
Horse shoes & nails			101	
Gelatin	1			
Paint Pigments	11		1.5	
Asbestos sheet packing			2	
Glycerine	12.75			
Calcium carbide		247		
Scrap rubber sheeting				27
Sheet copper				67
Brass rods				30
Files			45	
Bone glue				33
Saws				.25
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	21,438.862	1,637.794	2,739.75	2,551.25

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 15, 1943.

TO Secretary Morgenthau
FROM Harold Mager *Hm*

Intelligence Report 66 (3-12-43) contains matter that should be of interest to you:

(1) Channels to the Public. Most Americans rely on the radio as their primary means of gaining news about the war. They believe the Government gets its message across best through announcements over the radio rather than advertisements in the newspapers, posters in public places, or advertisements in magazines and printed booklets. A ratio of about seven to three people interviewed said that broadcasts give them a clearer picture than newspapers of what is going on. (Pages 4 and 5)

(2) Manpower. The nation's manpower problem stems from the fact that the armed forces in 1943 are being expanded from 8 to 11 million and that some 3 to 5 million more workers must be found for war industries and millions more recruited into agriculture. While a majority of the people are aware of the existence of an acute manpower problem, there is little of that sense of urgency about the situation which inclines people to support vigorous measures and to make necessary personal adjustments. A wall of prejudice against the employment of aliens, Negroes, and women, a reluctance on the part of self-employed people who in many cases have spent years in building up their businesses to shift into war work, and a feeling that a shift to war employment may "freeze" workers to their jobs for the duration, have all contributed to the unwillingness of many people to shift into war work on their own initiative. An interesting fact that may have significance even for our fiscal program, however, is the willingness of people to make sacrifices if others are compelled to make them, too. In a word, while people are reluctant to do the right thing voluntarily because they feel others may hold back, they are willing to make sacrifices where the Government applies a course of action affecting all the people. (Pages 8-14)

(3) Attitudes toward Peace Planning. While most Americans appear to be persuaded that isolationism is an outmoded formula, they are far from happy about the alternative of international

- 2 -

cooperation. Fifty-five percent of a national sample interviewed in January approved of beginning now to plan the peace terms, and in two recent surveys 63 percent endorsed the idea of United States participation in a world organization of nations. There is no assurance, however, that any specific proposal would receive this much public interest.

People displayed a generous willingness to help stricken nations, after the war, even if it meant further rationing here at home. But ignorance of such things as economic interdependence and vague fears of foreign competition made them shy away from close, permanent ties with the rest of the world. No more than 40 percent favored lowering trade barriers after the war, and only 13 percent favored a relaxation of immigration restrictions. (Pages 18 and 19)

3-12-43

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INTELLIGENCE REPORT 66

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 Morgenthau, Jr.

C O N T E N T S

PRESS AND RADIO COMMENT OF THE WEEK

Page 1

Allied air raids on Germany were widely hailed as preparing an invasion. These, added to the Bismarck Sea triumph and good news from Russia and Africa, made the commentators optimistic. But they remained highly critical of the Administration at home.

POPULAR REACTIONS

CHANNELS TO THE PUBLIC

Page 4

Radio is regarded by most of the public as the most effective means through which they can be reached by the Government. But it doesn't reach all economic levels equally.

INTERPRETING THE NEWS

Page 5

Two-thirds of the public would welcome regular radio talks about the war by a Government official. Elmer Davis is most frequently mentioned as the appropriate spokesman; news about the fighting is what people are most eager to hear.

DEVELOPING SITUATIONS

MANPOWER - A REVIEW OF THE PROBLEM

Page 8

Although there is deep concern over the farm labor shortage, in the late fall only a third of the American people were aware of the industrial manpower problem. There was still widespread opposition to the employment of aliens, Negroes and women. Only half of all non-war workers said they were willing to shift into war jobs, and only 15 per cent had actually looked for such jobs. Information is needed to acquaint the public with manpower needs.

THE "DANGER OF BOLSHEVISM" CAMPAIGN

Page 15

Information about the trend of recent social and economic developments in the Soviet Union appears to be the best ammunition with which to counter Hitler's "Danger of Bolshevism" campaign. At the same time, renewed emphasis should be put on the fact that the real threat to the American way of life comes from the Nazis.

ATTITUDES TOWARD PEACE PLANNING

Page 18

Sixty-three per cent of a nationwide cross section interviewed in February endorsed the idea of U. S. participation in a world organization of nations. But Americans appear far from happy about the necessity of forming close, permanent ties with other nations. Much of their thinking about the post-war world is vague and unrealistic.

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 March 3 through March 9, except where otherwise specifically stated.

PRESS & RADIO COMMENT OF THE WEEK

Continued good news from the African and Russian battlefronts, persistent allied bombing raids over Germany and the destruction of a Japanese convoy in the Bismarck Sea combined to keep commentators exceedingly cheerful about the progress of the war. Their principal anxieties stemmed from domestic problems.

The round-the-clock raids stirred the greatest optimism. They were generally considered effective, both in disrupting German production and in undermining German morale. A number of comments pointed out with obvious satisfaction that the raids were greater than any ever made on England by the Luftwaffe.

Many of the news interpreters regarded the raids as a prelude to an allied invasion of the continent. The Kansas City Star, for example, said that, "This round-the-clock campaign represents an absolutely indispensable preliminary but not an end in itself... The foundations of a second front are being laid with a bang which can be heard from one side of Europe to the other."

With the raids as a stimulus, a few newspapers renewed their exhortations for the speedy opening of a second front. The Richmond Times-Dispatch declared that, "The time to strike in the West is before the withdrawing eastern armies of the Wehrmacht can consolidate their position and dig in."

The news that American planes in the southwest Pacific had totally destroyed a Japanese convoy with virtually no loss to themselves was hailed as a

brilliant and stunning triumph. There was general agreement that the action had upset Japanese plans for landings in Australia or fresh offensive action elsewhere.

Much of the discussion of this engagement centered around the battleship-plane controversy. Most of those who commented on it considered the victory additional evidence of the superiority of land-based aircraft. The Rochester Democrat and Chronicle made a representative comment on this score: "American land-based planes under General Douglas MacArthur's command did more than break up the Japanese so-called armada... They made plainer the lesson that without strong air support warships are no match for a strong land-based air force."

Despite this general satisfaction with events abroad, commentators continued to be extremely critical of the Administration's handling of manpower, production and fiscal problems at home. As to the proper courses to be pursued respecting each, the critics were in considerable disagreement among themselves.

In regard to the manpower problem in particular, discontent tended during the week to gather in clusters of opposition to specific measures. The Bankhead Bill was opposed on the grounds that it was class legislation and that it used Selective Service as a punishment. The Austin-Wadsworth Bill was attacked with the charge that no real proof of its need had been established. Manpower Commissioner Paul McNutt's recent order deferring farm workers was criticized as inadequate or discriminatory. Yet each of these measures had its proponents.

The impatience of the press with the Administration manifested itself most vehemently in assaults upon the Office of War Information. Much comment supported Representative John Taber's denunciation of the cartoon pamphlet on the life of President Roosevelt. The isolationist papers snarled at OWI with especial intemperance. Their view that Elmer Davis has been caught picking the pocket of the public to reelect F.D.R. for a fourth term has been echoed more moderately in some of the conservative papers.

INDIA

The uneventful ending of Gandhi's fast evoked increased discussion of Indian aspirations for independence. There was a good deal of pleading for some British concession or gesture of good-will.

Some commentators criticized the Indian leader for complicating the situation by his stubbornness; and a few cautioned against any American interference in Britain's affairs. But a number applauded the suggestion of the New York Times that "... while concessions made under duress may invite rout, concessions made voluntarily, and from strength, can earn gratitude and good-will." There is a prevailing hope that happier Anglo-Indian relations will develop.

PRESS AND RADIO COMMENT OF THE WEEK reports the main currents of editorial opinion because they indicate the ways in which events are being interpreted to the American public. Based on leading metropolitan dailies and major network commentators, it constitutes a qualitative, not a quantitative, evaluation of current editorial influence.

POPULAR REACTIONS

CHANNELS TO THE PUBLIC

Most Americans rely on the radio as their primary means of gaining news about the war. In a ratio of about seven to three, they say that broadcasts give them a clearer picture than newspapers of what is going on. It is not surprising, therefore, that most of them regard radio as the most effective instrument through which the Government can reach the public as a whole.

Channels of communication were ranked in the following order in response to a question posed to a national sample in February:

WHEN THE GOVERNMENT WANTS TO TELL THE PEOPLE SOME WAY
IN WHICH THEY CAN HELP WIN THE WAR, WHICH ONE OF THESE
DO YOU THINK GETS THE MESSAGE ACROSS BEST?

1. Announcements over the radio
2. Advertisements in the newspapers
3. Posters in public places
4. (Advertisements in magazines
(Printed booklets

It should be noted that the choices offered to the public by this question compared radio announcements with newspaper and magazine advertisements, rather than with news stories or expository articles. The comparison, therefore, is between methods, rather than between media. Like all questions involving an order of preference, it fails to bring out the valuation which people put upon their second or third choices. Many people may have felt that all these channels should be employed by the Government in different or supplementary ways.

The question seemed to refer, moreover, to brief messages, of announcement, rather than of explanation. The spoken word undoubtedly has serious limitations in conveying an understanding of complicated ideas or of an involved program.

It should be remembered, also, that radio does not reach all segments of the population equally. Radio receiving sets are not owned by all families in the lower income brackets. A study recently conducted by Life Magazine discloses that, while all families at the top of the income scale have radios in their homes, 22 per cent of those at the bottom are without radios.

These low income homes, besides, tend more than others to have their radios out of working order. Unlike the homes of wealthier people, they generally have only a single receiving set and lack the funds with which to keep it in repair. The following table shows the percentage of homes with and without radios, in working order and laid up, at different economic levels:

<u>Economic Level</u>	<u>All Homes</u>	<u>Homes With Radios</u>			<u>Homes Without Radios</u>	
		<u>Total</u>	<u>In Working Order</u>	<u>Laid Up</u>		
High A	100.0	100.0	100.0	-	-	-
B	100.0	100.0	100.0	-	-	-
C	100.0	98.8	97.3	1.5	1.2	
D	100.0	93.2	89.0	4.2	6.8	
Low E	<u>100.0</u>	<u>78.2</u>	<u>70.5</u>	<u>7.7</u>	<u>21.8</u>	
TOTAL	100.0	91.9	88.1	3.8	8.1	

INTERPRETING THE NEWS

A large part of the American public feels a need for interpretation of the news it receives about the war. In fact, half the people in the national

sample interviewed by the Bureau of Intelligence in February expressed a preference for analysis, as compared with straight reporting of events.

WHICH DO YOU PREFER TO LISTEN TO ON THE RADIO --
STRAIGHT NEWS BROADCASTS OR COMMENTATORS (THAT IS,
PEOPLE WHO EXPLAIN OR GIVE THE MEANING OF THE NEWS)?

Straight news	41%
Commentators	50
Don't know	9

About a third of those questioned said that they listened to news comment between 15 minutes and a full hour on an average day. A sprinkling of peculiarly devoted followers declared that they listened for more than an hour daily.

About two-thirds of the whole sample voiced approval of interpretive talks about the war by some Government official.

DO YOU THINK IT'S A GOOD IDEA FOR SOME ONE GOVERNMENT
OFFICIAL TO MAKE REGULAR RADIO TALKS TO THE PEOPLE
ABOUT THE WAR?

Yes	68%
No	25
Don't know	7

The dominant desire was for information about the fighting. Apparently the public would welcome some authoritative assessment of the news stories which come from the battlefronts. In addition, a significant minority expressed a wish for official discussion of domestic news and post-war problems.

Elmer Davis was considered the appropriate Government spokesman by a plurality among those who desired regular radio talks of this sort. The Bureau asked those who endorsed the idea: "Who do you think would be a good

person to make these talks?" Mr. Davis was named by ten per cent of the whole sample. Vice President Wallace was next in line, with four per cent of the total. Messrs. Nelson, Jeffers and Ickes received scattered votes. And a few people spontaneously mentioned Wendell Willkie and Herbert Hoover. About a third of all the people interviewed expressed no preference, although they favored having the talks made by someone in the Government.

All of the people who expressed approval of the idea were then handed a list of names and asked to indicate a preference among them:

HOW ABOUT ANY OF THE (OTHER) PEOPLE ON THIS LIST?

Nelson	17%
Jeffers	10
Davis	28
Wallace	15
Ickes	8
None	7
Don't know	10

At the time the interviewing was conducted in mid-February, very few Americans had any expectation that Elmer Davis would undertake regular broadcasts to inform the public about war developments:

DO YOU HAPPEN TO KNOW WHETHER THE GOVERNMENT IS ACTUALLY PLANNING TO HAVE ONE OF THESE OFFICIALS GIVE REGULAR RADIO TALKS?

Yes, they are	7%
No or don't know	93

It is significant in this connection that only about a fourth of the public was aware that the Office of War Information is the Government agency responsible for keeping the American people informed about the war. Three-fourths of the people interviewed were unable correctly to name the agency charged with this duty.

DEVELOPING SITUATIONS

MANPOWER - A REVIEW OF THE PROBLEM

A tremendous informational task looms ahead if the manpower problem is to be solved on a voluntary basis. Numerous Bureau of Intelligence surveys indicate that people's understanding of the problem is highly fragmentary. In some cases because of conflicts between statements but to a far larger extent because of wishful thinking and mistaken interpretations put upon statements, many people are confused about the Government's present policy and apprehensive about the future. There is little of that sense of urgency about the situation which inclines people to support vigorous measures and to make necessary personal adjustments.

This year the armed forces are being expanded from six million to 11 million. Some three to five million more workers must be found for war industry and millions more recruited into agriculture.

Awareness of the Problem

It is only the shortage of farm workers which is generally appreciated. Eighty-six per cent of a national cross section interviewed by the Bureau between October 22 and November 6 were aware of the farm labor shortage. In contrast, only a third recognized that manpower was a real problem for war plants:

FROM WHAT YOU'VE HEARD, DO YOU THINK WAR PLANTS IN THIS COUNTRY CAN GET ALL THE WORKERS THEY NEED NOW?

HOW ABOUT FARMERS IN THIS COUNTRY? DO YOU THINK FARMERS CAN GET ALL THE WORKERS THEY NEED NOW?

	<u>Farmers</u>	<u>War Plants</u>
Can get all the help they need	9%	57%
Cannot get all the help they need	86	33
Not ascertainable	5	10

The spottiness of the manpower problem -- and particularly of industrial labor shortages -- may account for the failure of the public to recognize that millions of additional workers will be needed in war plants. The geographic distribution of war contracts has, of course, been quite uneven. It is hardly surprising that many people in areas remote from war production centers are unaware of the national picture.

Meeting the Industrial Shortage

The employment of aliens, Negroes and women, and other measures for meeting the industrial labor shortage, attract no more than lukewarm public support. Many of the measures encounter prejudices and resistance which only a strong sense of urgency, now lacking, could overcome.

Only three people in ten of those interviewed this fall approved of employing aliens in war plants:

SHOULD ALL WORKERS IN WAR INDUSTRIES HAVE TO BE CITIZENS OF THIS COUNTRY, OR DO YOU THINK IT IS ALL RIGHT TO HIRE SOME PEOPLE WHO ARE NOT CITIZENS?

Citizens only	66%
Some not citizens	31
Don't know	3

Fifty-six per cent of this same sample approved of the employment of Negroes in war jobs. But this undoubtedly included many persons who assumed Negroes would be given only menial work.

A hopeful aspect of the matter is that people accustomed to working with Negroes were far more inclined to favor their employment than people who did not work with them:

91 per cent of the people who worked in places which did hire Negroes, in contrast to

24 per cent of those who worked in places which did not... said their establishment should employ Negroes.

Thirty-five per cent of all the people in the sample, and 55 per cent of the southerners, felt that Negroes should not have an equal opportunity with whites to get good jobs. It is possible that the fear that Negroes will be given good jobs is greater in plants not yet employing them. But even when allowance is made for this, the figures suggest that the prejudice against working with Negroes sometimes vanishes once people have had the experience.

So far as the employment of women is concerned, people distinguish sharply between mothers and childless women. Seventy-one per cent of the sample recognized the need for women without children in war industry. But only 14 per cent believed there was any need for mothers to take jobs. Men workers in low-paying non-war jobs were reluctant to concede that even childless women were needed in the labor force; they evidently regard women as a threat, and special efforts may be needed to change their attitude.

On the part of women themselves, there was a sharp difference in willingness to accept employment between those who had children and those who did not. For example,

42 per cent of the childless women in the sample 20 to 34 years of age, but only

16 per cent of the mothers in this age span... were willing to take war jobs.

The women with children specifically indicated that the necessity of providing for them constituted the greatest barrier to the acceptance of paid employment. If mothers are to be recruited into the labor force in large numbers -- and they constitute a very large proportion of the women not now working -- it is clear that adequate provision will have to be made for the day care of young children.

Another important aspect of the industrial labor problem is the willingness of non-war workers, male and female, to shift into war work. About half the people in the sample who, according to their own appraisal, were in work not connected with the war effort expressed a willingness to take war jobs.

Understandably, self-employed people, who in many cases have spent years in building up their businesses, were most reluctant to shift into war work. Length of service, satisfaction with pay and extent of occupational skill all appeared to exert some influence on people's attitudes toward changing jobs. The importance of protecting the seniority privileges of older workers is indicated by the fact that

49 per cent of those with more than three years of service in their present companies, but only

31 per cent with three years or less... showed resistance to changing jobs.

Fifty-one per cent of the people who were satisfied with their present pay, but only 36 per cent of those who were dissatisfied, were hesitant about getting into war work. Professional, managerial and skilled workers were far more reluctant to give up their present pursuits than less skilled workers.

There is, of course, a considerable difference between willingness to take war work and an active impulse to seek such work. Only 15 per cent of those not employed in work connected with the war effort had actually applied for war jobs. Many of the rest may have been blocked simply by their ignorance of how to seek war employment. Only about a third of the sample knew that they could go to the USES for advice and help in changing jobs.

The manpower stabilization plans which have been put into effect in a number of war centers may deter some workers from shifting into war work. Studies made by the Bureau in Detroit and Louisville indicate that many persons erroneously regard these plans as "job freezes." Particularly if they are doubtful about changing jobs to begin with, non-war workers may hesitate to shift into employment they feel they will have to keep for the duration. Increased emphasis on the permissive aspects of manpower stabilization plans is clearly indicated.

Compulsion

Despite the unwillingness of many people to shift into war work on their own initiative, three-fifths of the October - November sample approved of the Government moving workers from non-war to war work; in this area, as in others, people are evidently more willing to make sacrifices if others are

compelled to make them, too.

RIGHT NOW, DO YOU THINK THE GOVERNMENT SHOULD TAKE SOME OF THE PEOPLE OUT OF JOBS NOT CONNECTED WITH THE WAR EFFORT AND PUT THEM TO WORK IN WAR INDUSTRIES?

Yes	61%
No	16
Depends	14
Don't know	9

The compulsory recruitment of farm workers was viewed with even more favor:

NEXT SPRING OR SUMMER, DO YOU THINK THE GOVERNMENT WILL PROBABLY HAVE TO TAKE SOME OF THE PEOPLE NOT ALREADY CONNECTED WITH THE WAR EFFORT AND PUT THEM TO WORK ON FARMS?

Yes	83%
No	7
Don't know	10

Apparently there is a disposition to accept drastic federal controls over manpower. But the full cooperation of workers can be enlisted only if two conditions are met: (1) they must be convinced of the reality of the crisis and the need for mobilization; (2) they must feel assured that manpower control will be equitably and efficiently administered in such a manner as to safeguard labor rights.

The Information Task

Despite the readiness of a majority for compulsion, it seems clear that the urgency of the manpower crisis is not generally appreciated. Whether the Government is going to resort to a labor draft or depend upon voluntary cooperation, further emphasis upon the shortage of war workers is clearly indicated. Campaigns are needed both in war production centers -- to speed

recruitment of women and conversion of non-war workers -- and in areas which have relatively little war production. It is these areas, where additional workers are most likely to be found, which are least exercised about the present situation.

The development of a sense of urgency about expanding the labor force will itself do much to break down present resistance toward the employment of aliens, Negroes and women. It must be hammered home that America needs the skill of all its people. In addition, however, specific campaigns are required to overcome the prejudices which now slow the absorption of millions of needed workers into the labor force.

Information, of course, cannot do the whole job. The difference in attitude toward working with Negroes between those who now work with them and those who do not suggests that the best line of attack for getting more Negroes into war industry might be through strict enforcement of present fair employment practice rules. Similarly, informational efforts to induce mothers to accept employment will be futile if no provision is made for the day care of young children. And information alone cannot solve the housing problem in numerous war production centers.

Information can help to break down prejudices. It can make people aware of the desirability of accepting wartime employment and tell them how to go about it. Finally, information can prepare people for the tight manpower situation which looms ahead. Without defending any particular manpower mobilization scheme, it should be possible to make the American people realize that dislocations and stringencies are inevitable during a period when 11

million men are needed in the armed forces and farms and factories are straining to meet unprecedented production goals.

(This summary covers only the high spots of the Bureau's studies of manpower problems. For additional information see the following issues of the Intelligence Report: #56, "Manpower Shortages and Absenteeism" and "Manpower Stabilization in Detroit"; #57, "Manpower Mobilization"; #59, "Manpower Conversion"; #60, "Recruitment of Women"; #62, "Farm Labor"; #63, "Manpower Stabilization in Louisville." See also, "The Public Looks at Manpower Problems," Surveys Division memorandum #43.)

THE "DANGER OF BOLSHEVISM" CAMPAIGN

Hitler's efforts to split Russia from her western allies with his "danger of Bolshevism" theme have already achieved some success. As pointed out in Intelligence Report #63, the present Red Army offensive has aroused an undercurrent of anxiety in this country. Even the continuing comment in the media warning against distrust of Russia is a testimonial to the existence of that distrust.

The current anxiety is a product of deep-seated and long-standing hostility toward Russia among many sections of the public. And this hostility, in turn, is to a large extent a carry-over from past ignorance and misconceptions. German propaganda, as usual, has simply exploited an existing situation.

To those people who know little about the social structure of the Soviet Union, that country connotes, not only a violent revolutionary threat to our economic system, but destruction of the values of Christian civilization, dissolution of the family, free love and atheism. Even some of the repugnance felt for Nazi Germany is transferred to Russia; for Germany --

which has avowedly discarded numerous Christian values -- for a long period was linked with Russia by many prominent writers and commentators.

Although Bureau surveys indicate that many Americans are hungry for information about Russia, relatively few people are acquainted with the trend of recent social, political and economic developments in that country. There is widespread ignorance of the extent to which the Soviet Union has changed in recent years. Trotsky's exile and the Moscow trials were widely reported in American media. But the significance of these events was discussed, for the most part, only in periodicals and books of distinctly limited circulation. Few Americans are aware of the recent trend in Russia toward a policy of national reconstruction and toward a system of rewards in accordance with individual ability. It is not generally known that, within the framework of a communist economy, a steadily growing amount of authority and responsibility has been granted plant directors, managers, engineers and "specialists."

The ideological shifts which accompanied these changes are perhaps even less generally understood. Yet these include many developments which would tend to create sympathy for the Soviet Union among Americans, such as the partial institution of tolerance in place of intransigent atheism; and the modification of previous lax divorce laws and strengthening of the family.

It would be unrealistic to deny the real and important differences between communism and western democracy. But it should be possible to reduce groundless fears about Russia simply by acquainting Americans with recent developments in that country and thus eradicating the false and dated impressions upon which those fears, in part, depend.

The task will be facilitated if an attempt is made simultaneously to show the American people that the real threat to the American social and economic system comes from the Nazi regime itself. Further emphasis is needed on Elmer Davis' point that the Nazis themselves are guilty of all the things they attribute to the Russians.

This can be demonstrated either through reference to Germany's foreign propaganda or to the trend of developments within Germany. It is German, not Russian, propandea which concentrates on the shortcomings and inevitable demise of capitalism. It is German propandea which harps on the subject of plutocrats.

Germany has pursued what Americans mean by "Bolshevization" as a matter of deliberate policy. The area of free enterprise is being constantly narrowed. The urban middle class is being wiped out.

Moreover, the resentment of the German masses against the striking and growing inequality among various groups has compelled the Nazis to engage in a diverting propandea against western capitalism. Popular dissatisfaction may eventually compel them to go even further than they have yet with the "National Bolshevik" policy, which is still kept alive among certain groups in the party.

Hitler's bold lies about the danger of Russian Bolshevization of Europe depend for their success upon ignorance of Germany and the Soviet Union alike. The antidote to them, clearly, is authoritative and up-to-date information.

ATTITUDES TOWARD PEACE PLANNING

Most Americans appear to be persuaded that isolationism is an outmoded formula. But they are far from happy about the alternative of international cooperation. Torn between fear and hope, they show little consistency in their approach to post-war issues, and the opinions they express are often held with little conviction. They appear reluctant to approach the problems of the peace concretely and realistically.

Fifty-five per cent of a national sample interviewed in January approved of beginning now to plan the peace terms. In two recent surveys, sixty-three per cent endorsed the idea of U.S. participation in a world organization of nations. There is no assurance, however, that any specific proposal would receive this much public support.

About three-fourths of the people favored complete disarmament of the enemy and U.S. participation in a world police force as means of safeguarding the peace. These proposals contain a strong punitive appeal, however, and some of those who favored policing may have been thinking in terms of American domination of the post-war world.

People displayed a generous willingness to help stricken nations after the war. Seventy-eight per cent approved of extending such help even if it meant further rationing here at home. But ignorance of such things as economic interdependence and vague fears of foreign competition made them shy away from close, permanent ties with the rest of the world. No more than 40 per cent favored lowering trade barriers after the war, and only 13 per cent favored a relaxation of immigration restrictions.

People were more disposed to favor planning for domestic economic reconstruction. But a large minority was opposed to increased government control of business.

In general, the similarities of opinion among groups were considerably more marked than the differences. But well educated people were more likely than the less well educated to have a definite viewpoint, particularly on abstract issues, and they were somewhat more internationally minded.

(These findings summarize a Special Intelligence Report, Attitudes Toward Peace Planning, issued by the Bureau of Intelligence on March 6 and available to authorized individuals upon request.)

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COPY NO 12

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~~BRITISH MOST SECRET~~
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OPTEL NO.84

Information received up to 0700 15th March, 1943.

1. NAVAL.

A convoy of 20 ships from North Russia has arrived in home waters. Presumably one of H.M. Minesweeping Trawlers was sunk by mine off SUFFOLK. Twenty-four of crew rescued. On afternoon 14th twenty-four lifeboats, presumably from Merchant Ship, were sighted by aircraft 600 miles south-east of FREETOWN. H.M. Ships are searching for survivors.

2. MILITARY.

TUNISIA. 13th. In the extreme north we launched a small attack, which was partially successful, against the high ground east of TAMERA. Further south our patrols blew up an ammunition dump north of GOUBELLAT. A small scale enemy attack 3 miles north BOUVARAD was repulsed.

3. AIR OPERATIONS.

WESTERN FRONT. 14th. Escorted Whirlwind Bombers attacked airfields at CLERBOURG and ABBEVILLE. In Fighter sweeps enemy casualties two, one two; ours four missing.

14th/15th. Following aircraft despatched - Seamounting 13, Intruders 4. All returned safely. Out of 18 enemy aircraft operating, about 11 crossed the COAST-YORKSHIRE coast. One was destroyed. Some bombs were dropped on TYNESIDE and in the shopping centres of SUNDERLAND. Five persons reported killed.

MEDITERRANEAN. 13th/14th. Wellingtons and Naval Albacores attacked a convoy in the Sicilian Channel. One 6,000 ton ship, believed carrying ammunition, was torpedoed and blew up and two other ships were severely damaged.

TUNISIA. 14th/15th. 11 Wellingtons bombed Tunis Docks. 13th. Bomber operations in north and central sectors cancelled owing to weather. In the south, casualties on sweeps and other operations were - enemy, four two, four; ours, ten missing.

March 16, 1943
10:15 a.m.

FINANCING

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

H.M.JR: Let me concentrate on this organization. I have had from my standpoint a very satisfactory talk with Harold Graves. I told Harold that this morning we were going to settle the organization, and that I wanted him and Gamble and Odegard and Miss Elliott to come in here in a few minutes and listen to what the proposal is.

He said quite frankly that if, in his opinion, the War Savings organization is going to be destroyed there is no use of his being around here - he didn't say it in so many words - because he can't take it. So he is going to come and tell me this afternoon whether he can go through this April drive or not.

If he feels in his own mind that this thing is going to be destroyed, then he doesn't want any part of it.

On the other hand, if he feels it is going to be safe, he would like to make his contribution. I told him how important it was that he be a part of this drive, but that if he honestly couldn't go along with it I didn't want him to go along with it.

The man has given me everything any person could give, and he has ruined his health in doing it. So I am very much in his debt.

I think we will have these people come in now, and we will go over this whole thing and see how they feel about it.

- 2 -

MR. ROBBINS: Well, now, sir, if we are to move along the lines of this rough sketch, there are two very key people; one of them being Coyne, with whom we have not talked, and without whom this concept would really have quite a bit of difficulty.

H.M.JR: I don't think you need Coyne in this morning's session.

MR. ROBBINS: The other will be Ted Gamble. .

H.M.JR: He will be here.

MR. ROBBINS: He is very important.

H.M.JR: Yes. I meant Gamble and Buffington. I overlooked them. I don't think, at this stage--

MR. ROBBINS: Do you think we are safe in assuming that Mr. Coyne will say, "That is fine; I will work that way," or are we up against another--

H.M.JR: No, it is a little bit different with Coyne.

MR. BELL: I think he is all right, but then, I wouldn't be absolutely sure.

H.M.JR: Have him come in.

MR. ROBBINS: We also have not had Mr. Houghteling.

H.M.JR: Again, I am not worried.

MR. ROBBINS: I am not worried about him either.

H.M.JR: I am not worried about Houghteling.

MR. ROBBINS: I haven't spent any time on that.

H.M.JR: We will, today. As far as Houghteling is concerned, he isn't worried about organization. These other people are worried about organization.

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(Mr. Graves, Mr. Gamble, Mr. Buffington, Miss Elliott, and Mr. Odegard entered the conference.)

H.M.JR: Who wants to explain this Tuesday morning plan?

MR. BELL: Mr. Robbins will have to explain it; he has the chart.

MR. ROBBINS: I think everybody here knows - Peter, you weren't in our midst yesterday, but all the rest of us were very busily engaged in trying to put together a proper organization plan for the operation of our interests here for the April drive.

We started out with a concept of organization which, in the minds of some of the people who have been on this much longer than I, embraced some changes which they conscientiously and sincerely did not think were sound changes.

After a day and a night of it, we have finally developed what might be called a compromise plan and we want to show you that plan and we want to explain the nature of the compromises which have now come to our thinking.

Now, in order to make it clear what we are attempting to do with this program, let me explain it this way. All of us are familiar with the fact that here in Washington the War Savings Staff organization was a completely integrated organization. It embraced the four really broad sections, as you show them on your chart, all heading in to Sloan.

Those sections include the Advertising Department, the Administrative Department, the Special Interests - or whatever you call that other department that had the program and planning section - I don't know what you called it.

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MR. GRAVES: We had no such department as that. National Organization is probably what you mean, under Mr. Houghteling.

MR. ROBBINS: That is right.

MR. GRAVES: That was not a planning department; it was a department which dealt with organizations at the national level.

MR. ROBBINS: That is right, but they did have a certain, should we say, specialized interest group gathered together under Mr. Houghteling's leadership, because I remember four distinct parts and your field office was your fourth.

In starting in planning for the April drive our first move - and we have already succeeded in that - was to find a person under whose leadership we could put all the advertising. That is, all that was in War Savings and all of the work, George, that was going on in your department which could be related to advertising, tying in to Peabody. Peter, as you and I think, your relationship there is more or less - I don't know how to describe it - as special advisor, or consultant and associate of Peabody as he works out his advertising programs. I think that we had that more or less agreed upon between us, that you wanted to be in but not in the line, in a consulting, advisory, and associate capacity.

MR. ODEGARD: I understood that.

H.M.JR: I take it that was agreeable?

MR. ODEGARD: It was entirely agreeable, Mr. Secretary. I talked with Mr. Peabody only for fifteen minutes, but I gathered that he was going ahead on the basis of plans that had been laid and was not going to undertake any revolutionary changes in policy, which I think is wise; and I told him that I would be happy to help him in any way that I could.

MR. ROBBINS: Now, most of that actually has been accomplished. In other words, Peabody is here; Harold, you have already instructed Sloan to transfer those interests; and George, you have already done the same thing. So that part of it has been picked out of the War Savings and correlated under one leadership.

Now there are two other broad classifications of work that remain in the War Savings organization. They might be, for simplicity of understanding, described as the field operation, which is presently under the leadership of Mr. Coyne, who reports to Sloan, who reports to you (Graves). And there is everything else - if you want to take it that way.

Everything else embraces all the activities that Mr. Houghteling has done, and I think that would also embrace the things that Miss Elliott has done.

MR. GRAVES: No, she is in the field division, under Mr. Coyne.

MR. ROBBINS: Well, now, with relationship to everything else, my best thought at the moment is that I would like to lift out the purely field function from its place in what has heretofore been the War Savings organization, and lift it out bodily, and leaving behind those - or leaving at least up to this point - those things which are not operational in character and taking the field direction, stimulation and channel of communication with the forty-eight States which it has been and is still - lifting that entire function out of what was previously the War Savings organization. Now, the reason I would like to lift that field function - and my definition of the field function is a little bit different from the present concept of field function - the reason I would like to lift it is because if the Secretary is going to hold me responsible for the activities of this combined effort, I would like to have that field function report to my office. That means that my office would then be a clearance point prior to action or the issuance of instructions to the field organization.

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Now, my concept of the field organization is not exactly that which has heretofore been reflected on the War Savings chart because I find - and Miss Elliott's interests are characteristic of this observation - I find that in the field organization, certain things have been classified as operational, whereas I would classify them as more planning and programming.

I think, for example, of Miss Elliott in that connection. She was, as you say - and I do now remember - she was part of the field organization. I would not consider that I am transferring when I say the field organization as a unit out of what has heretofore been War Savings; I would not consider that I would transfer any of those functions - the Houghteling functions, the Elliott functions, and any other planning functions. I would leave them intact as a counterbalancing organization with the advertising and promotional, which would be on the other side.

I would lift Coyne and I would lift Coyne's regional - six, I think there are--

MR. GRAVES: Five.

MR. ROBBINS: ...regional division managers, if you want to call them that - what did you call them?

MR. GRAVES: They are associate field directors.

MR. ROBBINS: I would lift those people under Coyne's leadership over to report to my office rather than to remain as part of the War Savings Staff.

That would leave behind a group of people who would be the planners - the program people - and who would continue to function in their present fields of activity, except that they would make their actions effective through the field organization rather than being part of the field organization.

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Now they are the same people, and Mr. Coyne would be the same man - Mr. Coyne would still have his five associate directors and Mr. Coyne would still function as a line of clearance serving the planners who would thus be left in the planning block on the chart.

Now, on the other hand, from the Victory Fund point of view, we have already transferred - this is a small organization - we have already transferred out the advertising people and turned them over to Peabody. I guess that is one man - is it, or two?

MR. BUFFINGTON: Two.

MR. ROBBINS: They will henceforth be part of the advertising department.

That leaves George and Bob Hobbs, who now have a field operation - an operation which having been lifted out of the Victory Fund, is the parallel of the field operation which was lifted when Coyne would be lifted out of the war Savings.

Now we come to the question of whether or not we can or should attempt to have one field organization or two field organizations.

Well, if we answer that question by saying there should be one field organization, we are, in effect, attempting to answer the long range ultimate destinies of War Savings and Victory Fund. None of us feel at the moment that it would be wise to attempt to put those two field organizations together because it would seem to cast the die for the future further ahead than any of us feel would be safe at this time.

So therefore my concept of that is that we will have reporting to my office two field organizations, one headed by Coyne and one headed by George. They would operate as line field clearance, two-way channels of communication, stimulation, conveying of plans and programs out to the field, and they would, we would hope,

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work very closely and cooperatively together at the Washington executive level. And we would hope that that would be a natural thing because of the fact that certain decisions have already been made and those decisions will probably not be changed.

One primary decision has been made, and that is that the presidents of the Federal Reserve have been told that for the April drive they are the bosses within their own territory.

Now, therefore, I visualize the relationship between Buffington and Coyne as being - both tying in to my office - both operating field organizations. I would hope that Buffington ultimately would have some assistants in this job, perhaps dividing the Federal Reserve Bank contacts among those assistants - we know that Coyne has his five assistants at the moment. Those same men would operate in their five geographical areas.

From Mr. Coyne's point of view there would evolve a definite responsibility to tie in the Federal Reserve president on all matters that are going on in the War Savings field organization of the forty-eight States in such a way that they are constantly posted, so they know what is going on. They are in the stream, but not necessarily for those things which are routine and which must be continued as part of the regular operation of War Savings would they be expected to sit in review of those programs. Any program, however, which was distinctly part of the April campaign would of necessity have to have their approval before it could be considered official within their Federal Reserve region. That is simply a manifestation of a decision already made.

So therefore Coyne would have to feel responsible for and perhaps - for these presidents - and perhaps the easiest way to understand that would be to say that when Coyne, in his duty, has to activate any or all of the forty-eight State agents, he sees to it that - and feels responsible for - he sees to it that the Federal Reserve president is notified coincident with the issuance

of such instructions, and that his office is always informed about what is going on; and if the activity under consideration is specifically designed to be a part of the April campaign, that the Federal Reserve president's office is respected to the extent that he can actually have a refusal on such parts of the activity.

Buffington, on the other hand, will not be concerned in his field sales activity so much with the forty-eight State administrators, but by the same token, inasmuch as practically everything that Buffington will handle will be incidental to the forthcoming campaign, there will frequently be parts of such programs, I imagine, which will, of necessity, have to be further carried out by the joint organizations which have already been brought into existence, on down to the county and community level.

So I would think that George would have to be sure that if the subject of his activity involved fanning on down through to lower levels to make it effective, that such suggestion and idea would be part of any communication that he might send out to the Federal Reserve presidents in those instances.

To see this thing in a picture - which is a very crude picture because my very nice pictures of yesterday have been somewhat abused, I might say-- (Laughter)

H.M.JR: What is the word you used? (Laughter)

MR. ROBBINS: I said "abused." (Laughter)

H.M.JR: "Abused"?

MR. ROBBINS: Maybe that is a bad word - at least changed--

MR. BELL: Mutilated. (Laughter)

MR. ROBBINS: I have drawn up a very rough picture here.

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I have two more points. I have lifted the women's activities from the place where they previously were as part of the field organization, and I have hooked them with the top line. We think the women's activities cut across all phases of our work, whether it is a pay-roll plan with millions of women on pay-roll clock numbers, whether it is an advertising plan which would hit the women's market - no matter what it is. Also, the large percentage of the money of the nation is now controlled by women. It seemed to me that that should be isolated and made a part of the general staff operations, so that we are sure that all of the things we do have a proper twist from the women's point of view.

Likewise, in Mr. Houghteling's case, he is our ambassador to certain broad national interests, primarily Labor, and therefore I have lifted him out of the planning department, so to speak, and would look to him to be a special counselor and advisor in all matters of our bond campaign which relate to the Labor problem, and perhaps to the Negro and foreign problem. I am not quite able to go the whole way through on my thinking there. At any rate, he would be a specialized individual, as would Miss Elliott with our women's interests.

So my picture now becomes a relatively simple one, and it is simply this: I don't know whether you can see it from this (indicating rough draft of chart, retained by Mr. Robbins). It is the picture we had yesterday that most of you have seen. There is Mr. Peabody (indicating) with his Advertising Department, which is already a reality - that is, advertising and promotion.

Here (indicating) would be, I hope, Mr. Graves and Mr. Gamble, and Peabody would have you, Peter, as his special consultant. Mr. Graves and Mr. Gamble on the Planning Department - plans and programs.

Here (indicating) would be Miss Elliott with her women's interests; the Labor interests here (indicating) with Mr. Houghteling, and these two national sales channels of stimulation, two-way communication with the field.

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I have shown under Buffington, four spots. If we could find four qualified individuals, I would rather imagine that it might ultimately be helpful if we had a strong man contacting each of the Federal Reserve Banks.

We show here (indicating) Mr. Coyne's five field men who are already in existence, and down below we show the twelve Federal Reserve Districts and the forty-eight States.

Mr. Coyne would be admonished very strongly not to play any mashie shots over the Federal Reserve presidents but he would be equipped with a channel of communication which would make realistic and prompt action possible. The plans which are developed cooperatively with the advertising at this point, are cleared here (indicating) and put down whichever channel is the proper channel.

MR. ODEGARD: I understand the women's division and Mr. Houghteling's division would have no administrative responsibility at all. That is, the administration of the policies that might be evolved at this level would be the responsibility of Mr. Coyne and Mr. Buffington.

MR. ROBBINS: Administration - wait a minute--

MR. ODEGARD: The actual administrative supervision.

MR. ROBBINS: These are operating offices and they go--

MR. GAMBLE: Your only communication to the field is through one of those departments.

MR. ODEGARD: Would Miss Elliott, for example, send direct communication to women's committees in the forty-eight States; and would Mr. Houghteling, for example, send direct communications to Labor representatives in the forty-eight States; or would Miss Elliott send those communications through Mr. Coyne and through Mr. Buffington?

MR. ROBBINS: In the first place, if Miss Elliott wanted to communicate with the field, I would be the point of clearance, you see.

MR. ODEGARD: The reason I asked that is because--

MR. ROBBINS: Let me follow that through for you. If Miss Elliott wants to communicate with the field, her plan or program or idea for communication would be cleared with me before release. Now, it is not my idea to submerge leaderships or personalities here at all, and I would hope that we can always keep open the channels of communication from any and all parts here on information and advice, perfectly clear. But when it comes to a determined action after such advices have been exchanged whether personally through the Coyne or Buffington organization, who might bring back ideas, or whether by correspondence with any person in the field who can contribute, or by trips to the field to observe and bring back - when it comes to a determined action, then that would be approved here before it is released down the line.

Now, I don't really care - and I am perfectly sincere about this - whether we sign those communications "United States War Finance Committee, by Miss Elliott" - by Mr. Houghteling, or by somebody else, and thus maintain our personal identification with our section or special interests here; but I do care that no instructions from Miss Elliott or Mr. Houghteling, or from any of the planners, from any of the advertising group - if they are instructions and are telling people to go some place and do something - I don't want them to come through but one source.

MR. ODEGARD: Could we take a concrete illustration, Mr. Robbins, just a minute? Suppose you have a pay-roll savings drive in the steel industry, or the shipping industry, and so on, would you follow that through on the chart?

MR. ROBBINS: In the first place, there would be somebody in the Planning Department who would be looking after the pay-roll savings angle from Washington. A lot of those pay-roll savings drives of that kind are purely sectional and they would probably originate sectionally.

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MR. GAMBLE: None of them have originated sectionally, at the present time. All of them have been national, in part at least. They have all been directed from here.

MR. ROBBINS: All right, if they are all directed from here that makes it very simple. I imagine that some of the thinking in that field was original in the field and there may be--

MR. ODEGARD: A good deal of it has been within the States - within local organizations, but not regionally.

MR. ROBBINS: I didn't say regional, I said original out in the States.

MR. ODEGARD: How?

MR. ROBBINS: In the first place, somebody has to decide there is to be something done in the pay-roll field, and the people who are studying pay roll here would be the natural ones to whom we would look for such an idea. They would then create a program - a plan of action which would develop over in the Planning Department.

Now, that plan would then, because it motivates our field organization, be cleared with my office. After approval or change, or otherwise, when it was approved we would have to get action in the field.

Now, the normal way to get action in the field is to put it to Mr. Coyne, who has the field organization that has simply been lifted out of a point in the old War Savings, over to a point here (indicating), thus automatically putting my office between the idea and its execution. He would motivate it right down to the States - any or all of the States - where it would be made effective.

But at the same time, if it were distinctly a part of the April drive, and in any event, I think, he would feel responsible for seeing to it that the Federal Reserve

presidents and their executive managers would know what is going on. I would hope that each of them has two, one that has been drawn because of his qualifications from what used to be the Victory Fund and one because of his qualifications from what used to be the War Savings.

MR. BUFFINGTON: How would they be advised?

MR. ROBBINS: Simply by a copy of the communication that instructed the State to put the pay-roll savings plan in.

MR. GAMBLE: You are looking beyond April now on that, because they won't have them by April.

MR. ROBBINS: Some of them have them already.

MR. GAMBLE: I know, they are the executive managers, but some of them are not going to have this dual organization which will be necessary for them in order to properly disseminate this information.

MR. ROBBINS: They are not going to disseminate, but receive it - know what is going on in the field. Coyne would go direct to the Oregon State administrator if it was an Oregon shipyard pay-roll savings program, and San Francisco, at the same time, would hear about it and would know what was going on, and that it would come out of Washington in this form and that this was the plan.

MISS ELLIOTT: May I ask a question? Isn't this the main thing here that you are talking about - to get a clearance through your office of the plans that Mr. Buffington with his existing organization in the States for Victory Fund, and Mr. Coyne - I think where you are confusing us is talking about lifting out the Coyne organization. You are really not lifting it out at all. What you are saying is the Coyne organization will go on as it is functioning now with the same State chairmen, with the same field force, with the same organization, but will report back to you what is going on.

MR. ROBBINS: No, they will report to me that they will not do anything in line of instructing the field for action without clearance with my office.

MISS ELLIOTT: Clearance back through your office. Then I can't see where there is any vast difference there if it works that way. The way I got this thing, the whole Coyne organization will function just exactly as it is functioning now except with a matter of clearance of policy.

MR. GAMBLE: No, not the way Mr. Robbins has explained it, at any rate.

MISS ELLIOTT: Let me take my own organization--

MR. ROBBINS: You would report direct to me.

MISS ELLIOTT: All right, but on the other hand, if the Coyne organization functions - remember, there is a women's committee in every State working in that organization - all right, would that cut me off completely from functioning with forty-eight women's organizations? In fact, some of them are already in operation now as a result of the meetings you have been holding over the State, functioning within this.

MR. ROBBINS: You want to get your women's committees into action.

MISS ELLIOTT: They are already in action.

MR. ROBBINS: That is right, but the way you get your women's committee in action is first decide what kind of action you want; and secondly, you and I will sit down and decide whether we are in agreement that that is good action, or that it is timely, or that it is part of or completely out of the April drive.

MISS ELLIOTT: If you do that I wouldn't agree to that, because that would take the women's organizations in forty-eight States completely out and they wouldn't know how to operate.

MR. GAMBLE: It does that with every operation.

MISS ELLIOTT: They wouldn't know this, in that case. What I am trying to do is not to do anything - not to break down anything in operation. Let's take Pennsylvania - if this should happen then we would have to go back to Pennsylvania and say to Mrs. Pease, who is already operating now with this program after your Philadelphia meeting, under the direction of Mr. Ludlow, as we worked - and is in action there, you see. They are already at work. Well, now, that same pattern will just obviously and very naturally be followed by any women's organization within the forty-eight States, no matter what kind of setup we get here in Washington.

You might say, "Miss Elliott, I am taking you out of the field agency and putting you up here," in a position where I thought you said I was to sit and plan with the group to see where the women's division could assist with this whole thing, and then the field organization under Mr. Coyne in the War Savings Staff would go on.

Well, now, if on the other hand, you mean that I am to set up an entirely different procedure and say to the women of the country, "Pull completely out from under these War Savings Staff organizations and work over here as a separate unit, according to plans which I work out with Mr. Robbins," that would be confusion confounded in every State in the Union.

MR. ROBBINS: I am not making myself clear on that because--

MISS ELLIOTT: Unless it is what I said first, it is obliged to be that.

MR. ROBBINS: I don't think that is right, Miss Elliott.

H.M.JR: Let me see if I can explain it to Miss Elliott. What we are trying to do here is this. Let's go back to yesterday. Yesterday we had an organization

where there would be one person under Mr. Robbins who would be in charge of the sales people, both over War Bonds and over Victory Fund; their contact going first under Mr. Buffington, and from Buffington direct to the twelve presidents of the Federal Reserve.

Now, they listened to you people all day yesterday, and after listening to you they have come to the conclusion that for this April drive we would keep the War Savings sales organization intact. However, instead of the War Savings sales organization - I will call it by the name of Coyne - instead of Coyne going up through Sloan and Sloan to Graves, Coyne will now go directly to Robbins. Now, he will continue to function as he has in the past, with this exception: For the April drive, when his people in the field on the State level get a directive from us, the directive will go first from Robbins to Coyne and also from Robbins to the twelve Reserve bank presidents, and it is Coyne's job to see that those things are executed in the forty-eight States. Is that right?

MR. ROBBINS: That is right, except for one point there, sir. The plan having been cleared, Coyne's organization will disseminate the plans - rather than have four or five or six separate organizations here disseminating the plans - down to the State administrators and through the State administrators, just as it has in the past, out to the people who do the job. At the same time, Coyne will have to put the Federal Reserve presidents on his mailing list so that the plans that he is disseminating for action at the State level are always known at the Federal Reserve level.

H.M.JR: You see--

MISS ELLIOTT: Clearance isn't bothering me. It is operation on the State level that is bothering me in this.

H.M.JR: What they could do in another way, if they wanted to do it, but I don't think - supposing you said,

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"All right, we will leave War Savings just the way it is for April and everything they do has to clear through Mr. Robbins," and then from Mr. Robbins I would leave all of you just the way it is. Would that make you any happier?

MISS ELLIOTT: I think it would function better that way. I think if the thing remained intact just as it is, so that there wouldn't be that confusion of shifting from one to another, I think it would be a clearer operation. I thought in following Mr. Robbins that the question of having Mr. Buffington here with his Victory Fund Committee, Mr. Coyne with the field staff as it is, and then with them clearing out any difficulties or differences that might come in plans that went out to the two agencies, that that would clear - you see, I have thought of this all along as an integrating thing, to disturb as little as possible the machinery that is now in operation, but just make an integration of it to avoid overlapping or duplication or conflict, but not to confuse the people on the State level by pulling them out.

For example, Mr. Robbins' plan would pull the women within the State level completely out from under their State administrators and put them over here.

H.M.JR: No.

MR. ROBBINS: No, not at all. Who does Mr. Coyne normally communicate with when he operates?

MISS ELLIOTT: The State administrators.

MR. ROBBINS: If his channel of communication is through the State administrators, why wouldn't it go--

MISS ELLIOTT: The plan is just to keep the whole thing intact, not pulling it out at all. Just as the Secretary has said, here is the War Savings staff, they are working on pay-roll savings, they are working in the women's division, they are working in Labor, they are working in this whole business. All right, now we are

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not going to upset that machinery at all, go ahead; the only difference being that Mr. Coyne and those at the head of these will clear through you and through those banks.

MR. ROBBINS: It is almost that if you just finish it with just one sentence. Instead of Mr. Coyne reporting to what has heretofore been the War Savings Staff, he would report to me.

MISS ELLIOTT: It is still the War Savings Staff, but in addition, there is someone through whom they clear and not disturb the internal organization of the thing at all. It seems to me it is a very simple thing that way, and still get the clearance that is necessary.

MR. ROBBINS: Yes, the net of it is that Coyne - as the advertising has been lifted out and now reports to Peabody; so the field organization is lifted out and now reports to me.

H.M.JR: Robbins, don't you think - let's just take a fresh look at this thing for a minute. We have got the advertising out; that is settled - certainly we don't want to disturb that.

Supposing we said for this April drive we would leave the Washington War Savings organization as it is. The only difference is that we wouldn't pull Miss Elliott out, and we wouldn't pull Houghteling out; just leave that as it is and leave Mr. Graves where he is and Mr. Gamble where he is, as Mr. Graves' deputy. And simply say to Graves, "Now look, for now until the April drive is through the War Savings organization, minus advertising and promotion - anything that you do will have to clear through Robbins, and so forth and so on. But not pull out the women, and not pull out Houghteling; just leave it as it is.

MR. ROBBINS: I am not so concerned about Houghteling.

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H.M.JR: Just leave it as it is; not call it a planning section, other than it will plan for War Savings Bonds and any planning you may want to do on the over-all we will do in a small executive committee, not to exceed maybe five people.

MR. ROBBINS: From my point--

H.M.JR: And then give - I think you will find the people here in the room will be much happier for this April drive, and you will get more out of them, and it isn't terribly important.

MR. ROBBINS: From my point of view, it is pretty important.

H.M.JR: Why? They can't send out any orders; they can't do anything that doesn't clear through your office.

MR. ROBBINS: I don't want to find myself exactly in that position, and therefore I want to have the channels of communication between Washington and the field operating under the immediate contact of my office rather than operating as part of another organization which removes it from that immediate contact.

H.M.JR: It only removes it by one person.

MR. GAMBLE: It could very easily become a serious bottleneck for the whole operation.

H.M. JR: What could?

MR. GAMBLE: It can very easily become a serious bottleneck.

H.M.JR: What I am saying--

MR. GAMBLE: No, what you are saying makes sense. I think this is a bottleneck. I think we will be fussing around with an organization by the time the April drive will be half over, and still be talking about procedures and methods.

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MR. GRAVES: There is one thing that has got to be thought about when you think about moving Mr. Coyne over under Mr. Robbins. We have an organization of about nine hundred people in the field and a substantial part of Mr. Coyne's time is given to the routine of administration that naturally would be involved in an organization of that size. There is the matter of hiring people and attending to supplies, equipment, office space, and so on.

Now, that is something that I have given supervision to personally, and to do what Mr. Robbins is proposing is going to involve him in what you might call administrative routine that he couldn't avoid. He has to accept that responsibility if he is going to have this force reporting directly to him. I don't think that that is going to be employing Mr. Robbins' time to advantage if you are going to sew him up a certain number of hours a day with that kind of business.

I think Mr. Robbins is probably unaware of the tremendous amount of detail that is involved in Mr. Coyne's operation.

Mr. Coyne has a staff over there, I suspect, of fully twenty-five people, large groups of whom are engaged in handling correspondence with the field about necessary details of operation.

Mr. Robbins' day isn't going to be long enough, in my opinion, for him to clear the things that Mr. Coyne's department is constantly doing; especially when you add to that the fact that Miss Elliott would be reporting directly to Mr. Robbins, and Mr. Houghteling reporting directly to Mr. Robbins. I think, as Mr. Gamble just suggested, that you have in that a bottleneck that would be fatal to the efficient operation of this program.

MR. GAMBLE: You have another serious thing; you have blocked all your so-called sales departments in which you have shut them off entirely from the salesmen.

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Under this operation these people - this is not a planning committee - the pay-roll savings organization in Washington is not a planning organization; it is a sales organization. Our farm operation is not a planning operation; it is a direct sales operation. The same thing is true of our retail operation, and you shut them off.

In a matter of a few minutes, Mr. Secretary, anything having to do with those departments in the field, in April, one of us can clear with Mr. Robbins, and Mr. Robbins can approve it or reject it.

H.M.JR: This is the way I am thinking. I have listened to everybody. I don't know where Bell stands.

We never at any time said that we would settle - let's be very frank - the fate of the War Savings organization before the April drive. Is that right?

MR. ROBBINS: That is right.

H.M.JR: Until we go through the April drive we are asking both to cooperate shoulder to shoulder, and after the April drive is over, we would then settle the fate of the War Savings. That has been the position.

Now, what I think is this - so that you can make time and get the best out of the War Savings people in this room - I think that one person - and I hope that person will be Mr. Graves - would say, "All right, I will guarantee you, Mr. Robbins, one hundred percent cooperation." Look at Graves, you don't see him. (Graves nodding)

MR. GAMBLE: You can have that from everyone.

H.M.JR: "I will guarantee you a hundred percent cooperation. Nothing will go on, nothing new will take place or in any way conflict - nothing to set back your April drive - that you personally won't have a chance to say yes or no to. I will get behind your damned old April drive and give you what is left of me." (laughter)

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Now, I will guarantee Harold Graves personally. If Harold Graves says to you that he will give you everything he has got, he will do what he has done for me.

MR. HOBBS: I am not worried about that, sir.

H.M.JR: Yes, but it is terribly important. Then these people will all settle down and go to work, and they are a damned good organization. Now, the important thing was to get this publicity and advertising centralized, which I have. The other things which they have are the things which you know I need; some of them will be useful in the April drive and some won't. The main thing is that anything that is useful you will get, and anything that may cross you up, Harold Graves will see to it won't cross you up. Is that right, Harold?

MR. GRAVES: That is right.

H.M.JR: And this mass of detail which you would have to master and can't master between now and the 12th of April, will go on functioning the way I have built it, stone by stone. I know it; it is a good organization; it is a loyal organization. If Harold Graves says he will deliver, he will deliver; and you need not worry about it. If he says he will check everything and clear everything with you, he will do it, because that is the way he is built. I just don't think you have time, and I don't think it is necessary, to go beyond.

Then Bell and Graves and you (Robbins), and your advertising man, Peabody, and Buffington, and I would meet as often as is necessary and settle the policy.

I wouldn't bring in the people I had intended to bring in at this time, which was Miss Elliott and Gamble and Odegard; I wouldn't bring them in from now until the April drive is over, because they would have to say what they think to Graves, and Graves would have to reflect what they think. I had intended to bring them in, but I wouldn't bring them in.

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MR. GRAVES: I would like to say that--

H.M.JR: I have said a lot. Now, Harold, you can talk for yourself.

MR. GRAVES: Mr. Robbins, Mr. Buffington, and I made a plan like that - put it on paper, and initialed it.

MR.. ROBBINS: That is right.

MR. GRAVES: I supposed at the time that we were making the plan that would control through the April drive, and it was just as you (the Secretary) have stated it now, that we would leave things intact through the April drive, and that the things that are now in the War Savings organization that are not related to the April drive would go on under the system and organization and procedure that we have now in effect. Anything that was contemplated or proposed in the War Savings organization that had to do with the April drive I would clear with Mr. Robbins before any instructions were given to our field people.

That is a written memorandum. Mr. Robbins wrote it. If you have not seen it, I think that you should.

MR. ROBBINS: I think the Secretary has seen it.

H.M.JR: I would like to refresh my memory. How can I get it?

MR. GRAVES: I have a copy in my office.

MR. ROBBINS: It is just as brief as that.

MR. BELL: I don't think it is so important where Miss Elliott and Mr. Houghteling fit into this chart. Miss Elliott would still remain with Coyne as she is now; and Mr. Houghteling would remain in the organization. I think it is very important that Mr. Robbins' line of authority be kept clear in this whole drive in order to avoid confusion. The person who directs that side of

the field organization has to be on the line with the person who directs the field organization on the other side, which is Buffington.

MR. ODEGARD: It seems to me that this kind of a solution would, from Mr. Robbins' point of view, be much preferable to a solution that involves difficult administrative matters such as this would inevitably involve.

Now whether this might be the type of organization you wanted to go into at the end of the April drive is another matter. I think that could be--

MR. ROBBINS: I can answer that quickly. It isn't.

MR. ODEGARD: Then I think the problem of serving as a coordinator between the type of organization he has here now would be facilitated if he reduced the number of people that you had to deal with, that report directly to you. If you had Mr. Buffington on the one hand and Mr. Graves on the other, it seems to me that would be an easier operation for you than if you had Mr. Houghteling, Miss Elliott, Mr. Coyne, and Mr. Peabody, and all the rest of them reporting directly to you.

MISS ELLIOTT: I think, Mr. Secretary, that what you have said serves to coordinate what exists, and yet adds to it - a central direction so that there wouldn't be any overlapping or confusion in what I thought we were trying to get at in the December drive. It does, I think, simplify the thing that worried me about this after I got to thinking about it yesterday, and that is that as complicated a thing as has been proposed would upset all over the country thousands of people who have got to work in this thing if we make it a success.

The reason I said to you yesterday, Mr. Robbins - you said you expected to be in the field most of the time - is that if you undertook the kind of operation that you have there, it would take every minute of your time here, and then some, to get it in shape in time for the extra drive and function.

MR. ROBBINS: I am very strong for delegation of authority, and what we are talking about here is simply whether or not the sales manager of the War Savings Staff is going to report to me or report elsewhere. The people who are going to handle this campaign are the most important single factors that we have to work with now that we have our advertising coordinated.

The net of all that I am recommending here is that the people who will be responsible for motivating the human activities in this campaign - those people in Washington - should tie into my office.

Now, the delegation of authority that would go to Coyne in his new responsibility, to George Buffington in his responsibility, and to others, would be a very definite and real thing. In other words, I haven't any idea of not vesting these people with authority enough to operate in a very realistic way. It is just a question of whether a sales manager should tie in with my office or tie in some other place. It is just that simple in my mind.

H.M.JR: Well, it isn't that simple; it isn't that simple at all. You ought to after today forget about organization and be thinking of creating new ideas and generating, and so forth, and so on. Then if Cleveland jumped the traces, you could go out to Cleveland and get them back into the traces, and so forth, and so on, but generating ideas.

Now, what we are really doing - let's call a spade a spade - when you take Coyne out and leave the War Savings, and you have Miss Elliott in on a line directly to you, and Houghteling, there is nothing left of War Savings; it is an empty shell as far as Washington goes. There is nothing left of it, and it is finished. I never planned that I would do that at this stage, and I never intimated to you that I would. As far as the War Savings Washington Staff is concerned, it is just an empty shell. These people here in the room naturally resent it. If I were in their shoes I would, too, and you can't get the

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best out of them for the April drive if that is what is happening to War Savings. If you were in the same thing and were put into the thing that Harold Graves has done for over two years, you would feel the same way. I hope you would be as loyal to me as he is when he sees what is happening.

Now we all have said that when the April drive was over everybody would take a fresh look at it.

Am I in any way changing anything that I have said to you? No. You still are - direct authority flows from me, to Bell, to you. It is in writing. Nothing has been changed down to the president of the Federal Reserve Bank. All that I am suggesting this morning is that instead of taking Coyne out and instead of taking Miss Elliott out, that this organization which has how many employees throughout the country?

MR. GRAVES: About thirteen hundred.

H.M.JR: Thirteen hundred employees - and instead of trying to get them so upset that they won't do you any good and you have a disgruntled group throughout this whole drive - if Harold Graves will say to you, "Robbins, you have my loyalty and my support; I will underwrite it" - and in the final analysis whether the drive is a success or not it will all fall on me because one failure on any issue and I am through. I have always said that. The first time I fail in a drive I am through, because I can't say whether we do have rubber or whether we don't have rubber, or whether the Ford plant is turning out bombers or whether it isn't - I can't go through constantly bluffing like other organizations do - or whether we do have canned food or not. People know it. So every time I go into a drive it is table stakes, so nobody takes the risk on the thing that I do.

My advice, after listening to this thing for days, is that you take my suggestion - if Harold will give you his word--

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MR. GRAVES: I will.

H.M.JR: Let it rest this way throughout the April drive, holding Harold entirely responsible and having contact only with Harold. That doesn't mean that you can't send for Coyne as often as you want or take Coyne with you on a trip or do anything else that you want to. But Harold Graves' organization is responsible, and by gawd, it is up to him to deliver it enthusiastically. Is that right, Harold?

MR. GRAVES: That is right.

H.M.JR: That is my recommendation.

MR. ROBBINS: Well sir, now as far as the arrangement that we had suggested here with reference to lifting Miss Elliott and Houghteling out of what we have chosen to call on this chart "planning," that is not of any consequence.

H.M.JR: I would leave it alone.

MR. ROBBINS: That doesn't need to be--

H.M.JR: I would leave them alone.

MR. ROBBINS: And that was not on the original chart, as you recall, that I submitted. I penciled that in as we talked.

H.M.JR: I have seen so many charts.

MR. ROBBINS: I penciled these in, so they were all down there. That doesn't bother me a bit because it wasn't a part of my original thought.

MR. ODEGARD: I haven't seen that chart.

MR. ROBBINS: There is only one in existence because I wasn't sure of it.

I haven't any reservations on that whatsoever as far as Mr. Houghteling and Miss Elliott are concerned,

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and originally I hadn't conceived it as being quite the way it now turns out.

As far as the operation of the field organization is concerned, there are two focal points in Washington for the two separate activities that have gone on in the field. Of course, I am going to line up behind your decision. That goes beyond a question of doubt. But I don't think of it as a destructing factor. I do think of it as a constructive move. I believe in it or I wouldn't recommend it. I think it is right, and I think that I will have more effective harness to work in if the sales managers and the operating people with the field tie into my office direct.

MR. GAMBLE: I would like to ask Mr. Robbins a question. Do you understand what the retail program is - how it operates? Do you understand how the farm program operates, and do you understand thoroughly how the payroll savings operates?

MR. ROBBINS: Of course I don't understand any of that.

MR. GAMBLE: How could you decide that you are going to set these people off in an organization chart? I don't think they should be set up in some organization chart until everybody understands what their functions are. It is a very serious move to the War Savings organization, and something might go beyond repair if you let it go along for another six or seven weeks and just decide you are going to render inactive some organization because you don't understand it. Take Mr. Houghteling - ninety percent of Mr. Houghteling's work is done under the payroll savings organization here. Without discussion with anybody here you separate them into two points of the country.

H.M. JR: That is me. Both Miss Elliott and Houghteling are me - that is me.

MR. ROBBINS: That wasn't a part of the original plan. As a matter of fact, Ted, I don't care which way that goes. It would be better for the immediate present if that shouldn't be changed, and I had so recommended originally.

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H.M.JR: Could I read this out loud just to refresh my memory?

(Reading "Memorandum of Agreement of Tentative Operating Plan - Headquarters Organization," copy attached.)

"1. Mr. Graves will continue to operate in direct contact with members of the War Savings organization on all matters of current operation which are not specific part of the April campaign. On matters pertaining to the campaign, Mr. Graves will see to it that no policy decisions or specific instructions are issued until proper clearance has been made with the President of the Federal Reserve District concerned."

I might say here, "Until Mr. Graves has cleared with Mr. Robbins."

MR. ROBBINS: That was right under the gun, sir, upon my arrival. We had to get something out.

H.M.JR: May I say - if I just changed that, would that be agreeable to you?

MR. GRAVES: Yes, indeed.

H.M.JR: "Are issued until proper clearance has been made with Mr. Robbins." Is that all right?

MR. GRAVES: Perfectly.

H.M.JR: Would that be all right with you?

MR. ROBBINS: Yes. I think that comes in later.

H.M.JR: "2. Mr. Buffington will continue to operate directly with the Executive Managers or the President of the Federal Reserve Banks on all matters relating to the Victory Fund activity. His authority to continue operations is clear on all matters except those involving major policy which should be cleared with WMR prior to action."

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I think that has to be cleared up a little bit. I don't think that is the way you want it now.

"3. Both Messrs. Graves and Buffington will not only clear matters of policy with WMR but will take whatever steps are necessary to keep his office informed during the transition period."

If necessary, that could be spelled out, but that is a mouthful, and that should come first. I think that should be paragraph one.

"4. Messrs. Graves and Buffington will clear back and forth between themselves to preclude confusion or conflict of operating instructions between Washington and the Federal Reserve Banks Presidents' office."

"5. WMR will, at all times, keep both Messrs. Graves and Buffington intimately advised on any decisions made or instructions issued from his office direct to the Federal Reserve Banks Presidents' office.

"6. Field Organization. All persons in the Headquarters organization who contact the field, either personally or by correspondence or phone, should exercise particular care at this time to make no decisions with any member of either organization which should be referred to the Federal Reserve President for handling. In general, matters of this nature will be concerned with (a) all the activities of the Victory Fund Committee relative to the Victory Drive and (b) special activities of the War Savings Committee relative to the Victory Drive. A good rule -- when in doubt, clear with the Federal Reserve President."

I would say a good rule is, when in doubt clear with Mr. Robbins.

MR. ROBBINS: That was our agreement, and it is still our agreement. That is the way we are operating at the moment.

H.M.JR: Well, Robbins, the more I think of it and the more I see how time is running against you, how you

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have a tremendous responsibility, knowing these fellows, having lived with them and gone through trials and tribulations, and to make your job possible, that is what I recommend to you. I think you will find that everybody in this room will settle down and go to work.

MR. ROBBINS: Do you realize just what you are saying to me, sir, from my point of view?

H.M.JR: I think so.

MR. ROBBINS: As I see it, you are saying that it is your recommendation that the direction of the people who will operate on this drive shall be otherwise than through my office, and I will be held responsible.

H.M.JR: No, I am not saying that.

MR. ROBBINS: That is what I see in that, sir.

H.M.JR: No. What I am saying to you is this: I am saying to you - having taken the advertising thing out - I am saying to you this, and I will say it over and over again until it is clear in my own mind and clear in yours, that the advertising thing - you remember when you came to me on Thursday or Friday first with this chart that I said, "That is all right, but I have to take time on the other stuff." Do you remember?

MR. ROBBINS: That is right.

H.M.JR: What I am saying is this: You haven't got the time to master all the details between now and the 12th of April; you can't do it.

MR. ROBBINS: That is right.

H.M.JR: You have to trust somebody; you have to trust a number of people who will deliver to you the things which are going to be helpful to you in the April drive and will guarantee that nothing in the organization will in any way come in conflict. Harold has to see that

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people like Trounstine and Moore in Ohio have to get back of this thing and be good, or anybody else. It is up to him to phone them or jump on a train and go out there and see that they be good. He is giving you his word - and me - that he will work for you enthusiastically, delivering his sales organization which he has built. You haven't even talked to Coyne. We don't even know whether Coyne can deliver. But he can deliver if Harold tells him to.

Now, the only difference in what we are saying is this, that when it gets down, instead of your working directly with Coyne, you work with Coyne once removed.

MR. ROBBINS: Really twice removed.

H.M.JR: Once removed.

MR. ROBBINS: Graves to Sloan to Coyne.

H.M.JR: Well, we will cut Sloan out. As far as I am concerned, they could fire Sloan today.

MR. BELL: Really looking to Harold as the administrator, rather than Coyne.

MR. GRAVES: Actually Mr. Sloan has an administrative assignment over there. I have my contacts with Mr. Coyne through Mr. Gamble usually, with reference to all of our field operations outside of the administrative routine.

H.M.JR: But Harold, Mr. Robbins is very much interested in the field organization. All right, whenever he is ready, you and Coyne can come down and sit in with him as long as he wants you to.

MR. GRAVES: I suggested that to Mr. Robbins days ago, that he should assemble Mr. Coyne's group and become acquainted with them and find out what they do.

H.M.JR: The thing that is worrying me - am I asking you to take a responsibility which is unfair because I am putting Coyne's present boss between you and him?

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MR. ROBBINS: Coyne is just a name to me.

H.M.JR: Well, the sales organization.

MR. ROBBINS: I would like to have the sales organization report to me.

Now, if for the sake of efficiency - or, at least for the sake of lack of confusion - it is finally decided that it is best all around not to do that, then so it will be.

H.M.JR: Well, Robbins, I have to say these things publicly.

MR. ROBBINS: That is right, and I want to say all of mine publicly, too.

H.M.JR: I am correct in saying that these people here, if you will adopt my suggestion - Miss Elliott, Gamble, Odegard and Graves - they each can talk for themselves - if he goes through will he get your enthusiastic support that way?

MISS ELLIOTT: He certainly will.

H.M.JR: Will you stop fussing? (Laughter)

MISS ELLIOTT: Yes, sir. The only thing you are doing, Mr. Secretary - Mr. Robbins said a moment ago that he couldn't do all this; he would have to delegate authority - you are advising him to delegate authority to the person here who has the whole thing set up to go--

H.M.JR: Will you stop fussing?

MR. GAMBLE: This is wholly impersonal, Mr. Secretary; this is to help Mr. Robbins do his job.

H.M.JR: I know, but we are being personal.

MR. GAMBLE: You know, a hundred percent support - I will be delighted.

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H.M.JR: Maybe it is an unfortunate word, but if it is done this way will you fellows turn yourselves inside out?

MR. GAMELE: One hundred percent.

H.M.JR: How about you, Peter?

MR. ODEGARD: It goes without saying, Mr. Secretary.

H.M.JR: You can't buy that. You can't buy that stuff. You as a sales manager - the thing that you want is loyalty and enthusiasm. The thing that you get in an organization - it is like confidence in the Federal credit. If you have it, it is wonderful; it is phantom. If you lose it, you never get it back. If these people will all pitch in and help you from now on, and take my word - I who have had ten years in Washington, and enjoyed a reputation as having run the Treasury well - I don't think it is immodest to say so - we have a loyal crowd. If these four people will say, "We will do everything we can to help you," if you are a smart fellow you will grab it. And I wouldn't let another one of them squawk.

MR. ROBINS: I am not a bit worried, sir, about that angle.

H.M.JR: I want to be fair. I have invited them to come here, but, my heavens, enthusiasm and loyalty and desire to go through with the thing and make this thing go as against something on a piece of paper and a chart, when everything has to clear through you and you have complete veto power - I don't see what else you want in the three weeks you have to get ready. This is for April. What happens after April - no pledges - new deal - re-examine everything.

MR. ROBINS: Your decision, sir, is what we are here to get.

H.M.JR: All right, do you want me to decide it?

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MR. ROBBINS: You have to, because, after all, sir, you are not going to convince me against a philosophy of operation, even at the sacrifice of being a little bit misunderstood at this time.

H.M.JR: Well, let me put it this way: If I decide, can I count on your enthusiasm?

MR. ROBBINS: You certainly are going to get my enthusiastic support. I think you know that.

H.M.JR: I am asking each person because it is a free country, thank God. That is what we are fighting for.

MR. ROBBINS: Sure it is. I will work on this basis to the best of my ability. I don't think I will give you as effective a job as I would if I had my sales contacts tying into me. I am not going to change my philosophy, sir. I have been doing this kind of work for eighteen years. It is one thing I know and understand, whether I know about pay-roll savings or whether I don't.

Now I am going to work it your way. You are going to decide it, and I am going to do my level best to turn in a good performance. Don't worry about that. I hope it will be at least pointed upstream when you catch me.

H.M.JR: All right.

How about Mr. Bell?

MR. BELL: I think it will work if Harold will get a little closer to his field organization so that he can keep in contact and keep his hands on that.

MR. GRAVES: As to that, Mr. Robbins should feel free at any time to contact Mr. Coyne directly or Mr. Coyne's people. I think it will do everybody good if he will do that.

MR. ROBBINS: That is right, and it is only the hours and minutes in the day that would preclude that.

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H.M.JR: Again I have to say this thing in front of a half a dozen people. You in your turn have got to get - Harold, you have to take the initiative from now on in the sense that if you see something is going wrong don't wait until I find it out or until Robbins finds it out. You see what I mean? Do you know what I am talking about?

MR. GRAVES: I think I do.

H.M.JR: And if something is wrong in War Bonds, or something is wrong anywhere in the field, you take the initiative first to try to lick it. If you can't lick it, you bring it to Robbins' attention.

MR. GRAVES: I have brought to Mr. Robbins' attention, the instances that I think you are thinking about.

H.M.JR: Yes, but first try to lick it; save him that. Second, again you and Buffington have got to get much closer. You had better go out and get drunk first together tonight. (Laughter)

MR. BUFFINGTON: I disapprove of drinking. (Laughter)

H.M.JR: This is one question that you fellows had better go out and get to know each other on and get a little closer - quit this kind of - you know, as though the other fellow smelled a little bad. (Laughter)

MR. GRAVES: I would like to make a speech on that point.

H.M.JR: Stop sniffing at each other like a couple of dogs. (Laughter)

MR. GRAVES: I think people have probably told you that Mr. Buffington and I have been unfriendly.

H.M.JR: I can use my own eyes.

MR. BUFFINGTON: Maybe we haven't been very communicative - maybe that is the answer.

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MR. GRAVES: Let me make my speech. I read a letter the other day written by Mr. Nicholas, our administrator in Colorado, to his deputy, a Mr. Kemper, after the Federal Reserve meeting at Kansas City. I think you know him.

H.M.JR: That is right. There are three Kempers who are brothers.

MR. GRAVES: This is the Kemper whom I think you met at your meeting.

H.M.JR: The two brothers were there.

MR. GRAVES: A Mr. Kemper told someone who told Mr. Nicholas that it was now a matter of common knowledge that Mr. Buffington and I have been squabbling and fighting for months to get control of the Treasury finance organization. He had more to say, but that is the significant point just now.

Now, as a matter of fact, Mr. Buffington and I have, as far as I recall, never had a cross word.

MR. BUFFINGTON: I don't recall any, no.

MR. GRAVES: And I don't think you could find anybody who would report to you that I have been heard saying unkind things about Mr. Buffington. It has never been reported to me that Mr. Buffington has ever been heard saying an unkind thing about me. Yet, this rumor or belief apparently exists all over the United States, and I think you believe it, that Mr. Buffington and I have been--

H.M.JR: Yes.

MR. GRAVES: ... engaged in fisticuffs and quarrels.

H.M.JR: Not fisticuffs, but icy stares. (Laughter)

MR. GRAVES: No, I wouldn't accept that.

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H.M.JR: Well if I am wrong, it makes what I am asking that much easier.

MR. GRAVES: It would be easy. I wanted to say that in front of these people because--

H.M.JR: Well, Harold, if I am wrong it makes it that much easier. When you are through I would like to say something, unless Buffington wants to say something.

MR. BUFFINGTON: I know Jim Kemper of the Commercial Bank of Kansas City. Is he the one you refer to?

MR. GRAVES: I don't know.

MR. BUFFINGTON: I haven't seen him since I have been in the Treasury, so that wouldn't--

H.M.JR: The point I am making is this: I invited Robbins in. We are all more or less strangers to him. He has taken us on good faith. His reputation is at stake, and his company's reputation is at stake. We are at war, and this is the President of the United States - the way I look at it he does me a great compliment. He isn't interested in my drive; he takes it for granted we will deliver. He has other things to do which he thinks are more important. So that is all the more reason why we have to make good, because this is one front where we can't bluff the people, we can't fool them. They know; and if we fail here, nothing would be such a boon or assistance to the Axis as the United States Treasury failing.

After all, we are not only financing ourselves, gentlemen, but we are financing practically the entire United Nations.

Now I personally will give Mr. Robbins from now until this drive is over the maximum of my time. He has first call on my time. I will have lots of ideas. I will be annoying him, suggesting this thing and that thing, and so forth, and so on, but just saying we will

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cooperate isn't enough. We have to be aggressive. We have to go two-thirds of the way to meet him.

If something is going wrong, because we are old-timers and we know it first, we have to take the initiative and bring it to his attention. Where we can lick the things without bothering him, so much the better. Your (Graves') organization at present is confused and has its tail down under its legs on account of all this discussion, and they don't know where they are going. Just as soon as it is humanly possible you have to get them on their feet, raring to go and with their tongues hanging out, finding out what they can do to make this drive a success. As I say, everybody should make it just as easy for everybody else as possible. Let's for heaven's sake forget that one person belongs to an organization of one name and one belongs to another. We all belong to the United States; we are all Americans, all out to beat the Axis. That is our job.

As far as I am concerned, I have made my decision. It is for better or worse. I think it is on the plus side. If this War Savings crowd with its thirteen hundred employees and their several hundred thousand volunteers now are going to get enthusiastically back of this it is a real contribution.

MR. ROBBINS: All right, let's go to work.

H.M.JR: Let's go to work.

COPY

March 4, 1943

Memorandum of Agreement of Tentative Operating Plan -
Headquarters Organization

1. Mr. Graves will continue to operate in direct contact with members of the War Savings organization on all matters of current operation which are not specific part of the April campaign. On matters pertaining to the campaign, Mr. Graves will see to it that no policy decisions or specific instructions are issued until proper clearance has been made with the President of the Federal Reserve District concerned.
2. Mr. Buffington will continue to operate directly with the Executive Managers or the President of the Federal Reserve Banks on all matters relating to the Victory Fund activity. His authority to continue operations is clear on all matters except those involving major policy which should be cleared with WMR prior to action.
3. Both Messrs. Graves and Buffington will not only clear matters of policy with WMR but will take whatever steps are necessary to keep his office informed during the transition period.
4. Messrs. Graves and Buffington will clear back and forth between themselves to preclude confusion or conflict of operating instructions between Washington and the Federal Reserve Banks Presidents' office.
5. WMR will, at all times, keep both Messrs. Graves and Buffington intimately advised on any decisions made or instructions issued from his office direct to the Federal Reserve Banks Presidents' office.
6. Field Organization. All persons in the Headquarters organization who contact the field, either personally or by correspondence or phone, should exercise particular care at this time to make no decisions with any member of either organization which should be referred to the Federal Reserve President for handling. In general, matters of this nature will be concerned with (a) all the activities of the Victory Fund Committee relative to the Victory Drive and (b) special activities of the War Savings Committee relative to the Victory Drive. A good rule -- when in doubt, clear with the Federal Reserve President.

March 16, 1943
2:51 p.m.

HMJr: Hello.

Roy Blough: This is Roy Blough.

HMJr: You don't mean it.

B: (laughs) I'm sorry, I was on the other phone. Mr. Paul wanted to clear with you or check with you on a matter the Committee is considering, namely, to allow exclusion of \$3,500 income for service pay of people in the armed forces. In other words, a man's service pay would be not included in his income for tax purposes, up to \$3,500.

HMJr: No, I - I'm not for that. Hello? But I'll tell you what I am for. Hello?

B: Yes.

HMJr: And I can't get anywhere with you people, but I wish you would tell the Committee. I believe that a man or woman in the armed services who was - who died in battle - see?

B: Yes.

HMJr: Hello?

B: Yes. I get it.

HMJr: That their family should not have to pay any income tax that year.

B: Yeah. Uh huh.

HMJr: And I wish you'd tell them so.

B: All right.

HMJr: But I'm not for the other.

B: You're not for the other?

HMJr: No. Any man or woman who died in battle, their family should not have to pay the residue of their tax.

B: On the year in which he died?

HMJr: Yeah. Well, of course - it's - well, I - I would say this, that I would cancel any taxes that he owes.

- 2 -

B: Yeah. Uh huh. Uh huh. Any income tax.

HMJr: Any income tax that he owes should be canceled.

B: Yeah.

HMJr: Now, I'd really like the Committee to know where I stand on this.

B: Well, I'll tell Mr. Paul that.

HMJr: Yeah.

B: Thanks.

HMJr: Sullivan's against me on that, but I - I - I'm definitely for it.

B: Uh huh.

HMJr: I mean, you take a man for instance that went in the army this year or last year, and he's killed....

B: Yes.

HMJr:and the whole thing falls on his family, and I think it's terrible.

B: That is you'd - you would forgive the tax whether it was on income outside or inside or any place.

HMJr: I'd just - anything that he owes the Government when that man dies in battle.

B: Yeah.

HMJr: Not if he dies in bed from the chicken pox.

B: Yeah, uh huh.

HMJr: But if he dies from - from - in action....

B: Yes.

HMJr:that the taxes that he owes the Government are canceled.

B: Yeah. All right, I'll pass that along.

HMJr: Okay.

B: Thank you.

March 16, 1943
3:19 p.m.

HMJr: Hello.

Lord
Halifax: Hello. Is that Morgenthau?

HMJr: Yes.

H: This is Halifax.

HMJr: Yes.

H: So sorry to bother you after - after we said
goodbye to you after your good lunch.

HMJr: Didn't the strawberries agree?

H: (Laughs) They were all right, yes.

HMJr: (Laughs) I see.

H: Look here, I was telephoning to you for
Anthony Eden, who'd had to go off.

HMJr: Yes.

H: But the moment he dropped back here, he found
a telegram from the people in London....

HMJr: Yes.

H:about our old friend, the rate of the
French franc in North and West Africa.

HMJr: Oh, my!

H: You know.

HMJr: Yes, I thought the President settled that.

H: Well, I wanted to tell you.

HMJr: Yes.

H: The President, as you know, some time ago
sent a telegram to Winston....

HMJr: Yes.

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H:to tell him to get it settled with the Free French and to get them to pull their rate up to two hundred, as the other people had pulled down from three hundred to two hundred.

HMJr: Yes.

H: And this is a long thing from him to say that he's failed,....

HMJr: Oh.

H:that he's done his best.

HMJr: Oh.

H: Well now, what I wanted to ask you was would the President really wish to be troubled with that? Because, if so, I suppose Eden could speak to him when he's seeing him again tomorrow, or, if the President didn't wish to be troubled with it and if you were the unfortunate person to be troubled with it, I wondered whether some time - whether I - I might pass the P.M.'s telegram along to Phillips and tell him to come and - and have a talk with you at your convenience. Eden is bunged up today and tomorrow, and then goes up to New York.

HMJr: Well, is he going to see the President tomorrow?

H: Seeing him tomorrow.

HMJr: Well, I think he better ask him, in the first instance....

H: Yes.

HMJr:and then if the President said, "Well, take that up with Henry"....

H: Then pass it along.

HMJr: Then pass it along.

H: Righto. I'll tell him to sound the President first.

HMJr: I think so.

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H: Right. Right. That's all I wanted to know.
Thank you so much.

HMJr: Thank you.

H: Again, many thanks for your good lunch.

HMJr: Well, we - I enjoyed it. I....

H: (Laughs)

HMJr:I'm sorry it....

H: Well, we will....

HMJr: We - we see each other so seldom.

H: Well, we'll all meet again.

HMJr: Right.

H: Goodbye. Thank you so much.

March 16, 1943
5:13 p.m.

HMJr: Hello.

Operator: Go ahead.

Randolph
Paul: Hello.

HMJr: Yeah.

P: Yeah, this is Randolph.

HMJr: My God! You sound - are you as dead as you sound?

P: Well, we had a - no, I'm - I'm pretty good, but we had a terribly snappy session. I didn't know whether you wanted me to come in and tell you about it, or....

HMJr: Well, I do, but I just got a man here now, a very important man, and then I got a couple of fellows across the hall in the Chart Room.

P: Well....

HMJr: And I'll - I'll - be about five or ten minutes.

P: Well, do you want to call me?

HMJr: I'll call....

P: Will you let me know, and I'll - I would like to come in and tell you about it if you....

HMJr: I'd like to hear about it.

P: Okay.

HMJr: Right.

March 16, 1943

Meeting of Cabinet Group Subcommittee on
Dollar Position of United Nations
In Mr. White's Office
March 16, 1943
12:00 noon

Present: Messrs. Acheson and Feis of State Department
Messrs. Knollenberg and Cox of Lend-Lease
Mr. Coe of B.E.W.
Mr. Neff of War Department
Mr. White, Miss Kistler and Miss Nielsen of
Treasury Department

The problem of the repayment of the British R.F.C. loan was the first topic of discussion. It was decided that it would be bad policy to have the loan repaid so long as lend-lease assistance is sizeable. Mr. White read a letter from Mr. Knollenberg stating that Mr. Cox and Mr. Stettinius think repayment would have serious repercussions in Congress in connection with Lend-Lease appropriations. Mr. Acheson agreed, and pointed out, that repayment would raise the question as to whether or not the British should liquidate the securities. Mr. Neff was to inform Mr. White of the War Department's attitude after discussing the matter with Mr. Patterson. Mr. White said he would inform the Secretary as soon as he heard from Mr. Neff.

The problem of the United Kingdom's gold and dollar balances was then considered. According to the latest report, British balances amounted to \$1,080 million on February 27, 1943. This figure, however, did not take account of \$40 million of registered sterling held by U.S. residents and convertible into dollars on demand and \$190 million of sterling carrying specific rights of conversion into gold. Mr. White explained the nature of these demand liabilities, pointing out the similarity between the registered sterling accounts and the private British balances in this country which are not counted as part of Britain's available dollar resources. There was considerable discussion concerning the appropriate treatment of these liabilities for purposes of implementing the policy on Britain's dollar exchange reserve. No decision was reached.

A number of suggestions were made for reducing Britain's current U.S. dollar receipts. Among them are:

- (1) Limitation of lend-lease assistance to Sterling Area countries;
- (2) The extension of reciprocal aid to include
 - (a) Public purchases of raw materials,
 - (b) Army and Navy purchases within the Sterling Area,
 - (c) Pay for troops abroad,
 - (d) Certain imports now being made on private account.

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It was also suggested that title to British stockpiles in the United States of such things as wool and diamonds and to British interests in war plants located in this country might be transferred to the U.S. Government.

With reference to the exclusion of certain items from lend-lease, Mr. Cox felt that such a procedure would be too inflexible. Mr. Knollenberg, on the other hand, raised the possibility of following the same policy with the United Kingdom that we are using with the Union of South Africa; that is, to extend only as much lend-lease assistance as is compatible with a \$1 billion balance. Mr. Feis pointed out that it would be relatively easy to refuse to export such things as tobacco under credit lend-lease.

While Mr. Cox felt that it would be more difficult to obtain raw materials from the United Kingdom as reciprocal aid than it would be to refuse to lend-lease certain items, he thought such reciprocal aid would have great political value. He suggested that perhaps a procedure could be established to send the British the bill in dollars for the goods purchased as is done by the Army officers in the field. Mr. Coe pointed out that on a number of individual contracts the British might object to taking them over because of very high prices contracted for by this Government.

It was agreed that the placing of Navy and Army purchases abroad under reciprocal lend-lease would make only a small contribution to the required reduction in British dollar receipts. It was the consensus of opinion that outright payment of our troops by a foreign government would be an undesirable policy.

It was suggested that a solution to the procedural problems might be found in the British Government setting up a fund of sterling for the use of the U.S. Government. The fund would be drawn on for a number of war purposes including perhaps the pay of the troops. Mr. White thought that one difficulty of handling the problem by means of a sterling fund was that this method is apt to arouse more opposition on the part of the British than other procedures which might be worked out. It would have the great disadvantage of making the purpose of the proposal very clear. Mr. Cox felt that the success of such a method would depend on the kind and size of the fund. He agreed that a fund as large as the proceeds of British sale of lend-lease food would probably meet with opposition. He also raised the problem of the disposition of the balance remaining at the end of the war. Another disadvantage of this procedure would be that it would emphasize the dollar sign in lend-lease.

There was considerable discussion of the magnitude of the action which would have to be taken to keep the British balances within the range decided upon. Mr. Coe pointed out that the British estimate of U.S. dollar receipts from Empire exports to the United States is \$360 million per year. Mr. Cox suggested that a breakdown of this figure, as well as of U.S. Government expenditures in the Sterling Area for all purposes, would be a prerequisite to the determination of which if any of these payments could be put under reciprocal lend-lease.

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Mr. White agreed that this would be desirable and promised to see what data were available. Mr. Coe pointed out that British-anticipated gross dollar receipts of the British Empire for the first quarter of the year are \$295 million. Mr. White remarked that this would indicate a desired reduction in dollar accumulations of from \$500-\$700 million annually.

Mr. White indicated two arguments the British might use against reduction of their net dollar receipts: Firstly, that their balances do not exceed \$1 billion because of the \$290 million of demand gold and dollar liabilities held against their dollar assets; and, secondly, that no allowance had been made for their increasing sterling liabilities. Mr. White also insisted that if measures were to be taken to reduce British balances by more than \$50 or \$100 million a year, it would be necessary to have the approval of the Cabinet and the President, and that the magnitude of the reduction must be made clear to them.

Mr. White then reviewed the steps to be taken in connection with Canada's balances. He said that a letter stating that Canada's balances were excessive would be written to the Joint War Production Committee and that the letter would be sent around to be initialled.

pending matters on Dollar Position of Lend-Lease Countries

The official gold and U.S. dollar reserve of both Canada and the United Kingdom are \$70-\$80 million higher than the maximum decided upon as reasonable for these two countries. The outlook is for a continued rise in these holdings unless deliberate action is taken to interrupt the trend.

1. The United Kingdom

As of February 27, 1943, the British Government held \$1,080 million of gold and U.S. dollars, exclusive of the \$105 million of Belgian gold, as follows:

(In millions)	
Gold.....	\$ 911
U.S. dollar balances.....	169
 Total.....	 \$1,080

This represents a rise of \$150 million since January 1, 1943. The rise has occurred despite the transfer of over \$160 million of U.S. dollars to Canada during this period. The increment is more than accounted for by an increase in British gold holdings which in turn presumably reflects the receipt of South African gold under a special gold transfer providing for repatriation of \$40 million of U.K.-held South African securities.

The British balances are thus \$80 million higher than the maximum figure agreed upon in the report to the President and unless steps are taken to interrupt the current trend, they are expected to increase by roughly \$130 million per quarter during the remainder of 1943 or to about \$1.5 billion on December 31, 1943.

There are three problems concerning the British dollar position which should receive the immediate attention of the Interdepartmental Committee. They are

a. Treatment of Britain's gold and dollar demand liabilities.

The British claim that non-residents hold \$190 million of sterling carrying specific rights of conversion into gold and \$47 million of registered sterling convertible into dollars on demand. They assert that these liabilities are a specific claim on \$237 million of gold and dollars and accordingly must be deducted from their current holdings to arrive at a figure showing their available gold and dollar reserve.

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This suggestion was first made by the British in January of this year. It is logically the first item to be considered.

First, the amount of these demand liabilities are almost certain to increase. Secondly, whether or not Britain's current balances exceed the maximum decided upon depends on the decision given to this question.

b. Acceleration of Repayment of the Loan Received by the British from the R.F.C.

The British have asked if there is any objection to their repayment of the \$360 million still outstanding on the loan extended by the R.F.C. last summer. A total of \$390 million has been received by the British from the R.F.C., of which \$30 million has been repaid. The terms of the agreement provide for repayment of the loan over a period of fifteen years.

At the meeting on March 2, 1943, the Interdepartmental Committee was unanimous that, if immediate repayment is agreed to, the amount expended for this purpose would have to be considered as part of Britain's available gold and dollar reserve. The decision as to whether or not to recommend repayment was held over pending further study of the possible adverse political repercussions in this country.

(A review of the R.F.C. Loan to the British Government is appended).

2. Canada's U.S. Dollar Position.

The Canadian Government's gold and U.S. dollar reserve has increased \$100 million since the turn of the year or to about \$420 million. This is \$70 million more than the \$350 million upper limit agreed upon for Canada's U.S. dollar exchange reserve. According to the latest information we have received, Canada's reserve is expected to rise to about \$490 million on June 30, 1943, or to a figure \$140 million higher than the maximum decided upon.

a. Steps Taken to Implement the Decision on Canada.

We have informed Mr. Currie of the current situation and outlook and have discussed with him the procedure he wishes us to follow in this matter. The Treasury has also requested the latest information from the Canadian Government on their gold and dollar position. Dr. Clarke is expected in Washington shortly and is believed to be bringing the information with him.

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b. Proposed Maritime Commission Contract for \$200 Million of Ships.

The Maritime Commission has under consideration a contract for \$200 million of ships, of which \$100 million are of the Liberty type and are to be used by the United States and \$100 million are for lend-lease to the United Kingdom. It is our understanding that the Maritime Commission would be perfectly willing to have these ships sold directly to the United Kingdom.

It seems to us that the question of whether or not the United States Government should sign the contract for these ships is a matter for Mr. Charles E. Wilson of the Joint War Production Committee and his colleagues to decide. The Treasury will inform him of the need for action and the estimated amount by which Canada's dollar receipts will have to be curtailed as soon as up-to-date information is received from the Canadian Government.

3. Other Lend-Lease Countries.

The current status of Treasury requests for financial information from the various lend-lease countries is shown in the second attachment.

Attachments.

Feb. 26, 1943

Mr. White

Miss Kistler

Subject: R.F.C. Loan to the British Government

1. A balance of about \$360 million is still owned by the British Government to the R.F.C. on the loan authorized in July 1941.

Total amount paid to the British Government by R.F.C. on the loan.....	\$ 390 million
Deduct the amount repaid, about.....	30 "
Balance due from the British Government to R.F.C.....	\$ 360 "

2. Repayment of the balance of the loan would release \$500 million of British-owned assets which have been lodged with the R.F.C. as collateral against the loan. These assets are as follows:

U.S. securities.....	\$ 205 million
Direct investment in the United States.....	295 "

In addition, it would release and make available to the British Government the earnings of United States branches of British insurance companies with net assets worth \$200 million. The earnings of these branches are assigned to the R.F.C. to amortize the loan.

3. The British Government estimates that, February through June 1943, their gold and dollar balances will increase about \$190 million or from about \$992 million on January 31, to \$1,180 million on June 30.

Repayment before June 30 of the balance due to the R.F.C. would more than wipe out this expected increase. On the basis of the British figures, it would lower the British-anticipated gold and dollar holdings on June 30, 1943, to \$820 million or about \$170 million less than on January 31.

TMK:rl 2/26/43
copied:rl 3/15/43

**Status of Requests for Information on
Dollar Position of Lend-Lease Countries**

- A. Countries from which we have received information in answer to recent requests.

Norway

In addition, we have received a memorandum from the Greek Government in exile and periodic reports from the United Kingdom and Canada.

- B. Countries from which we have requested information but have not yet received replies.

**Belgium
Fighting France
Netherlands
Australia
New Zealand**

- C. Countries from which information has not yet been requested.

**China
Egypt
Ethiopia
Iceland
India
Iran
Iraq
Luxembourg
South Africa
Turkey
U.S.S.R.
Yugoslavia
Latin American countries**

Chairman Doughton's original income tax payment plan

Chairman Doughton's original payment plan provides current collection at source from wages and salaries at rates sufficient to pay the normal tax and basic 13 percent surtax. The remaining tax would be collected currently in quarterly installments. The tax on 1942 incomes would be at 1941 rates and exemptions, cancelling the balance of the 1942 tax. The 1942 liabilities would be collected over a two or three year period.

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1. Collection-at-source on wages and salaries would begin on July 1, 1943, at a rate sufficient to cover basic liability of 6 percent normal tax and 13 percent surtax. Those with income from other sources and with incomes from wages and salaries subject to a higher (than 13%) surtax rate would make full quarterly payments on their current income with final settlement at the end of the year. Installments paid in 1943 would be credited to 1943 liabilities (under one version).

2. The difference between tax liabilities on 1942 income under the 1942 rates and exemptions and the 1941 rates and exemptions would be cancelled. Under Mr. Doughton's plan the unpaid 1942 liabilities would be paid over two or three years.

Mr. Jere Cooper suggested that the above plan be modified as follows:

1. That the liability on 1942 income remaining after the cancellation suggested by Mr. Doughton be spread over a five-year period; and

2. That the prepayment of these 1942 liabilities be encouraged by discounts ranging from 10 percent if paid by March 15, 1944, to 2 percent if paid by March 15, 1943.

March 16, 1943

Congressman Robertson's income tax payment plan and
modification

The payment plan proposed by Congressman Robertson provides current collection of the normal tax and basic 13 percent surtax through withholding at source from wages and salaries and through quarterly statements from other income. Any remaining tax would be paid in the following year in the same manner as the income tax is collected under existing law. The normal and basic surtax for 1942 would be cancelled to facilitate transition to the plan without doubling up payments. (Under a modification of the plan, as proposed by Mr. Robertson, taxpayers would be given a discount for voluntarily becoming current also on the balance above the normal basic surtax.)

1. The plan would divide individual income tax liabilities into two parts, the great bulk payable currently and the remainder payable in the year following the receipt of income. The amount paid currently would be a "basic tax" of 13 percent (the 6 percent normal tax plus the surtax at the first bracket rate of 13 percent) on all taxable income.

2. The basic tax would be payable currently by collection-at-source in the case of wages and salaries and by quarterly payments accompanying simple quarterly income statements in the case of other types of income. The basic tax on 1942 individual income would be cancelled. This would avoid doubling up of payments. That part of the first two 1943 quarterly payments (on 1942 income), corresponding to the basic tax of 13 percent, would be credited against 1943 liabilities. Collection-at-source at a rate sufficient to collect the basic tax on wages and salaries would begin on July 1, 1943. Two corresponding quarterly payments for income not subject to collection-at-source would be made during the second half of 1943.

3. The balance of the tax above the basic tax would be payable in the year following receipt of income as under existing law.

4. A modification of the plan, which was discussed with the Subcommittee, would involve giving a discount of 10 percent for prompt and full payment of the balance above the basic tax to taxpayers who made full payment on March 15 and agreed to keep fully current thereafter. The option could be exercised in March of any one year and the discount would be applied to the balance above the basic tax on the income of the preceding year.

March 16, 1943

The Ways and Means Committee income tax payment plan

The Ways and Means Committee's plan provides collection-at-source on wages and salaries, to be credited against tax liability on the preceding year's income. The present method of paying the tax liability on the preceding year's income in four installments would be retained. Voluntary prepayment would be encouraged by small discounts.

1. Collection-at-source on wages and salaries would begin July 1, 1943, at a 20 percent rate. This rate would cover the Victory tax, the 6 percent normal income tax, and the surtax at the first bracket rate of 13 percent after allowance for exemptions and average deductions. The amounts collected-at-source would be credited against the income tax liability of the preceding year, and any balances remaining, against the liability of the current year.

2. Taxpayers with income other than wages and salaries, and taxpayers with wages and salaries subject to higher (than 13%) surtax rates, would continue to pay the tax on the preceding year's income in four quarterly installments as under present law. Taxpayers would be allowed to offset against such quarterly installments, amounts estimated to have been currently collected-at-source from wages and salaries.

3. The plan involves no forgiveness of taxes. However, to encourage taxpayers to become more current, taxpayers would be allowed a discount for voluntarily paying their taxes currently. After all prior year's liabilities had been discharged, taxpayers would be allowed discounts for prepayment of taxes on current year's income, ranging from 4 percent on amounts paid before March 15 of the current year to 1 percent on amounts paid before December 15 of the current year. A similar discount of 2 percent would be allowed on amounts collected-at-source, to the extent that such amounts were used to discharge the current year's tax liability rather than that of the preceding year.

March 16, 1943

COMMENTS ON PAYMENT PLANS

Chairman Doughton's original plan

Approximately 7 million taxpayers would be made fully or substantially current through complete forgiveness of their 1942 taxes due to the fact that the 1941 exemptions were higher than the 1942 exemptions. The amounts cancelled for the remaining taxpayers would be a larger percentage of tax in the lower brackets than in the higher brackets, although the rate of tax cancelled would be greater above \$30,000 net income than below that point. Thirty-two million taxpayers would have 1942 liabilities spread over two or three years (five years in case of the Cooper modification), which would require sending bills and making collections until these amounts were paid. Taxpayers in the top brackets would have to pay taxes amounting to more than 100 percent of their current income in the transition years while 1942 taxes were being liquidated. The amount of tax cancelled would be approximately \$3.7 billion out of \$10 billion.

Congressman Robertson's plan

Nearly 90 percent (approximately 39 million in 1943) of all taxpayers would be made fully current and 29 percent at least three-fourths current. Under the suggested modification, taxpayers not made current could become current by exercising the option of paying up back taxes less a small discount. Unless they became current in this manner, approximately 5 million taxpayers would pay the "basic liability" on any year's income currently and the balance in the following year. For more than 4 million of these the amount payable in the following year would be less than \$90. The amount of tax cancelled would be approximately \$7.6 billion out of \$10 billion.

Ways and Means Committee plan

This plan would improve the present system since it introduces collection at source for the income tax. It would not, however, be a pay-as-you-go plan in any but a very minor sense. There would be no tax cancellation and no enforced doubling up of payments. Only persons not subject to tax in 1942 and beginning after July 1, 1943 to receive wages and salaries within the first surtax bracket would be completely current without any doubling up of payments. Taxpayers could become current voluntarily, but only

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by paying three years' taxes (1942, 1943 and 1944) in two years (1943 and 1944). The discount allowed for other taxpayers who pay currently amounts approximately to interest at 3 percent per annum. Confusion may arise because some taxpayers will be paying currently while most taxpayers pay the preceding year's liability.

March 16, 1943

3/16/43

MEMORANDUM FOR THE SECRETARY

New York Times Editorial, "Pay-as-you-go:
Yes and No", March 16, 1943

Today's New York Times editorial, as the 25 others published since the first of the year, supports the principle of the Ruml plan and in doing so makes inaccurate and incomplete statements of the Treasury's position. It makes no mention of the Treasury's major objection: that the Ruml plan would in effect shift part of the war tax burden from the few at the upper-end of the income scale to the many at the middle and the lower end, and from old to new taxpayers.

The principal points of the editorial, with our comments thereon, follow:

1. "...unless the basic principle of the Ruml plan is accepted, the achievement of pay-as-you-go taxes this year will be impossible. A pay-as-you-go plan can, in fact, be achieved only to the extent that the basic Ruml principle is adopted."

Pay-as-you-go can be achieved without cancellation. It is not imperative that pay-as-you-go be complete or that it be achieved in full this year. It can be achieved by doubling up, with postponement of 1942 taxes where absolutely necessary. The real issue in the controversy is not doubling up versus cancellation. It is rather whether the additional revenue that we must have shall be obtained (a) by first cancelling a year's taxes and then raising rates, or (b) by speeding up the collection of taxes already imposed so that taxes on two year's income are collected in one year. The latter method, with postponement to prevent extreme hardship, would achieve pay-as-you-go without cancellation although not fully during the current year.

2. "The objections that the Treasury has brought against the Ruml plan will not bear scrutiny. The plan would not reduce by a dollar the revenues of the Government this year."

The Treasury has not argued that the Ruml plan would reduce current receipts. In fiscal

- 2 -

year 1944, Treasury receipts would amount to \$10.1 billion under present law and to \$11.6 billion under the Ruml plan. This increase is the result of the rising level of incomes. However, the Treasury has stated the obvious fact that if all taxes on incomes received in 1942 are cancelled, the Government will eventually lose revenue.

3. "The Treasury contends that the Ruml plan would be 'inflationary.' This argument is clearly fallacious."

The Treasury has said that the Ruml plan would tend to have an inflationary effect. Those taxpayers who set aside reserves for taxes out of their 1942 incomes were in effect current by the end of 1942. They are now setting aside reserves for taxes on their 1943 incomes. If 1942 taxes are cancelled, the reserves available for the payment of those taxes would be freed for spending or saving. In the upper brackets, the amount of funds released would be large, especially in relation to income normally remaining after taxes. Under the inevitable stress of war, taxpayers would certainly spend more.

4. "The great merit of the Ruml plan is that it is simple, that it would put every taxpayer immediately on a pay-as-you-go basis, and that it would treat every taxpayer alike."

The Ruml plan is simple only insofar as concerns forgiveness. Its operation as a collection device would be extremely complex. Taxes paid in any one year would be determined by incomes received during the two preceding years. Tax payments in 1944, for example, would consist of a tentative tax based on 1943 income, together with an adjustment for overpayment or underpayment during 1943. In two-thirds of the cases incomes fluctuate substantially from year to year. In these cases, the adjustment required under the Ruml plan would add to the complexities of the income tax payment system.

Taxpayers with stable incomes and taxpayers substantially all of whose tax liability is collected-at-source would be on a pay-as-you-go basis.

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In most of the cases this would be the result of collection-at-source and not of the Ruml plan.

The Ruml plan would bestow unequal benefits on individuals and therefore cannot be said to 'treat every taxpayer alike.' It would bestow the greatest benefit on those best able to pay and the smallest benefit on those least able to pay. About 60 taxpayers with million-dollar incomes in 1942 would each receive a benefit of at least \$854,000. The benefit to a person with a \$100,000 net income would be about \$64,000; to one with a \$10,000 income, about \$2,150; and to one with \$2,000, only \$140. Those who had no income in 1942 would receive no benefit at all. The value of a person's income is the amount remaining after tax. To treat everyone "alike" would seem to mean increasing that amount proportionally. The forgiveness under the Ruml plan increases the income after taxes more in an extreme degree for the person with large income than for the person with small income.

5. "It has been proposed by the Treasury and in Congress that, for example, only the first \$2,000 of surtax net income be 'forgiven' - that is, be put on a pay-as-you-go basis. This is to accept the Ruml principle up to \$2,000."

The Treasury has not made such a proposal. It has concurred in the suggestion that to facilitate the shift to pay-as-you-go, taxpayers be forgiven an amount of tax equal to 19 percent of their total taxable income. This would provide equal treatment to all taxpayers and in about 90 percent of the cases would avoid doubling up.

March 16, 1943

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TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE March 16, 1943

TO Secretary Morgenthau
FROM Randolph Paul



Late Saturday afternoon, Congressman Dirksen of Illinois (Republican) called at my office at the suggestion of a mutual friend, George Bowden, a Chicago lawyer, who is opposed to the Rural plan. I explained to the Congressman our objections to the plan in some detail. At the end of the discussion, we turned to the political aspects of Republican solidarity. I said that I was not a politician and did not know much about such things, and I wondered that the Republicans picked such an issue. Congressman Dirksen seemed somewhat impressed throughout the course of the conference. Later, I told Cooper what had happened, and he said that Dirksen was one of the best debaters on the Republican side.



TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

MM

DATE March 16, 1943

TO Secretary Morgenthau
FROM Randolph Paul

I think it would be very difficult to get some of the richest men in the country to come out with a public statement against the forgiveness of their last year's tax liability. Even if they are against the Ruml Plan, they will dislike coming out in front. I found this to be true of Leffingwell, with whom I talked a couple of hours trying to persuade him to express in a public way the remark in his letter to the President that the Ruml Plan was "a phony".

I imagine Rockefeller may have been poisoned by Beardsley Ruml--they are friends.

If we could get a public statement from a number of rich men, I am not sure as to its effect. I have talked with Gaston on this point, and we both feel so uncertain about the public opinion effect of such a statement, that we are inclined to advise against it. However, I think this point is academic, because I don't think we could get it.

Incidentally, some weeks ago, in line with your thought, I tried to get George Harrison to come out against the Ruml Plan. I found he was for it.

RP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 16, 1943

TO Secretary Morgenthau
FROM Peter H. Odegard

I have talked with Mr. Gaston about getting some of the richest men in the country to make public statements against the forgiveness of last year's taxes. I personally have reservations concerning the use of such statements assuming we could get them. In the first place, we would almost certainly throw ourselves open to the objection that such rich men are not typical of the rank and file of taxpayers and that, therefore, what they say can have little or no significance for the rest of the American people. Such statements might indeed have a boomerang effect. The New York Times, Herald Tribune and other papers which have been plugging the Ruml Plan might use them to prove that their major concern has always been for the small income receiver and not for the rich and powerful.

The whole discussion of forgiveness has no relevance except in connection with the adoption of some plan for putting taxpayers on a current basis. As you know, the Ruml Plan is dubbed not the "Ruml Forgiveness plan" but the "Ruml pay-as-you-go plan."

This being so, it can be argued that these rich men are poor witnesses since they are probably able to make provision for

their taxes in advance anyway. They would, therefore, not be unduly burdened by a system designed to put taxes on a current basis even without relief from accumulated liabilities. This would not be true of the individual of modest income who is typically unable to pay taxes from accumulated savings.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 16, 1943

TO Secretary Morgenthau
FROM Randolph Paul

I have before me a speech made by Marriner Eccles, March 11, 1943. In it, Marriner takes a sound position on the need of additional taxes. He advocates a high withholding tax, the closing of loopholes, etc. I am sorry that he found it necessary to add:

"If we fail to absorb enough spending power through the medium of income taxes, based as they are on ability to pay - if we are not willing to impose income taxes comparable to those in Canada and Great Britain - then I can see no practical alternative except resort to the sales tax which can best be applied at the retail level. It has been estimated that an 11 per cent rate might be expected to yield about \$5 billions, if food and other items are not exempted."



March 16, 1943.

Honorable Herbert Gaston,
Assistant Secretary of
the Treasury.

Mr. W. M. Thompson,
Administrative Assistant
to the Secretary.

Mr. T. F. Wilson,
Director of Personnel.

Gentlemen:

You are hereby designated to serve as a Committee on Deferment of the Treasury Department, established pursuant to Executive Order No. 9309 of March 6, 1943.

The Committee, subject to the conditions set forth in the Executive Order, shall (1) prepare for my approval a list of "key positions"; (2) make all requests for selective service occupational deferments and prepare and submit such requests to local selective service boards in accordance with selective service regulations; (3) make requests for selective service reclassifications from 3-A to 3-B; (4) grant releases to employees to enter the armed forces voluntarily in a commissioned or enlisted status; and (5) perform such other functions as are prescribed by the Order.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

TFW:ST:a:ja

Copy in Div 2

EXECUTIVE ORDER

9309

CONTROLLING GOVERNMENT REQUESTS FOR THE SELECTIVE
SERVICE DEFERMENT OF FEDERAL EMPLOYEES

By virtue of the authority vested in me by the Constitution and statutes (including the Selective Training and Service Act of 1940, as amended) as President of the United States, and in order to further the prosecution of the war by conserving and most effectively utilizing manpower and by systematizing the handling of necessary selective service occupational deferment of employees in the Executive branch of the Federal Government, it is ordered as follows:

I. LIMITATIONS ON RIGHT TO REQUEST OCCUPATIONAL
DEFERMENT

1. No agency shall request the selective service deferment of any employee on occupational grounds except in accordance with the provisions of this Order. No employee shall initiate a request for his own deferment on occupational grounds or advocate the making of such a request on his own behalf.

2. No such request shall be made unless it is determined, in the manner herein provided, that the employee's civilian services are essential in that the loss thereof would substantially impair activities essential to the war effort (including necessary supporting activities and the maintenance of the national health, safety, and interest). In determining whether such an employee's services are thus essential, consideration shall be given to all relevant factors, including the actual effectiveness of the employee, the difficulty of replacing him, his age, his qualifications, his assignment to duties outside the continental United States and the length of his service in the position he occupies or in positions with comparable duties.

3. No such request shall be made for a period longer than is deemed to be absolutely necessary nor for a period of more than six months.

II. ESTABLISHMENT OF COMMITTEES

1. The Chairman of the War Manpower Commission (hereinafter referred to as the Chairman) shall designate with the approval of the President a chairman and two members of a War Manpower Commission committee to be known as the Review Committee on Deferment of Government Employees (hereinafter referred to as the Review Committee). Such Committee shall be subject to the supervision and direction of the Chairman.

2. The head of each agency shall designate a Committee on Deferment of Government Employees (hereinafter referred to as an Agency Committee), of three to five members possessing a comprehensive view of the needs of the agency. For the purposes of this Order the Government of the District of Columbia shall be deemed to be an agency. Each Agency Committee shall be subject to the supervision and direction of the head of the agency.

3. When authorized by the Review Committee, the head of any agency may also designate regional committees whenever the number and geographical distribution of the personnel of the agency make such action desirable. Within their respective areas such regional committees shall have the authority and responsibility of an Agency Committee; and as used in this Order the term "Agency Committee" shall include a regional committee established under this section.

III. DESIGNATION OF KEY POSITIONS

1. Each Agency Committee, with the approval of the head of the agency, shall submit to the Review Committee for its approval a list of those positions in the agency deemed necessary to carry out activities essential to the war effort or to necessary supporting activities. All such positions approved by the Review Committee shall be known as "key positions." The Review Committee, either on its own motion or upon recommendation made by the Agency Committee and approved by the head of the agency, may revise the list of key positions of that agency as conditions warrant.

2. Key positions shall be limited to positions involving serious difficulty of replacement because a scarcity of available qualified personnel exists and because any incumbent of the position must have had, in order to perform the duties effectively, an extended period of training or specialized experience. The designation of key positions shall be further governed by the following criteria:

a. The work is of a responsible administrative, executive, or supervisory character in activities directly related to the war effort, or to the essential maintenance of orderly government (including the maintenance of the health, morale, and security of the nation); or

b. The work is a part of the actual production, transportation, or handling of war materials, equipment, or commodities, or of the maintenance or operation of war equipment, or of the transportation of war personnel; or

c. The work is of a professional, semi-professional, or highly specialized character, requiring extended training, in an occupation where a known scarcity of manpower exists; or

d. The work usually requires male employees because of peculiar circumstances or requisite physical abilities, including the occupations of seamen, investigatory agents, forest rangers, border patrolmen, prison guards, and other comparable occupations wherein replacement within necessary age limits is difficult.

IV. REQUESTS FOR DEFERMENT

1. In accordance with the provisions of this Order, and subject to the limitations set forth in Part I hereof, an Agency Committee may, in cases not covered by the Replacement Schedule procedure set forth in paragraph 5 of this Part, prepare and submit to the appropriate local selective service board a request for the occupational deferment of -

a. Any employee of the agency who occupies a key position and whose civilian services are essential within the meaning of paragraph 2 of Part I hereof,

b. Any employee of the agency not occupying a key position whose civilian services are essential within the meaning of paragraph 2 of Part I hereof, if unusual and special circumstances, such as the employee's unique fitness for the work or unique familiarity with a specific project in the course of completion make such deferment request necessary. No request for deferment shall be made under this subparagraph except with the prior specific approval of the Review Committee.

2. Subject to the conditions set forth in this Order, the Agency Committees shall make all requests for selective service occupational deferment of employees of their respective agencies, and shall prepare and submit such requests to local selective service boards in accordance with selective service regulations.

3. In preparing the prescribed selective service form for submitting a request for occupational deferment to the local selective service board, the Agency Committee shall enter on such form the words "Government Request," and shall also indicate thereon the name of the agency and the subordinate part thereof in which the registrant is employed.

4. In any case in which a Government request for deferment is denied by a local selective service board, the Agency Committee concerned shall at once file an appeal from such action. The appeal shall stay the induction of the employee affected until final decision in the case.

5. The Chairman, upon his own motion or upon recommendation made by an Agency Committee and approved by the head of the agency, shall determine, after consultation with the Review Committee, those manufacturing, servicing, operating, and transporting activities of an agency or part thereof with respect to which deferment problems can be best met through use of manning tables and replacement schedules. He shall thereupon direct the head of the agency concerned to prepare and use, with respect to those activities or organizations, manning tables and replacement schedules, in accordance with the regulations prescribed by the Chairman. Such agency or part thereof shall thereafter be exempt from the provisions of Part III of this Order (providing for the designation of key positions) and the provisions of this Order governing the making of requests for deferment of employees to the extent and in the respects provided in the regulations of the Chairman.

V. VOLUNTARY ENTRANCE INTO ARMED FORCES

1. Unless an Agency Committee has requested or would request deferment of an employee under this Order, the agency, upon his request, shall grant him a release to enter the armed forces voluntarily in a commissioned or enlisted status.

2. If an Agency Committee has requested or would request deferment of an employee under this Order, the agency shall deny him such a release unless it is determined that:

a. The employee is likely to be assigned to active combat service; or

2. The employee's skills and ability probably will be utilized equally or more effectively in the armed forces.

3. In the case of an employee who is in a deferred classification, or who is not subject to induction, for reasons unrelated to his occupation, such a release shall be granted or denied without regard to such reasons, in accordance with the provisions of paragraphs 1 and 2 of this Part.

4. When an Agency Committee denies release of an employee, such action shall upon his request be reviewed by the Review Committee. The Agency Committee shall be notified of the final decision, and if the denial is affirmed, such committee shall immediately notify the employee's local selective service board.

VI. DEFERMENT - - OCCUPATIONAL RECLASSIFICATION

Agency Committees may make requests for the selective service reclassification from Class III-A to Class III-B of employees other than those engaged in occupations designated by the Chairman as non-deferable. Such requests shall be made in accordance with standards, to be prescribed by the Chairman, for determining the relationship of employees' activities to the war effort, which standards shall conform, as nearly as may be, to the standards applicable to such reclassification in the case of persons not in the Federal service.

VII. GENERAL PROVISIONS

1. Under regulations to be prescribed by the Chairman, the Agency Committee in each agency shall supervise the preparation and maintenance, on a current basis, of adequate statistics on the selective service status of its male employees, and on related matters, which shall be summarized and reported to the Review Committee at periodic intervals.

2. Heads of agencies shall issue special instructions to insure that an employee will immediately report through proper channels any change in his selective service status or the receipt of notice to report for induction.

3. Each agency shall plan and carry out an orderly program of replacement and training occasioned by the entry or prospective entry of employees into the armed forces, on the basis of the information provided for in paragraph 1 of this Part of this Order.

4. The Chairman shall from time to time make recommendations to the Director of the Bureau of the Budget, based on information and experience acquired in the administration of this Order, for the effective utilization of the services of Government employees with respect to the conservation of manpower.

5. Under regulations to be prescribed by the Chairman, the several agencies shall submit to the Review Committee periodic reports concerning all action taken under this Order. The Review Committee shall currently review such reports and shall consult with Agency Committees with respect to any departures from this Order. The Review Committee may also designate representatives to attend meetings of Agency Committees. Such representatives shall at all times have full access to all records of such Committees.

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6. The Chairman shall report to the President, at intervals of not more than three months, with respect to the administration of this Order and shall make recommendations to the President with respect to such modifications of this Order as he may deem advisable.

7. The Chairman may suspend the authority of any Agency Committee to submit requests for deferment if the Agency Committee submits requests in violation of this Order.

8. A request for deferment of an employee may be cancelled by the Review Committee if it determines that the request was made in violation of this Order.

9. The Chairman shall furnish copies of this Order to all local selective service boards.

10. The Chairman may delegate any of his duties and powers under this Order to any officer or employee of the War Manpower Commission and may utilize the services of any Federal officer, employee, or agency.

11. The Chairman shall prescribe such regulations as may be necessary to carry out the purposes of this Order, including such additional criteria for the designation of key positions as he may deem necessary.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

March 6, 1943

House
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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 16, 1943.

TO Secretary Morgenthau
FROM Harold Mager *Hu*

Here is the U.P. article on the post-war that I prepared for you. It has the approval of the committee you appointed for the purpose and was released to the press by Mr. Gaston. I thought you might be interested in reading the original, and having it for your files.

The Treasury Prepares for Post-War Problems

There can be no hard and fast boundary line between the policies necessary for winning the war and those for winning the peace. The character of our problems in the post-war period will be determined in large measure by the plans, and especially the activities, we undertake today. War policies that also contribute to the solution of post-war problems are better policies, therefore, than those that do not.

Our present struggle against wartime inflation is a signal example of the contribution that can be made by a policy designed for winning of the war to the winning of the peace. Fiscal and non-fiscal measures designed to prevent inflation will aid us in winning the war -- by forestalling a ruinous rise in the cost of living, by keeping down Government costs, by encouraging production and not speculation,

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by maintaining the public debt within manageable bounds.

By the same token, however, these very wartime measures are contributing greatly to the prevention of post-war deflation with its attendant chain of personal tragedy, economic chaos, and social unrest.

Taxes provide another case in point. At a time when about sixty cents of every dollar of income earned in the country is represented by Government purchases of tanks, ships, and planes, it is impossible to exaggerate the Government's needs for additional revenues. It cannot be stressed too often also how vital these additional revenues are for apportioning the costs of the war fairly and equitably, preventing rises in the cost of living, and maintaining morale. Yet, it is not the contribution of taxes to the more effective prosecution of the war that is alone involved; it is also the

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beneficent effects of increased taxes today on the world of tomorrow. Wartime taxes mean we pay for the war once and for all now; wartime borrowing means we postpone the final redistribution of the costs of the war until the post-war future. By taxing ourselves to the utmost today, when few civilian goods are available for purchase anyway, we reduce by so much the taxes we will have to impose on ourselves tomorrow, when plenty of goods will be available for purchase.

Finally, we have the case of wartime borrowings. While the Treasury's policy is to tax more and borrow less, it is impossible, let alone desirable, to finance the gigantic costs of this war from taxes alone. Government borrowings are therefore necessary. The policy of the Treasury has been to raise as large a proportion of the borrowed funds it requires from individuals, fiduciaries, trusts, and corporations

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rather than from the banks; to borrow old money rather than new money. This policy, like the others, has a dual purpose. Its wartime purpose is to match the diversion of our production from peacetime to wartime use by corresponding diversion of our income and savings from peacetime to wartime use, thereby contributing to the prosecution of the war by seeing that our production and financial gears mesh smoothly. Its peacetime purpose is to provide the American people with a backlog of savings that will come in good stead indeed when once again the sword is beaten into the ploughshare. The fact that at the present time there are over 50 million investors in War Bonds, and 25 million participants in payroll savings plans alone, is an eloquent tribute to the contribution that wartime financing is making to the solution of post-war problems.

It would be easy to exaggerate, however, the contribution

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of wartime financing to the solution of post-war problems. This I have no intention of doing. The fact is that the war, in spite of all that we may do now, will leave us heir to a host of problems long after the guns have ceased firing and the world has settled down to the quiet pursuits of peace. These problems are by no means insoluble; nor are they so intractable or laden with heavy forebodings as some present-day Cassandras would have us believe. To their solution, however, we will have to bring intelligent insight and sympathetic understanding.

I can raise here only one of the domestic problems that will face us in the post-war period -- the problem of the debt. By the end of June, 1944, we will have a federal debt of something like 210 billion dollars. The mere servicing of this debt will involve interest payments of between 4 and 5

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billion dollars -- approximately equal to the total receipts of the Federal Government in 1936. And if the war continues beyond the middle of 1944, the debt of course will continue to mount.

While an internal debt, such as ours will be, serves neither to enrich nor to impoverish a nation -- the taxes raised to service the debt being restored to the people by way of interest payments -- it does raise a number of serious problems. I can do no more than pose them.

There will be the problem of what kind of taxes to employ to service and repay the debt. This will be important because it will involve a possible redistribution of the costs of the war among individuals. It will also involve the impact of taxes on investment, consumption, and, therefore, the national income. The magnitude of the debt will likewise

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affect the Government's freedom of action and raise problems in regard to banking and currency policy. Above all, a debt as large as we are likely to have will make it more imperative than ever that reasonably full employment with a high national income be preserved in the post-war period. Otherwise, it is not difficult to contemplate how oppressive the burden of debt might easily become.

The magnitude of the Government's fixed obligations together with its current revenue requirements in the post-war period will raise other problems relating to the tax system. The principle of ability-to-pay must be preserved. It should be possible, however, to go beyond the present techniques for measuring personal taxpaying ability toward a more accurate concept of net income giving more adequate recognition to expenses incurred in securing our income and variations in

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the cost of providing a basic living standard. The post-war period may require a substantial reorientation in our business and consumption taxes. It will undoubtedly involve active effort to avoid international double taxation and better integration of the Federal tax system with those of State and local governments. While we will want to shun taxes that hinder business enterprise, we will also want to employ the tax system to its utmost as an instrument for stimulating business enterprise in areas required by the public interest. Finally, we will have the problem of making certain that our taxes do not place unnecessary compliance problems on taxpayers or entail unnecessary public expense.

These are but a few of the post-war problems suggested by our prospective debt.

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In the immediate post-war period there is a strong probability that the reconversion of industry from wartime to peacetime uses, the development of new industries, the satisfaction of the accumulating demand for peacetime consumers' goods, the need for capital replacements which are anticipated in the ample depreciation and depletion reserves now accumulating, and the satisfaction of at least minimum demands from abroad for relief and rehabilitation will constitute collectively an effective buffer to a possible post-war depression. The huge backlog of post-war purchasing power exemplified in our own War Bonds is indeed added assurance in this respect.

These factors making for industrial revival are by no means free of certain dangers, however. It took us months to mobilize our peacetime industries for war; it will take

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months in turn to complete the process of industrial demobilization for peace. What this involves for the American people is fairly clear. It means that we must reorient our wartime ways of doing things, our wartime ways of buying and living, not all at once, but gradually; it means we must be on our guard against post-war inflation in the same way that today we are on guard against wartime inflation. An intemperate buying-spree immediately upon the termination of the war might have precisely the same effect as that at the close of the last war, when the cost of living spiraled upward 29 percent between November 1918 and June 1920. We must not permit war weariness and a desire to return to "normalcy" to rob us of the very fruits of victory. This will not happen if the demobilization of wartime habits of spending and saving proceeds at the pace of our industrial demobilization.

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But we must look beyond the period of transition from war to peace, to the period when our peace economy will once more be reestablished to perform its normal functions. The outlines of that longer period are not as clearly defined as we should like them to be. To some extent, however, we are shaping the character of that longer period by the plans, and especially the activities, we are now undertaking. By its constant, unrelenting emphasis upon the necessity for more taxes, more saving, and more sacrifice, the Treasury is today laying the basis for a more prosperous and durable peace. The same policies, moreover, will give the Treasury in the post-war period that freedom of action and that flexibility of maneuver so vital for coping with unforeseen developments bound to arise.

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The war has opened our eyes to the unimagined productivity of Industrial and Agricultural America. Wartime shortages of peacetime goods and services have not blinded us to the enormous potentialities for abundance in our dynamic industrial society. It is precisely this unexampled capacity to produce, shorn of its fetters, upon which the future welfare and prosperity of our people ultimately depend. If in the peace to come we realize the potentialities for abundance inherent in our great productivity and do not permit our precious resources to lie idle in stagnant pools, we have little to fear as a nation. The promise of plenty exists today; the fact of plenty waits on the morrow.

-oOo-

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Stettinius, Jr.
Administrator

March 16, 1943

MEMORANDUM

To: The Honorable Henry Morgenthau
From: E. R. Stettinius, Jr.
Subject: Executive Reports

Transmitted herewith, for your information, are copies of the Executive Reports on lend-lease operations, as of February 28, 1943.

Attachments

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CONFIDENTIAL
Executive Report No. 1

Office of Lend-Lease Administration

**STATEMENT OF ALLOCATIONS, OBLIGATIONS AND EXPENDITURES
OF FUNDS APPROPRIATED TO THE PRESIDENT**

Monthly Report as of Feb. 28, 1943
(Thousands of Dollars)

Appropriation Category	Adjusted Appropriations	Cumulative to February 28, 1943		
		Allocations	Obligations	Expenditures
Ordnance and Ordnance Stores	\$ 2,026,400	\$ 1,780,081	\$ 1,588,551	\$ 959,366
Aircraft and Aero. Material	2,732,125	2,710,540	2,614,769	1,667,832
Tanks and Other Vehicles	844,281	752,711	645,917	480,606
Vessels and Other Watercraft	2,417,544	2,203,191	1,790,560	1,130,399
Misc. Military Equipment	360,776	360,776	331,197	181,547
Production Facilities	1,109,414	1,109,414	1,029,691	767,232
Agric. and Indust. Commodities	7,384,558	7,113,777	4,959,783	3,758,843
Servicing, Repair of Ships, etc.	531,470	505,634	370,085	318,974
Services and Expenses	970,432	457,815	224,049	187,064
Administrative Expenses	20,000	18,660	16,599	16,276
Total	\$18,397,000	\$17,012,599	\$13,571,201	\$9,468,139

Procuring Agency	Adjusted Limitations	Cumulative to February 28, 1943		
		Allocations	Obligations	Expenditures
War Department	\$ 6,413,012	\$ 5,908,838	\$ 5,481,833	\$ 3,848,909
Navy Department	3,238,169	3,084,394	2,338,366	1,227,148
Mar. Com. and War Shipping Admin.	2,154,238	1,863,145	1,511,875	1,304,884
Treasury Department	3,189,481	2,809,670	2,082,344	1,262,622
Department of Agriculture	3,382,100	3,329,771	2,141,910	1,810,096
Other	20,000	16,781	14,873	14,480
Total	\$18,397,000	\$17,012,599	\$13,571,201	\$9,468,139

Funds for freight and other necessary charges are not included in obligations.

"THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE ACT, U.S.C. 50; 31 AND 32. THE TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW."

Office of Lend-Lease Administration
STATEMENT OF LEND-LEASE AID
 Monthly Report as of Feb. 28, 1943
 (Thousands of Dollars)

Type of Aid	Cumulative to		Month of	
	Feb. 28, 1943	Jan. 31, 1943	February	January
Goods Transferred	\$7,830,860	\$7,175,057	\$655,803	\$627,378
Servicing, Repair of Ships, etc.	311,914	291,709	20,205	25,812
Rental of Ships, Ferrying of Aircraft, etc.	879,890	869,794	10,096	34,315
Production Facilities in U. S.	552,050	544,558	7,492	- 9,507
Miscellaneous Expenses	57,079	53,536	3,543	3,923
Total Services	\$1,800,933	\$1,759,597	\$ 41,336	\$ 54,543
Total Goods and Services	\$9,631,793	\$8,934,654	\$697,139	\$681,921

Data on Goods Transferred include value of goods procured from lend-lease appropriations to the President and to the Army and Navy.

N.B. This report excludes data on the value of Goods in Process. At August 31, 1942, the amount from appropriations to the President was \$1,360,195,000, comprised of the items "Articles Awaiting Transfer or Use" and "Articles in Process of Manufacture." It is not possible to determine the value of Goods in Process from appropriations to the Army and Navy.

Type of Aid	Cumulative to February 28, 1943				
	Br. Empire	China	U.S.S.R.	Other	Total
Goods Transferred	\$6,030,536	\$129,529	\$1,535,274	\$135,521	\$7,830,860
Servicing, Repair of Ships, etc.	263,110	1,123	30,399	17,282	311,914
Rental of Ships, Ferrying of Aircraft, etc.	648,802	13,079	126,799	91,210	879,890
Production Facilities in U. S.	-	-	-	-	552,050
Miscellaneous Expenses	38,893	720	1,188	16,278	57,079
Total Goods and Services	-	-	-	-	\$9,631,793

"THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE ACT, U.S.C. 50; 31 AND 32. THE TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW."

CONFIDENTIAL
Executive Report No. 3

Office of Lend-Lease Administration
DETAIL OF ARTICLES TRANSFERRED
Monthly Report as of Feb. 28, 1943
(Thousands of Dollars)

	Cumulative to February 28, 1943				
	Br. Empire	China	U.S.S.R.	Other	Total
Ordnance (Excl. Ammunition)	324,686	14,674	48,207	40,441	428,008
Ammunition and Components	620,528	22,030	194,117	14,879	851,554
Aircraft	612,605	37,193	345,043	20,175	1,015,016
Aircraft Engines, Parts, etc.	316,309	3,152	9,895	1,414	330,770
Combat Vehicles	440,856	922	213,412	14,871	670,061
Non-Combat Vehicles	205,646	25,445	165,160	8,081	404,332
Watercraft and Parts	533,759	447	52,307	8,017	594,530
Agric. Products (Foodstuffs)	1,051,746	-	127,580	2,010	1,181,336
Agric. Products (Excl. Food)	266,670	41	514	503	267,728
Machinery	246,770	3,809	84,770	601	335,950
Metals	423,133	8,374	146,266	923	578,696
Petroleum Products	361,211	3,012	18,007	-	382,230
Miscellaneous Material and Manufactures	626,617	10,430	129,996	23,606	790,649
Total	6,030,536	129,529	1,535,274	135,521	7,830,860

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OFFICE OF THE DIRECTOR

SECRET

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 16, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended March 13, 1943.

The equipping of the Russian Fishing Fleet is progressing rapidly and deliveries are being made according to schedule. This Fleet must be equipped and be ready for the fish run beginning May 15, 1943.

Clifton L. Mack
Clifton L. 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 MARCH 13, 1943
 (In Millions of Dollars)

SECRET

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$2916.9 (2816.7)	\$1544.7 (1444.7)	\$1066.1 (1066.1)	\$102.9 (102.9)	\$4.6 (4.6)	\$198.6 (198.4)
Purchase Authoriza- tions (Requisitions)	\$2349.2 (2331.9)	\$1342.8 (1333.2)	\$ 917.3 (910.7)	\$ 41.2 (41.1)	- -	\$ 47.9 (46.9)
Requisitions Cleared for Purchase	\$2266.3 (2255.1)	\$1311.1 (1302.5)	\$ 866.9 (865.3)	\$ 41.1 (41.1)	- -	\$ 47.2 (46.2)
Obligations (Purchases)	\$2126.7 (2106.1)	\$1227.8 (1216.0)	\$ 811.3 (803.5)	\$ 41.1 (41.0)	\$4.3 (4.1)	\$ 42.2 (41.5)
Deliveries to Foreign Governments at U. S. Ports*	\$ 934.8 (931.5)	\$ 707.2 (704.9)	\$ 200.0 (198.6)	\$ 17.2 (17.6)	- -	\$ 10.4 (10.4)

*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 March 6, 1943.

SECRET

EXPLANATION OF DIFFERENCES.

The decrease of \$400,000 in Chinese transfers represents material turned over to the War Department.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

March 16, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - In a conference yesterday, House Democratic leaders, including Representatives Rayburn, McCormack, Doughton and Disney decided to support unstintedly the House Ways and Means Committee tax plan, which provides for no abatement but includes a 20% withholding tax. The Republican caucus scheduled for yesterday to line up support for the Ruml Plan, however, was postponed until Thursday because of a long debate in the House which finally ended in the approval of a joint resolution authorizing the Commodity Credit Corporation to sell 100,000,000 more bushels of wheat for feed.
2. Federal Draft Deferments - The Treasury Department, which now has only two employees deferred on the basis of occupation, the Civil Service Commission, and the Government Printing Office, were complimented yesterday by a House Military Affairs Subcommittee for the few requests they have made for occupational deferments for their personnel. This committee, which is investigating occupational deferments in government agencies, recently made public the case of the former OPA General Counsel David Ginsburg, whose deferment was requested by ex-Price Administrator Leon Henderson.
3. Dollar Devaluation - Not an open controversial issue in Congress yet but obviously slated for debate in the next few months, is the question of continuing the President's power to reduce the gold content of the dollar and continuing the Treasury's Currency Stabilization Fund, both of which expire on June 30. Chairman Somers of the House Coinage Committee said he had already been requested by Assistant Secretary of the Treasury Sullivan to introduce legislation for the extension of both functions.
4. F.S.A. - The Farm Security Agency, still licking its wounds from recent Congressional criticism, was complimented

yesterday by Representative George Outland as making some genuine contributions to the war effort by providing loans to small farmers who otherwise might have lost their farms, increasing production, providing housing, and arranging temporary immigration for Mexican workers. Previously Secretary Wickard had heard the House Appropriations Committee accuse the agency of applying the check-off system of collecting dues from government-recruited farm workers, but said he had not heard of it before and didn't know it to be true. FSA has also received criticism for its "social reforms" which are said to involve minimum regulations for wages, housing standards and sanitary facilities. Putting teeth in Congressional opposition, a bill, sponsored by Representative Dirksen and expected to be considered by the House today, provides that none of a 26.1 million dollar agricultural appropriation, part of which would be used for financing the recruiting of a farm labor force under the direction of the FSA, be used for any of their so-called "social reforms." Specifically, the bill says that none of this money shall be used: "To fix, regulate, or impose minimum wages or housing standards, to regulate hours of work, or to impose or enforce collective bargaining requirements of union membership with respect to any agricultural labor exempted" under the fair labor standards act or the National Labor Relations Act.

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March 16, 1943

Copies to:

Mr. D. W. Bell

Mr. Gaston

Mr. Paul

Dr. Haas

Dr. White

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

March 16, 1943

F. BYRNES
Director

My dear Mr. Secretary:

The Economic Stabilization Board will meet
on Friday, March 19, at 11:00 A. M. (Cancelled) 12th meeting

We shall discuss a war model program for
the consumer goods industries. Mr. Nelson will be
present to discuss the subject; Mr. Brown has also
submitted a memorandum, copies of which will be
distributed to members of the board.

Sincerely yours,

James F. Byrnes
Director.

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



THE CRISIS IN THE CONTROL OF PRICES

By: Alvin H. Hansen

In the calendar year 1943 we face the crucial test in the program we have undertaken to stabilize the cost of living and to prevent chaotic price developments in our economy. Already 1942 proved a severe test. The President's price stabilization program in April, supplemented by the October action to close serious gaps, succeeded in stemming the inflationary tide which was rapidly developing at the beginning of the year. We must now firmly hold the cost of living where it is.

We are reaching a crucial test this year for various reasons. On the one side, the large stocks of consumers' goods built up in 1941 and early 1942 are now rapidly being drawn down under the pressure of sustained heavy purchases by consumers. On the other side, the income is still expanding partly by the continued rapid increase in employment in the military forces and industry combined. Young people, old people, women, and self-employed persons are being added to the labor force. Working hours are being increased with time and half for over-time. There is thus going on a triple expansion of income through increased employment, increased hours, and overtime pay. In some cases costs will impinge upon prices, necessitating a judicious use of subsidies in order to hold the price ceilings. These developments force us to face up to a serious problem.

I do not think one can state too emphatically the plain fact that we have reached a fresh crisis in the program of price control. We are in great danger from the pressures arising from all sides. The urgently necessary rationing and the direct controls are not pleasant, but they are necessary bulwarks against the inflationary spiral. The test of democracy is self-discipline in a great crisis. We can and must meet the test.

If we are to hold the fort in 1945, we shall have to strengthen our defenses at every point and resist policies that unnecessarily increase the flow of money income. We shall have to withdraw purchasing power through rigorous taxation and through compulsory and voluntary saving. We shall have to extend rationing controls rapidly. We must rigorously hold the price ceilings.

We must not let the cost of living rise. Once that dike is broken the flood gates all around will open. Then the spiral. The rise in the cost of living leads to wage increases, increased cost to the government for war contracts, increased outpouring of government funds, unrestricted increases in the flow of income, and thence again to an increase in the cost of living.

No economy in the world is more vulnerable to the destructive effects of price inflation than our own. Our population, by far more than mass populations elsewhere, has accumulated vast savings in insurance funds, in government bonds, and in savings deposits. The wiping out of mass savings, in an economy such as ours would strike at the foundations of our social stability. We know from past experience the destructive effect of price inflation and subsequent disastrous deflation upon employment and income. Violent price instability and the chaotic conditions following therefrom would doom all reasonable prospects of a stable and prosperous post-war world. The best of our capacity to reach a full-employment economy in the post-war lies now upon us. If we cannot prevent inflation during the war, there is little hope of reaching the stabilized, full-employment economy which we are eagerly hoping and planning for in the post-war periods.

~~NOT TO BE RE-TRANSMITTED~~OFFICE
SECRETARY
TREASURY

1945 MAR 17 12 02 PM

TREASURY DEPARTMENT

COPY NO

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BRITISH MOST SECRET
U.S. SECRETOPTEL NO.86.

Information received up to 7 a.m. 16th March.

1. NAVAL.

An escorted convoy of 4 ships was attacked by our light craft this morning off the Dutch Coast. One ship was torpedoed and probably another. EDDYSTONE lighthouse was bombed and machine-gunned yesterday, part of the lantern lens being destroyed. One of H.M. Destroyers was attacked by 12 Bombers East of TRIPOLI (L) yesterday. Two, possible three, aircraft were destroyed. One of H.M. Destroyers is taking 800 survivors from 21,500 ton Merchant Ship referred to in Op. A No. 35 to FREETOWN. Other H.M. Ships are continuing the search.

2. MILITARY.

RUSSIA. The Russians report that they have renewed their attacks in the STARAYA RUSKA area and that south of LAKE ILMEN pressure is being maintained.

3. AIR OPERATIONS.

WESTERN FRONT. 15th. 11 escorted Venturas bombed an airfield in BRITTANY.

15th/16th. 25 enemy aircraft approached the North-east coast, of which 10 came inland. Fighters destroyed 3 and anti-aircraft 1.

TUNISIA. 17 Mitchells bombed enemy positions in the MARATH area. Eight Heinkel bombers approached BONE. One of them was destroyed and probably three others.

SICILY. 13th/14th. Liberators bombed NAPLES through cloud.

BCRAN. 14th. 73 Sorties were flown against enemy objectives, mostly in the AKYAL area.

14th/15th. Nine Wellingtons bombed the railway bridge at MANDALAY.